

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

Date: 4 September 2019
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 12 September 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

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 meetings held on the 27 June and 23 July 2019** (Pages 1 - 12)

The Minutes of the meetings held on the 27 June and 23 July 2019 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. The deadline for this meeting is 1.30pm on Tuesday 10 September 2019.

5 **First line assurance: Liquid Logic Project Review Update** (Pages 13 - 16)

The report of the Director of Adult Services is attached.

Contact: Andy Begley (01743) 258911

6 **First line assurance: Children's Direct Payments 2018/19 Update** (Pages 17 - 28)

The report of the Head of Safeguarding is attached.

Contact: Colleen Male (01743 254254).

7 **Second line assurance: Risk Annual Report 2018/19 incorporating Strategic Risks Update** (Pages 29 - 36)

The report of the Risk and Insurance Manager is attached.

Contact: Angela Beechey 01743 252073

8 **Second line assurance: Annual Treasury Report 2018/19** (Pages 37 - 50)

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

Contact: James Walton 01743 258915

9 **Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2019/20** (Pages 51 - 68)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski 01743 257739

10 Third line assurance: External Audit: Annual Audit Letter 2018/19

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

11 Third line assurance: External Audit: Shropshire County Pension Fund (Information) 2018/19 letter

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

12 Third line of assurance: External Audit: Audit progress report and sector update (Pages 69 - 84)

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

13 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 5 December 2019 at 1:30 pm.

14 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.

15 Exempt Minutes (Exempted by Categories 2, 3 and 7) (Pages 85 - 86)

The exempt minutes of the meeting held on the 27 June 2019 are attached for confirmation.
Contact Michelle Dulson (01743) 257719

16 Third line assurance: Fraud, special investigation and RIPA updates (Exempted by Categories 2, 3 and 7) (Pages 87 - 90)

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

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Committee and Date

Audit Committee

12 September 2019

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 27 JUNE 2019

1.30 - 4.05 PM

Responsible Officer: Michelle Dulson

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

Present

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

5 Apologies for Absence / Notification of Substitutes

5.1 There were no apologies for absence received

6 Disclosable Pecuniary Interests

6.1 The Chairman reminded Members that they must not participate in the discussion or voting on any matter in which they may have a disclosable pecuniary interest and should leave the room prior to the commencement of the debate

7 Minutes of the previous meetings held on the 25 February 2019 and 16 May 2019

7.1 The minutes of the meeting held on 25 February 2019 and 16 May 2019 had been circulated.

7.2 RESOLVED:

That the minutes of the meetings of the Audit Committee held on 25 February 2019 and 16 May 2019 be approved and signed by the Chairman as a correct record.

8 Public Questions

8.1 No public questions had been received.

9 First Line Assurance: Digital Transformation Update

9.1 The Committee received the report of the Director of Workforce and Transformation (copy attached to the signed minutes) which gave an update on each of the projects within the Digital Transformation Programme

9.2 The Director of Finance, Governance and Assurance (Section 151 Officer) advised the meeting that all 4 core projects within Business World were live to a greater or lesser extent and that with regard to the Social Care project all adult and children's

social care cases had been migrated to the new system with no major issues arising during the process.

9.2 In response to a query the Director of Finance, Governance and Assurance (Section 151 Officer) informed members that a full breakdown of the costs of the projects and the savings achieved should be available by the end of the current financial year and a report would be brought to the Committee

9.3 **RESOLVED:**

That Members note the progress of the Transformation Programme to date.

10 **First Line Assurance: Commercial Strategy Update**

10.1 Members received the report of the Assistant Director – Commercial Services (copy attached to the signed minutes) which gave an update on the Commercial Strategy.

10.2 The Assistant Director – Commercial Services reminded Members that the Council had approved its first Commercial Strategy in 2017 and outlined the work that was currently being undertaken to update the strategy and advised that a report would be taken to Cabinet in the Autumn. He advised the meeting that a Commercial Investment Manager had been appointed in May who would identify and develop further projects to achieve targets set in the strategy, and that a team of specialists would be recruited to assist with this.

10.3 In response to a query the Assistant Director – Commercial Services stated that the Commercial Investment Manager reported to the Director of Place and provided quarterly performance monitoring reports

10.4 In response to a question the Assistant Director – Commercial Services confirmed that there were currently 10 income generating projects being developed.

10.5 Members asked that a further update report be brought to the December meeting of the Committee

10.6 **RESOLVED:**

a) That the contents of the report be noted

b) That a further update report be brought to the December meeting

11 **Second Line Assurance: Annual Whistleblowing Report**

11.1 The meeting received the report of the Director of Workforce and Transformation (copy attached to the signed minutes) which provided an update on the number of whistleblowing cases raised over the last year

11.2 Members were advised that in the year 2018/19 there were 33 cases reported under the whistleblowing arrangements which was a 51% increase on the previous year. Eighteen cases resulted in “no case to answer” and in 10 cases there was not enough evidence to proceed or the case was dealt with under another policy. This year there has been a variety of different type of concerns raised from fraud,

pot holes to housing allocations and all have been managed appropriately through this route.

11.3 RESOLVED:

That the contents of the report be noted

12 Third Line Assurance: Internal Audit Annual Report 2018/19

- 12.1 Members received the report of the Head of Audit (copy attached to the signed minutes) which provided details of the work undertaken by Internal Audit for the year ended 31 March 2019, and details of delivery against the approved annual audit plan.
- 12.2 The Head of Audit advised members that more than the 90% delivery target had been achieved which was in compliance with the Public Sector Internal Audit Standards (PSIAS) and that 67% of the opinions delivered had been good or reasonable, a 3% increase on the previous year.
- 12.3 The Head of Audit confirmed that, based on the Internal Audit work undertaken and management responses received, she could offer reasonable assurance for the 2018/19 year that the Council's framework for governance, risk management and internal control is sound and working effect. She stated that risks were well managed but there were some areas which required improvement to internal controls to ensure the achievement of the Council's objectives. 2018/19 has been a challenging year given the level of key fundamental line of business system changes delivered (social care, customer services, financial and human resources) and the embedding of these continues. Alongside the challenge to deliver savings and increase income (Commercial and Digital Transformation).
- 12.4 A Member asked that further reports on Liquid Logic and Children's Direct Payments be brought to the next meeting.

RESOLVED:

- a) That performance against the Audit Plan for the year ended 31 March 2019 be noted.
- b) To note that Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, taking into account public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2018/19.
- c) To note the Head of Audit's reasonable assurance, year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2018/19 based on the work undertaken and management responses received.
- d) That further reports on Liquid Logic and Children's Direct Payments be brought to the next meeting

13 Overall Assurance: Annual Governance Statement and a Review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance 2018/19

13.1 Members received the report of the Director of Finance Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which set out the Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance 2018/19

13.2 The Director of Finance, Governance and Assurance (Section 151 Officer) advised members that under the Accounts and Audit Regulations 2015, Regulation 6, the Council had to produce an Annual Governance Statement (AGS) to accompany the annual statement of accounts, which must be signed by the Leader of the Council and the Head of Paid Service, and that this statement should be considered after a review of the effectiveness of the Council's system of internal controls as required by the Accounts and Audit Regulations.

13.3 RESOLVED:

A. That the Annual Governance Statement 2018/19 as set out in Appendix A of the report be approved

B. That the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance be noted

14 Second Line Assurance: Financial Outturn Report 2018/19

14.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which provided details of the revenue and capital outturn position for Shropshire Council for 2018/19.

14.2 The Director of Finance, Governance and Assurance (Section 151 Officer) informed the meeting that the revised position showed a total underspend of £0.167m which represented a 0.03% variance on budget. He advised that the outturn capital expenditure for the year 2018/19 was £50.975M which represented 76% of the reprofiled capital budget. He confirmed that the underspend had been carried forward to the 2019/20 programme.

14.3 Members expressed concern at the spike in variance to budget at the end of the first quarter and asked whether this could be lessened. The Director of Finance, Governance and Assurance (Section 151 Officer) stated that the spike was generally caused by the identification of issues and areas of concern which could then be addressed.

14.4 RESOLVED:

That Members:

- A. Note that the outturn for the revenue budget for 2018/19 is a controllable underspend of £0.167m. This represents 0.03% of the original gross budget of £561.950m.
- B. Note that the level of the General Fund balance after adjusting for the outturn underspend and insurance position stands at £15.537m, which is above the anticipated level assessed in February 2019.
- C. Note that the Outturn for the Housing Revenue Account for 2018/19 is an underspend of £3.859m and the level of the Housing Revenue Account reserve stands at £9.813m (2017/18 £8.225m).
- D. Note the increase in the level of Earmarked Reserves and Provisions (excluding delegated school balances) of £4.986m in 2018/19 and the reasons for this.
- E. Note that the level of school balances stand at £4.178m (2017/18 £5.381m).
- F. Approve net budget variations of £0.848m to the 2018/19 capital programme, detailed in Appendix 5 / Table 11 and the re-profiled 2018/19 capital budget of £60.703m.
- G. Approve the re-profiled capital budgets of £69.243m for 2019/20, including slippage of £15.728m from 2018/19, £22.181m for 2020/21 and £16.001m for 2021/22 as detailed in Appendix 5 / Table 15.
- H. Accept the outturn expenditure set out in Appendix 5 of £50.975m, representing 76% of the revised capital budget for 2018/19.
- I. Approve retaining a balance of capital receipts set aside of £20.515m as at 31st March 2019 to generate a one-off Minimum Revenue Provision saving of £0.621m in 2019/20.

15 Second Line Assurance: Approval of the Council's Statement of Accounts 2018/19

- 15.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which provided an overview of the Accounts for the year 2018/19 and details of the reasons for the most significant changes between the 2017/18 Accounts and the 2018/19 Accounts.
- 15.2 Members were reminded that the 2018/19 Statement of Accounts had been prepared in line with the faster closedown timetable introduced in the Accounts and Audit Regulations 2015 and that the external audit of the accounts was currently being undertaken and that any material changes as a result of the audit would be reported to the Audit Committee and Council at the earliest opportunity once the Accounts have been signed off by the External Auditor.
- 15.3 A Member queried why the number of creditors had gone up, the Director of Finance, Governance and Assurance (Section 151 Officer) advised that the transfer to Business World had necessitated the closure of the old system which had

resulted in a delay to payments which had created the increase in the number of creditors.

15.4 RESOLVED:

A. That the contents of the draft 2018/19 statement of accounts be noted.

B. That the additional accounting policy included in the Statement of Accounts for 2018/19 be noted.

16 Third Line Assurance: Annual Review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2018/19

16.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which informed them of the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards.

16.2 The Director of Finance, Governance and Assurance (Section 151 Officer) drew Members attention to the mandatory Public Service Internal Audit Standards for all principal local authorities, and to the update set out in Appendix A. He also highlighted areas of potential non-conformance which had not changed from previous years

16.3 RESOLVED:

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

17 Third Line Assurance: Annual Assurance Report of Audit Committee to Council 2018/19

17.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which set out the Audit Committee's Annual Assurance Report to Council for 2018/19

17.2 RESOLVED:

That the Draft Annual Assurance Report for 2018/19 be approved and that Council be recommended to accept the contents of the report.

18 Third Line Assurance: External Audit: Pension Fund Audit Plan 2018/19

18.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which provided a copy of the external audit plan for the Shropshire County Pension Fund for 2018 – 19

18.2 Members were advised that the Plan had been approved by the Shropshire Pensions Committee

18.3 **RESOLVED:**

That the contents of the report be noted

19 **Third Line Assurance: External Audit: Audit Fee Letter**

19.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) attached to which was a copy of the Audit Fee letter for 2019-20

19.2 The Director of Finance, Governance and Assurance (Section 151 Officer) advised Members that the Audit Fee for Shropshire Council for 2019/20 would be £103,061 and that the audit fee for the Shropshire County Pension Fund would be £18,039, both unchanged from last year.

19.3 **RESOLVED:**

That the contents of the report be noted

20 **Third Line Assurance: External Audit: Audit Progress Report and Sector Update**

20.1 Members received the report of the Director of Finance Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) attached to which was the Audit Progress Report and Sector Update which provided the Committee with a report on progress by Grant Thornton in delivering their responsibilities.

20.2 The Engagement Manager, drew Members attention to the progress to date and informed the Committee that they were on track to deliver the audit opinion and value for money conclusion by the due date. Finally, she confirmed that the audit deliverables were on track to be completed.

20.3 **RESOLVED:**

That the contents of the report be noted

21 **Date and Time of Next Meeting**

21.1 Members were reminded that the next meeting of the Audit Committee would be held on the 29 July 2019 at 1.30pm.

22 **Exclusion of Press and Public**

22.1 **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.

23 Exempt Minutes of the previous meeting held on 25 February 2019

23.1 The exempt minutes of the meeting held on 25 February 2019 had been circulated.

7.2 RESOLVED:

That the exempt minutes of the meeting of the Audit Committee held on 25 February 2019 be approved and signed by the Chairman as a correct record.

24 First Line Assurance: Theatre Severn Update (Exempted by Categories 1, 2 and 3)

24.1 Members received the report of the Interim Head of Culture and Heritage (copy attached to the exempt signed minutes) which gave an update on progress on audit recommendations for Theatre Severn

24.2 RESOLVED:

That the recommendations contained in the report be agreed

25 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 1, 2, 3, 5 and 7)

25.1 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.

25.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:



Committee and Date

Audit Committee

12 September 2019

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 23 JULY 2019

1.30 - 2.30 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Peter Adams (Chairman)

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

26 Apologies for Absence / Notification of Substitutes

No apologies for absence were received.

27 Disclosable Pecuniary Interests

27.1 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.

28 Public Questions

28.1 No public questions had been received.

29 Third line assurance: Findings Report Shropshire Council 2018/19

29.1 The Director of Finance, Governance and Assurance (Section 151 Officer) introduced his report – copy attached to the signed Minutes – which set out the amendments made to the 2018/19 Statement of Accounts following an audit by the Council's External Auditors, Grant Thornton. The Director of Finance, Governance and Assurance (Section 151 Officer) went on to explain the changes made to the Statement of Accounts as a result of the McCloud Judgement.

29.2 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2019. The report also set out the value for money conclusion for the Council.

29.3 The Engagement Lead explained that in light of the McCloud judgement a revised actuarial assessment had been requested to consider the impact on the Pension Liability, however this did not affect the General Fund balance. Turning to the valuation of Property, Plant and Equipment, the Engagement Lead reported that they

had almost completed this part of the audit however as it had not been revalued, there was a clear risk that things may have changed. This work was expected to be completed by the end of the week.

- 29.4 The Engagement Lead informed the Committee that in relation to the JPUT, which was a complex accounting arrangement, there was a disagreement between the Council and External Audit about how to treat £1.5m. He reported that the value of the three shopping centres had decreased by £11m year on year. A full valuation report had been received the previous week and the External Audit Valuers had been asked to check it. This was expected to be completed in the next couple of days.
- 29.5 In response to concerns that the valuation would not be complete when the Statement of Accounts was presented to Council later that week, the Director of Finance Governance and Assurance (Section 151 Officer) explained that this was due to the faster close down of the accounts, and although Full Council had been arranged as late as possible there was always a risk that the audit would not be completed in time as work would continue up until 31 July, however the Director of Finance, Governance and Assurance (Section 151 Officer) had delegated authority to make any necessary adjustments. In reality however, the Statement of Accounts stood up on their own and External Audit did not expect any adjustments to be required in relation to the JPUT.
- 29.6 In response to a query in relation to the McCloud judgement, the Director of Finance Governance and Assurance (Section 151 Officer) explained that a technical adjustment had been made in this year's accounts but that it would not become an issue until the full actuarial valuation was undertaken and so would impact next year's accounts.
- 29.7 Turning to the Value for Money Conclusion, the Engagement Lead drew attention to the key risks in the arrangements for financial resilience going forward, detailed on page 18 of the report. A funding gap of £12.43m had been identified in 2020/21 and the Council needed to respond effectively to this challenge. The Engagement Lead felt that the Council had been quite adaptive to its savings strategy but now needed to make some hard decisions about levels of service delivery.
- 29.8 In response to a query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained how savings proposals were identified and how the Audit Committee could review that process to consider how robust it was. Members requested a training/briefing session to help them understand the process and concern was expressed at the Council's apparent track record of an element of non-delivery of savings.
- 29.9 In conclusion, the Engagement Lead advised that he anticipated giving an unqualified opinion, along with an unqualified value for money conclusion.
- 29.10 A brief discussion ensued in relation to both the Task and Finish Group set up by the Performance Management Scrutiny Committee and the Council outturn report which showed an underspend of £167k which was very close to budget but hid the overspend in Children's Services. The Director of Finance, Governance and Assurance (Section 151 Officer) explained the reasons for this and that the starting point of the Task and Finish Group would be to look at both Children and Adult Services to see what could be done to start to address the growth in these areas.

29.11 The Director of Finance, Governance and Assurance (Section 151) Officer responded to queries in relation to future funding and the three shopping centres. He explained that the impact of the valuation did not affect the revenue account or the general fund balance. It would only be an issue if the Council were looking to sell the assets however it was not looking to sell them and although the valuation of the shopping centres was likely to continue to fall, the Council was looking to reposition/repurpose those assets.

29.12 **RESOLVED:**

- A. That the contents of the Audit Findings Report be noted;
- B. That the changes to the 2018/19 Statement of Accounts be noted.

30 **Date and Time of Next Meeting**

30.1 **RESOLVED:** That it be noted that the next scheduled meeting be held on Thursday 12 September 2019 at 1.30 pm.

Signed (Chairman)

Date:

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<u>Committee and Date</u>
Audit Committee
12 th September

<u>Item</u>
Public

Progress update on Liquidlogic internal audit report

Responsible Officer Andy Begley

e-mail:

Tel:

Fax

1. Summary

As part of the approved internal audit plan for 2018/19 Audit Services have undertaken a review of Liquidlogic Adults Social Care System (LAS) Project. The findings of this review have been included in a Final Internal Audit Report issued on 14th February 2019, which concluded that the current level of assurance is deemed to be 'Limited' and the direction of travel with regard to assurance is deemed to be a 'Weakening control environment'.

The report also includes a breakdown of the Audit findings/observations, potential risks and audit recommendations to mitigate the identified risks. These individual risks and recommendations have been actioned and a relevant response provided to the internal audit team.

2. Recommendations

The clear evidence in the updates of this report provide assurance that the management controls in place as part of the project, were robust at the time and remain robust during the transition of the system into Business As Usual.

REPORT

3. Risk Assessment and Opportunities Appraisal

There were 6 recommendations are made where control weaknesses, risks or areas for improvement have been identified in the audit report on 14/2/2019.

These controls were in place throughout the project and particularly so, during the project Go-live decision-making process. It is regrettable that it was not possible to provide the information requested at the time of the audit, as the project was in the final stages of system testing and transition into live service for Adults. This was quickly followed by the final testing and transition to live service of the Children's system by the same project team.

I can confirm that appropriate action has been taken to address the recommendations in the original report and of the six recommended actions, all have now been completed since the report was published.

Date of assessment	Total	Fundamental	Significant	Requires Attention	Best Practice
14/2/2019	6	0	4	2	0
14/8/2019	0	0	0	0	0

The current position of the project is that the case management systems for Adults and Children’s services and ContrOCC (the Social care finance system) have all been implemented on time and budget in accordance with the agreed plan.

The defined governance controls were strictly maintained and monitored by the Social Care project board, with oversight by the Digital Transformation Programme board. There will be a lessons learned review at the end of phase one of the project.

There are a number of optional modules from the project scope are now being considered by the operational senior management to deliver further improvements to service delivery, self service for clients and efficiency. Plans will be drawn up for these once further decisions have been made.

A robust change management process has been in place since the new systems went into live service. This maintains the alignment of the business process to all system aspects and provides effective management control.

Improved controls delivered by the project so far include:-

- Increased quality assurance over assessments and support plans resulting from the system and processes to improve the authorisation process of these documents.
- The functionality in the system enables assessments / forms to be staged which allows operations to have multiple workers to contribute to these documents whilst all being captured through the audit trail.
- All communication is captured and managed within the system through the use of defined case notes, notifications and specific trays to hold these tasks, with a full audit trail behind this.
- These additional controls are used to support supervision of frontline operational practice, is monitored, challenged and supported as required.

4. Conclusions

There were strong project controls in place throughout the project which were followed in accordance with the agreed project governance. Delays in providing information and documents to the audit team around the point of Go-Live have led to a limited assurance level.

The recommendations have now been completed and documents provided as requested.

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

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[INSERT] Name of Committee & Date: [INSERT] Names of Report



<u>Committee and Date</u>	<u>Item</u>
	<u>Public</u>

Direct Payments Audit Response Children with a Disability

Responsible Officer

e-mail: Steve.ladd@shropshire.gov.uk

Tel: 250160

Fax:

1. Summary

As part of the approved internal audit plan for 2018/19 Audit Services undertook a review of Direct Payments Children. The audit work was undertaken to give assurance on the extent to which management control objectives were being achieved. The final report of the audit activity (over July and October 2018) and its findings was issued in March 2019.

It concluded that the level of assurance was limited having previously been good and the audit report made a number of recommendations where control weaknesses, risks or areas for improvement were identified which required attention from the service area.

There were 17 recommendations set out in the internal audit report of which 9 were significant and 8 required attention. The managers responsible for the Disabled Children Team have been addressing the recommendations that they are responsible for and continue to review progress of implemented audit recommendations on a quarterly basis, the last Review took place on the 19th June 2019, ensuring that the recommendations deemed to have most significance are prioritised.

The attached action plan (appendix 1) demonstrates the progress that has been made. 3/9 significant recommendations have been evaluated as having been sufficiently attended to and rated green following a management review

Please contact [INSERT] on [INSERT]

1

in June 2019. 5/8 requires attention recommendations have been evaluated as having been sufficiently attended to and rated green following a management review in June 2019

2. Recommendations

That Committee members note the review that took place on the 19th June in relation to the recommendations made from the audit.

That Committee members note the progress that has been made to address the recommendations in the 12th March 2019 Audit Report to ensure that all improvements are effectively implemented and monitored via the management responses.

REPORT

3. Risk Assessment and Opportunities Appraisal

System control weaknesses identified in the audit report are being addressed with quarterly reviews taking place and the action plan being updated following the review.

A vacancy in the key post of Short Break Reviewing Officer contributed to some of the system weaknesses identified within the audit report. As this post was recruited to and the post holder commenced in December 2018 (after the audit activity took place); the systems control weaknesses have been strengthened.

The build, introduction and implementation of Liquid Logic as the replacement for Care First has enabled more effective controls and processes to be implemented.

Children Social Care and Adult Social Care have been engaged in discussion and planning in relation to the development of an all age direct payment service. A strategic board has been established, which is chaired by the Assistant Director for Adult Social Care and three meetings of this board has taken place to date to oversee the progress of this work through an implementation group.

4. Financial Implications

The improvements outlined above (and in appendix 1) and the management action that has taken place to date will ensure that costs associated with

direct payments are identified, processed, reviewed and reconciled in a timely manner.

5. Background

Direct Payments, Children with a Disability

A Direct Payment is money given to children aged 16 years or over who have a disability and to parents or carers, aged 16 or over of young people who have a disability, by the authority to enable them to buy in support that is assessed as being needed, instead of the authority providing that support through their own services.

Children who have been assessed as meeting the criteria for disabled children's services aged 16 or over. Children and young people who have Education, Health and Care Plans and their parents have the right to request a Personal Budget, which may contain elements of education, social care and health funding, and may be delivered by way of Direct Payments. Under the Children and Families Act 2014, this covers those aged 0-25 having special educational needs and disabilities. Direct Payments are available if a child or young person is disabled and aged 16 or over or is a carer or parent aged 16 or over for a child with disabilities. No-one can be forced to have a Direct Payment.

Direct Payments can also be made to a willing and appropriate person on a disabled person's behalf if they lack the mental capacity to agree to and manage Direct Payments themselves.

Direct Payments generally cannot be used to pay for services from a spouse, partner or a close relative living in the household unless the local authority consider it is necessary to do so.

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

Cabinet Member (Portfolio Holder)

Local Member

Appendices

Appendix 1 Action Plan Children Direct Payment

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Action Plan For Children's Direct Payments from Corporate Audit 2018/19

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
1.1	1	<p>The cost of the contract for the provision of a direct payments support service should be reviewed to confirm if any costs should be recharged by Adult Services to Children's Services for the use of the provider for children's direct payments.</p> <p>(As previously recommended and agreed in 2013/14 and 2014/15).</p>	Significant	<p>There has not been any need for further discussion on this issue previously as Adult Services were content with the arrangements. This was discussed with the auditor at the time of this audit. However, The contract with Pohwer ends 31st May 2019.</p> <p>Dialogue has taken place since December 2018 and continues between Children Social Care and ACS. A meeting is planned between the Assistant Directors in both areas, Service Manager for DCT and the Responsible officer in ACS on 19th March to consider options.</p>	Steve Ladd	<p>Meeting to discuss arrangements took place on 19/03/2019.</p> <p>Reviewed June 2019 - Continued engagement between Adult Social Care and Children Social Care in taken place to consider the development of an all age direct payment service. Strategic Board for Direct Payment service has been established.</p>
2.1	2	Management should ensure there is an appropriate procedure or terms of	Requires	The procedure is clear through the move from carefirst to	Steve Ladd	Reviewed June 2019 - Terms of

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
		reference for the Resource Panel. (Updated from recommendation made and agreed in 2014/15).	Attention	Liquid Logic as the new electronic recording system is pathway driven. Terms of Reference for the Resource Panel will be updated by May 2019		Reference for the Resource Panel is included in the redrafting of the procedural guidance which was reviewed in June 2019 and a redrafting is underway due to be completed in the autumn 2019 (as 2.2 below)
2.2	3	The day to day procedure notes should be reviewed on a regular basis to ensure they are up to date and version controlled. (As previously recommended and agreed in 2013/14 and 2014/15).	Requires Attention	Procedures are held electronically on Tri x (Children's Social Care Procedures Manual) and are updated in line with changes in legislation or local practice.	Steve Ladd \ Imogen Wilding	Reviewed June 2019 - Review to take Place in June 2019 (19/06) – This Review took place and a redrafting is underway due to be completed in the autumn 2019
3.1	4	A direct payments finance request form should be held on the file of the service user to support the direct payment. In addition the start date of the direct payment should be recorded on the	Requires Attention	Direct Payment signed agreement forms will be held on the new Liquid Logic System. The newly appointed Short Break Reviewing Officer will	Imogen Wilding \ Emma Harris (SBRO)	Immediate effect Reviewed June 2019 – This is in place and is

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
		form for completeness.		have ongoing responsibility for setting these up and ensuring storage on the system		happening for all new direct payments.
3.2	5	Finance Request forms should include the amounts of each type of direct payment made (one off payments and continuing payments).	Requires Attention	Finance request forms will be held on the new Liquid Logic System. The newly appointed Short Break Reviewing Officer will have ongoing responsibility for setting these up and ensuring storage on the system	Imogen Wilding \ Emma Harris (SBRO)	Immediate effect Reviewed June 2019 – This is in place and is happening for all new direct payments.
3.3	6	Authorisation of the direct payment should be retained in the service users file within Carestore.	Requires Attention	Liquid Logic System has been implemented since the audit. All authorisations of payments are electronic and supported by a managers decision for example resource panel decisions	Steve Ladd / Imogen Wilding \ Emma Harris (SBRO)	Immediate effect Reviewed June 2019 – This is in place and is happening for all new direct payments.
3.4	7	Payment start dates should be recorded on all payment request forms.	Requires Attention	See 3.1 - Direct Payment signed agreement forms will be held on the new Liquid Logic System. The newly appointed Short Break Reviewing Officer will have ongoing responsibility for setting these up and ensuring storage on the system		Immediate effect Reviewed June 2019 – This is in place and is happening for all new direct payments.

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
3.5	8	Management decision forms should be completed for each direct payment and sent to the appropriate Social Worker.	Significant	Management decision forms have been integrated into resource panel request and decision form on Liquid Logic. All decisions regarding planned direct payments will come through resource panel before being implemented.	Steve Ladd \ Imogen Wilding	Immediate effect for all new direct payments Reviewed June 2019 – This is in place and is happening for all new direct payments.
3.6	9	A signed Direct Payments agreement should be held for each service user in receipt of a direct payment.	Significant	Direct Payment signed agreement forms will be held on the new Liquid Logic System. The newly appointed Short Break Reviewing Officer will have ongoing responsibility for setting these up and ensuring storage on the system	Imogen Wilding \ Emma Harris (SBRO)	Immediate effect for all new direct payments Reviewed June 2019 – This is in place and is happening for all new direct payments.
4.1	10	Management should ensure that reviews are carried out in accordance with the policy.	Requires Attention	The review of any direct payment will be undertaken as part of a Short Break Review as per statutory guidance. The vacancy of the Short Break Reviewing Officer has been filled and a permanent fulltime SBRO	Imogen Wilding \ Emma Harris (SBRO)	Immediate effect for all new direct payments Reviewed June 2019 – This is in place and is happening for all

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
				has commend in post		new direct payments.
5.1	11	Management should ensure information required for the completion of care audit reviews is requested in a timely manner. Delays in receiving information should be monitored and action taken if information is not received.	Significant			Reviewed June 2019 – The SBRO is in regular communication with the reconciliation team to ensure that completion of care audit reviews is requested in a timely manner. This will remain under review
6.1	12	For each children's direct payment officers should ensure that there is Resource Panel approval for the payment, a signed agreement and all dates in Carefirst are correct.	Significant	See responses to rec 4-8. Management decision forms have been integrated into resource panel request and decision form on Liquid Logic. All decisions regarding planned direct payments will come through resource panel before being implemented. Direct Payment signed agreement forms will be held on the new Liquid Logic System. The newly	Steve Ladd \ Imogen Wilding \ Emma Harris(SBRO)	Immediate effect Reviewed June 2019 – This is in place and is happening consistently

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
				appointed Short Break Reviewing Officer will have ongoing responsibility for setting these up and ensuring storage on the system		
8.1	13	Regular budget monitoring reports should be available to the Direct Payments Facilitator and Team Manager to ensure that actual income and expenditure is in line with the budget. Significant variances should be investigated and the reason for these variances be recorded. (As previously recommended and agreed in 2013/14 and 2014/15).	Significant	Three-way budget meetings to be held from April 2019 on at least a quarterly basis between the Team Manager, SBRO and finance.	Imogen Wilding \ Emma Harris	April 2019 and quarterly Reviewed June 2019 – the change of systems (from Care First \ Samis to Liquid Logic \ Controcc and Business World has needed to be embedded) Further review planned for October 2019
8.2	14	The overall budget spend as recorded on the master direct payments spreadsheet should be reconciled with SAMIS to ensure that there are no unauthorised transactions or mis-postings against the cost centre for children's direct payments. This	Significant	The recent move to Liquid Logic and Controcc as the electronic recording system and finance system should allow for this to be done without the need to keep a spreadsheet. This is new and will need to be reviewed.	Steve Ladd \ Imogen Wilding \ SBRO	Immediate effect and Review in June 2019 – This was reviewed in June 2019 Reviewed June

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
		reconciliation should be subject to an independent review by a Senior Officer. (As previously recommended and agreed in 2013/14 and 2014/15).		The master spreadsheet will continue to be kept, at least in the short term, to ensure that there are no unauthorised transactions or mis-postings against the cost centre for children's direct payments. This will be reviewed by the Service Manager in June 2019		2019 – the change of systems (from Care First \ Samis to Liquid Logic \ Controcc and Business World has needed to be embedded) Further review planned for October 2019
8.3	15	Management information should be reviewed to ensure it is meaningful, accurate, regular and timely.	Significant	Team Manager Matrix performance information is being developed following the move to Liquid Logic. This will include information in respect of short break reviews – the progression of recommendation 13 and 14 will also provide the necessary management information	Steve Ladd\ Imogen Wilding	Immediate effect and Review in June 2019 Reviewed June 2019 – Team Manager performance information is available in terms of Social Work practice and short break reviews but the change of systems (from Care First \ Samis to

Rec Ref.	Rec No.	Recommendation	Rec Rating	Response	Lead Officer	Progress
						Liquid Logic \ Controcc and Business World has needed to be embedded) Further review planned for October 2019
9.1	16	To comply with the Data Protection Act 2018 the Personal and Sensitive Data Risk Assessment should be completed.	Significant	To be completed by June 2019	Steve Ladd \ Imogen Wilding	June 2019 Reviewed June 2019 – this has been replaced by the <i>Flowz</i> system and is on track for completion by Autumn 2019
9.2	17	All staff must complete the Protecting Information training. (Updated from recommendation made in 2014/15).	Requires Attention	Staff have completed this – the audit identified three workers that had not completed the training - all have completed the training and will continue to do so as required	Steve Ladd	Completed



<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 12 th September 2019		

RISK MANAGEMENT ANNUAL REPORT 2018/2019

Responsible Officer Angela Beechey

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1. Summary

- 1.1 This report sets out the challenges and achievements accomplished by the Risk & Insurance Team during 2018/2019 (and up to the preparation of this report). We have again experienced an intense and varied workload.
- 1.2 We have recently incorporated the Emergency Planning Unit into the team, and the team has been renamed 'Risk, Insurance & Resilience Team'. This incorporation will align the synergies between both business continuity management and the civil contingencies responsibilities of emergency planning, to provide a more cohesive and robust resilience function for the organisation.
- 1.3 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the Risk and Insurance market.

2. Recommendations

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

REPORT

3. Risk Management and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 This year saw the Audit Team undertake a risk management audit and we are pleased to confirm that the final report again identified the assurance level as “Good”.
- 5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, is reviewed on an annual basis and has now been fully embedded by the Risk, Insurance & Resilience Team throughout the council. The council needs to ensure that it is taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

6. Additional Information – Risk Management

6.1 Strategic Risk Management

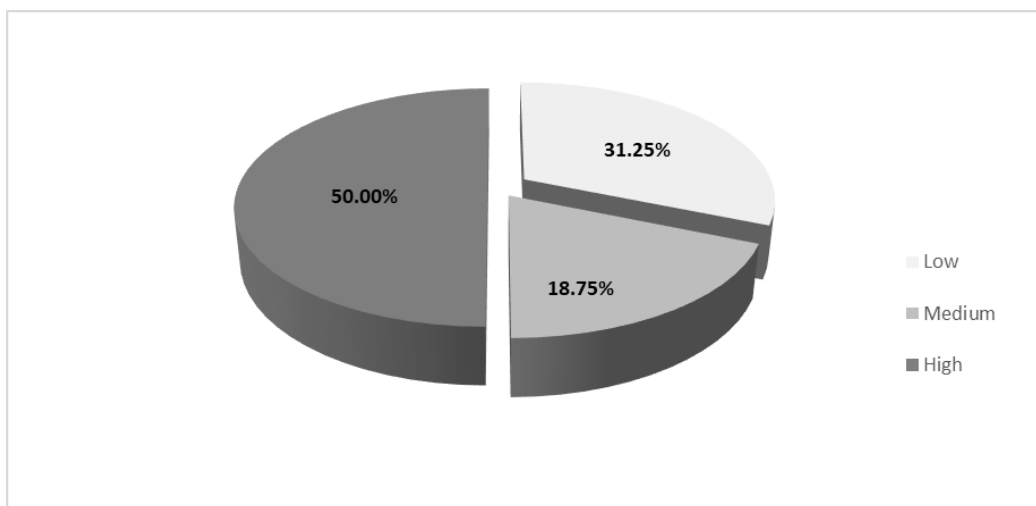
- 6.1.1 Throughout 2018/2019 our strategic risks were reviewed on a quarterly basis ensuring that the level of risk exposure was monitored closely in our rapidly changing environment.
- 6.1.2 This is achieved through scheduled meetings with key officers, Directors, Chief Executive and Portfolio Holder. The outcome of each review is then reported to Directors and Informal Cabinet.
- 6.1.3 The 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.
- 6.1.4 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year. Following the year end a detailed review is undertaken with Directors collectively to assess any slippage and to ensure that our current strategic risks are still relevant, defined appropriately and accurately assessed and scored.
- 6.1.5 Detailed meetings have also been undertaken with additional control owners to ensure that the additional controls are appropriate to mitigate the associated strategic risk. This includes clearly defining the required additional controls and ensuring realistic timescales are applied for delivery of these.
- 6.1.6 We have continued to use an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

Defence	Type of Assurance	Provided by/ Obtained through
First Line	Management	Provided by Heads of Service/ key managers
Second Line	Internal Governance	Provided by: <ul style="list-style-type: none"> • Performance (scrutiny, customer experience) • Legal (monitoring officer reports, committee reports, legal advice) • Risk (operational, programmes, projects) • Finance (MTFP, Revenue & Capital, Treasury)

		Management)
Third Line	External Assurance	Obtained through: <ul style="list-style-type: none"> • Quality Assurance & 3rd Parties (e.g. Ofsted, CQC) • External Audit • Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

6.1.7 Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes. This demonstrates that we are managing these Outcomes at a strategic level and this is shown clearly on each of the strategic risks where there is a link.

6.1.8 The following diagrams demonstrate our overall strategic risk exposure as at June 2019 (the next review takes place during September 2019):-



6.1.9 As at the June 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
Commercial Strategy	Mark Barrow	4	5	20
Future Funding Levels	James Walton	4	5	20
Reputation	Michele Leith	4	4	16
Sustainable Budget	James Walton	4	4	16
Failure to Safeguard Vulnerable Children	Karen Bradshaw	4	4	16
Digital Transformation Programme	Michele Leith	4	4	16
Economic Impact of Brexit	Claire Porter	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

6.1.10 The strategic risk profiles and action plans elaborate in greater detail the risk and the current controls and outstanding actions which are in place and are monitored as previously mentioned. 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.

6.2 Operational Risks

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

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

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

6.2.4 During the last year we have moved all operational risks into a specific SharePoint site which enables risks to be more pro-actively managed in a 'live' environment and enabling risk owners to update their risks whenever changes are required instead of waiting for the bi-annual review to take place. This provides a real time view of current operational risk exposure, one live version of the risk register and has removed the necessity for members of the team to collate returns into a master copy.

6.2.5 To support the implementation of any changes to operational risk management and the migration to the use of SharePoint, all operational risk owners are invited to facilitated risk workshops which brief them on the current operational risk exposure, the strategic risks, the methodology and also highlights emerging themes. The workshops also allow time for the risks to be updated there and then which enables all risk owners to complete the update and have members of the Risk, Insurance & Resilience Team on hand to support them.

6.2.6 On an annual basis we contribute to the Global Risks Report (World Economic Forum) and share key outputs from both this report and from the Horizon Scan Report (Business Continuity Institute) with both operational and strategic risk leads.

6.3 Business Continuity Management

6.3.1 With the many changes occurring within the council, Business Continuity Management arrangements are constantly reviewed to ensure that we have

relevant skilled personnel on the emergency response teams and that these people are trained appropriately.

- 6.3.2 Following the development of a robust ICT Disaster Recovery & Business Continuity plan and implementation of key system test plans, we decided to enhance our business continuity management arrangements further. This has resulted in an additional level of business continuity tactical plans being developed for HR, Finance and Assets. These plans are in the process of being finalised and will provide a corporate approach across these areas to manage significant business interruption events.
- 6.3.3 To support our business continuity management arrangements, regular testing to ensure the plans are robust is necessary. Since the last report we have undertaken a live full day exercise. The scenario was a legionella outbreak at the Sundorne Sports Village with many people presenting, compounded by a major fire at Sundorne Infants School. Sundorne Sports Village is one of our major rest centres and obviously could not be used as such to respond to the large-scale evacuation of an area of the town.
- 6.3.6 Following all exercises a Post Exercise Report & Action Plan is produced and we work through the required improvement actions to ensure our plans and assumptions are robust.
- 6.3.7 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/ businesses. We therefore facilitate sessions called 'Your Business Matters' with local businesses sharing best business continuity management practice.
- 6.3.8 We continue to invite local businesses to participate in the week-long live exercise which takes place during national Business Continuity Week in May each year. This is undertaken in conjunction with Resilience Direct but is facilitated locally by the team. Local businesses express an interest to participate and during the week they are fed the escalating scenario throughout each day. They respond to set questions which are collated during the week and form the basis of a post exercise report and action plan provided by the team.
- 6.4 Opportunity Risk Management Strategy
- 6.4.1 During 2018/2019 we have continued to share our strategy nationally. Shropshire Council's Opportunity Risk Management Strategy is considered nationally, through Alarm (Association of Local Authority Risk Managers), to be best practice and is now contained as a link on their website.
- 6.4.2 Angela Beechey and Jane Cooper continue to be involved in the activities of Alarm, both nationally and regionally, which puts the authority at the forefront of Risk, Insurance & Resilience for developing best practice. Angela has now stepped down as Chair of the Midlands Steering Committee following a three-year tenure in the role and Jane has just become Vice Chair of the Steering Committee.

6.5 Project Risk Management

6.5.1 We continue to be heavily involved and support key projects that are currently underway, or which are due to be commenced.

6.5.2 A robust risk register is developed at the commencement of projects. These are reviewed and updated at project board meetings with key officers taking responsibility to manage specific areas of risk. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales and both risks and direction of travel are reported on at project boards.

6.5.3 Members of the Risk, Insurance & Resilience Team continue to provide overall assurance in relation to the Digital Transformation Programme (DTP) together with colleagues from IT Governance and Audit.

6.6 Audit Team Collaborative Working

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

6.7 Risk Management & Business Continuity Training

6.7.1 We have continued to provide risk management and business continuity training opportunities for all colleagues (and where required schools) as detailed below.

6.7.2 Operational Risk Management Training

- Since the last report we have facilitated six operational risk management training sessions to provide refresher training to existing risk owners and introduce new risk owners to the process. This also enabled us to introduce any changes to the risk management process. In total 81 delegates attended these training sessions. The sessions enabled delegates to undertake their quarterly review with support from the Risk, Insurance & Resilience Team on hand to answer queries or provide advice.

6.7.3 Risk & Insurance Training for Schools

- This training continues to be offered to all maintained schools on an annual basis. In total 92% of schools have attended this training since we commenced it and at the last facilitated session 21 delegates attended representing 18 schools. These sessions will continue to be offered annually as they provide updated and relevant information in relation to changes in legislation and best practice and supports schools who have new staff.

6.7.4 Loggist training

- Loggist training was developed as a result of actions in the post exercise reports and action plans produced following Business Continuity exercises (as mentioned above). We have continued to provide loggist refresher training to ensure that they are well equipped to support future responses to real incidents or exercises.

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

6.8 External Work

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

- Ashfield District Council (March 2019) – Opportunity Risk Management Strategy and Risk Reporting Presentation to senior management team and Cabinet;
- Severn Bridges Academy (September 2019) – Business Continuity Management exercise to test robustness of business continuity plans and arrangements across the academy.

6.8.2 We will continue to engage in discussions with organisations in scoping further income generating opportunities.

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

Annual Governance Statement

Risk Management Audit Report, Insurance Audit Report

Opportunity Risk Management Strategy

Business Continuity Management Policy

Business Continuity Plan

Cabinet Member

David Minnery, Portfolio Holder Finance, Governance & Assurance

Local Member

N/A

Appendices

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<u>Committee and Date</u>	<u>Item</u>
Cabinet 04 September 2019	
Audit Committee 12 September 2019	
Council 19 September 2019	
	<u>Public</u>

ANNUAL TREASURY REPORT 2018/19

Responsible Officer James Walton

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1. Summary

- 1.1. The report informs members of treasury activities for Shropshire Council for 2018/19, including the investment performance of the internal treasury team to 31 March 2019. The internal treasury team outperformed their investment benchmark by 0.29% in 2018/19 and performance for the last three years is 0.29% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.
- 1.2. During 2018/19 the performance of the Treasury Team delivered an underspend of £5.061 million compared to budget as highlighted in paragraph 10.4 of this report. This was mainly due to Minimum Revenue Provision (MRP) savings following the Council's review of the policy. This underspend helped the Council to achieve an overall underspend at the end of the financial year.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 3.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices

and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

4. Financial Implications

- 4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2. The 2018/19 performance is above benchmark for the reasons outlined in paragraph 10.4 of this report and has delivered additional income of £5.061 million which has been reflected in the final Revenue Monitor report for 2018/19.

5. Background

- 5.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".
- 5.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2018/19. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 5.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:
 - An annual treasury strategy in advance of the year.
 - A mid-year treasury update report.
 - An annual report following the year describing the activity compared to the strategy.
- 5.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee. These reports were scrutinised by the Audit Committee before they were reported to full Council for approval.

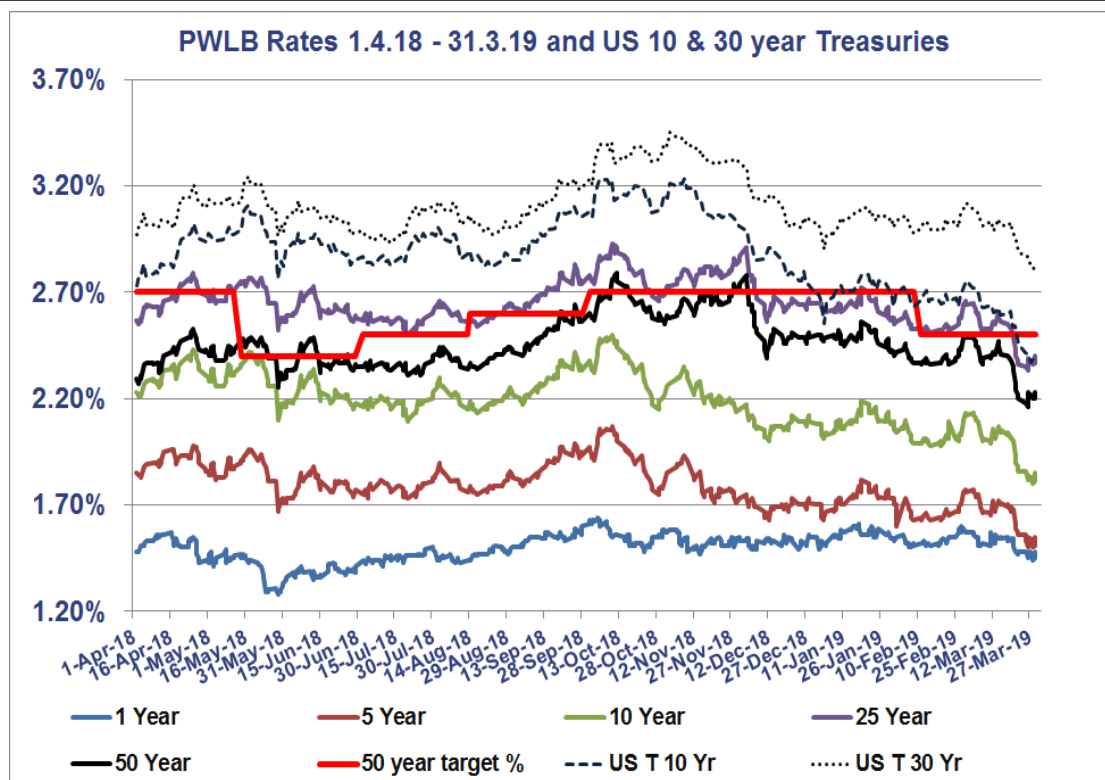
- 5.5. In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.
- 5.6. The Treasury Strategy for 2018/19 was approved by Council in February 2018, the mid-year treasury update report was approved by Council in December 2018. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

6. Borrowing Strategy for 2018/19

- 6.1. The Council's only borrowing requirement identified within the Capital Programme 2017/18 to 2019/20 was self-financing prudential borrowing of £300,000 therefore no external borrowing was required but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.
- 6.2. Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.
- 6.3. An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

7. Borrowing outturn for 2018/19

- 7.1. The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2018/19 are shown in the graph below.



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

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

	1 Year	5 Year	10 Year	25 Year	50 Year
02/04/2018	1.48%	1.85%	2.23%	2.57%	2.29%
29/03/2019	1.48%	1.55%	1.85%	2.40%	2.23%
Low	1.28%	1.50%	1.80%	2.33%	2.16%
Date	29/05/2018	26/03/2019	28/03/2019	26/03/2019	26/03/2019
High	1.64%	2.07%	2.50%	2.93%	2.79%
Date	04/10/2018	10/10/2018	10/10/2018	10/10/2018	12/10/2018
Average	1.50%	1.80%	2.20%	2.66%	2.47%

7.4. Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2018/19.

7.5. The Council’s total debt portfolio at 31 March 2019 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2018/2019
General Fund Fixed rate – PWLB	179.02	5.12%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

- 7.6. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 20 years, market loans have an average debt period of 52 years. The total debt portfolio has a maturity range from 1 year to 60 years.
- 7.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

8. Debt rescheduling

- 8.1. No debt restructuring was undertaken during 2018/19. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.
- 8.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:
- To generate cash savings at minimum risk.
 - To help fulfil the Treasury Strategy.
 - To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

9. Investment Strategy for 2018/19

- 9.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2018 that the bank rate would remain at its historically low level of 0.50% until December 2018 when a rise to 0.75% was expected. In August 2018 we saw an increase of interest rate by the Bank of England to 0.75%. This was a first increase in Bank Rate above 0.5% since the financial crash. Consequently, our treasury advisor's interest rate forecasts were reviewed and their updated forecast was approved by Council in December 2018 as part of the mid-year report. Their revised forecast took account of the increase in the bank rate to 0.75% in August 2018 and they expected it to remain at this level until September 2019 before increasing

again to 1.00%. However, the caveat with such forecasts was the major uncertainty surrounding Brexit and the impact this would have on the UK economy.

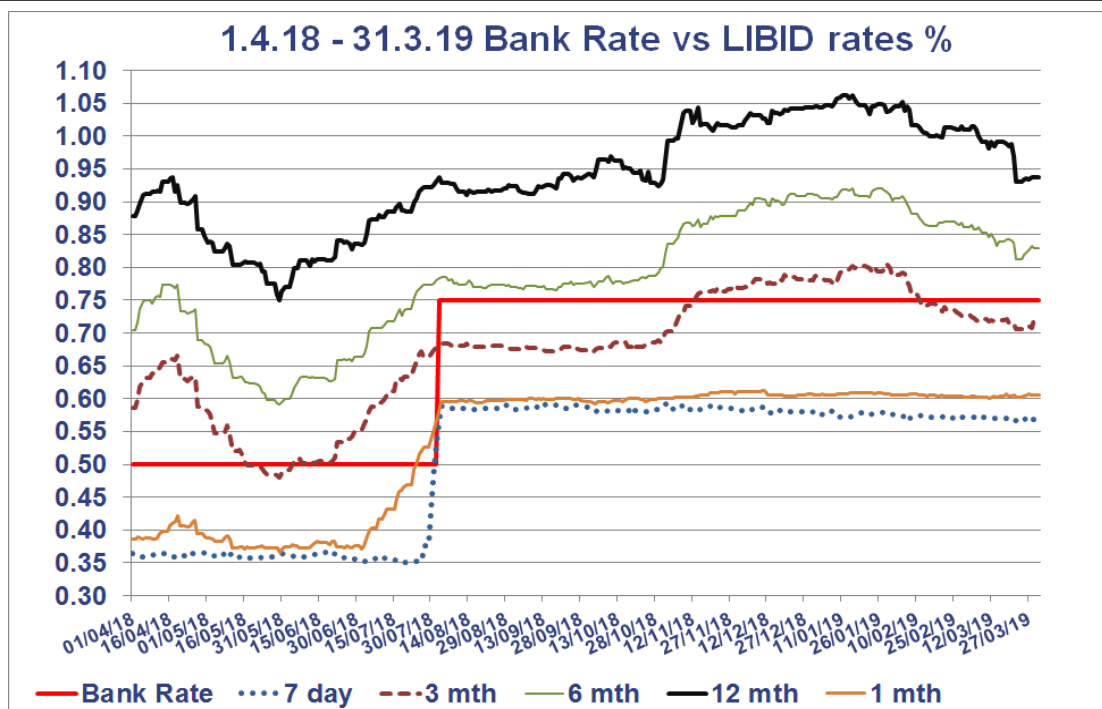
- 9.2. In 2018/19 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

10. Investment outturn 2018/19

10.1 Bank Rate was increased from 0.50% to 0.75% in August 2018 and remained at that level for the rest of the year. Deposit rates continued into the start of the year at previous depressed levels but were on a gently rising trend in the second half of the financial year after the Monetary Policy Committee's decision in August to increase Bank Rate. Investment rates were little changed during August to October but rose sharply after the MPC meeting of 1 November was unexpectedly hawkish about their perception of building inflationary pressures, particularly from rising wages. However, weak GDP growth data after December, plus increasing concerns generated by Brexit, resulted in investment rates falling back again.

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

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



10.4 Throughout the year the average interest rate earned on investments was higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This surplus was in addition to an under-spend on debt charges due to no long-term general fund borrowing being undertaken in 2018/19. The total £5.061 million underspend was mainly due to MRP savings following a review of the Council’s policy which helped the Council to achieve an overall under spend at the end of the financial year.

10.5 At 31 March 2019 the allocation of the cash portfolio was as follows:

	£m
• In-house short dated deposits for cash flow management	65.7
• In-house long dated deposits (up to 1 year)	28.0
• Other Local Authorities	33.0
Total	126.7

10.6 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2019. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	Return 2018/19	Return 3 years to 31 March 2019
	%	% p.a.
Internal Treasury Team	0.80	0.60
Benchmark (7 Day LIBID rate)	0.51	0.31

10.7 The conclusions to be drawn from the table are:

- During 2018/19 the internal treasury team outperformed their benchmark by 0.29%.
- Over the 3 year period the internal team's performance has been 0.29% per annum above the benchmark.

11. Compliance with Treasury Limits and Prudential Indicators

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

11.2 Appendix B shows the Prudential Indicators approved by Council as part of the 2018/19 and 2019/20 (revised estimate) Treasury Strategies compared with the actual figures for 2018/19. In summary, during 2018/19 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

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

Council, February 2018, Treasury Strategy 2018/19.

Council, December 2018, Treasury Strategy 2018/19 Mid-Year Review.

Council, February 2019, Treasury Strategy 2019/20.

Cabinet, July 2018, Treasury Management Update Quarter 1 2018/19.

Cabinet, December 2018, Treasury Management Update Quarter 2 2018/19.

Cabinet, February 2019, Treasury Management Update Quarter 3 2018/19.

Cabinet, July 2019, Treasury Management Update Quarter 4 2018/19.

Cabinet Member:

David Minnery, Portfolio Holder for Finance

Local Member

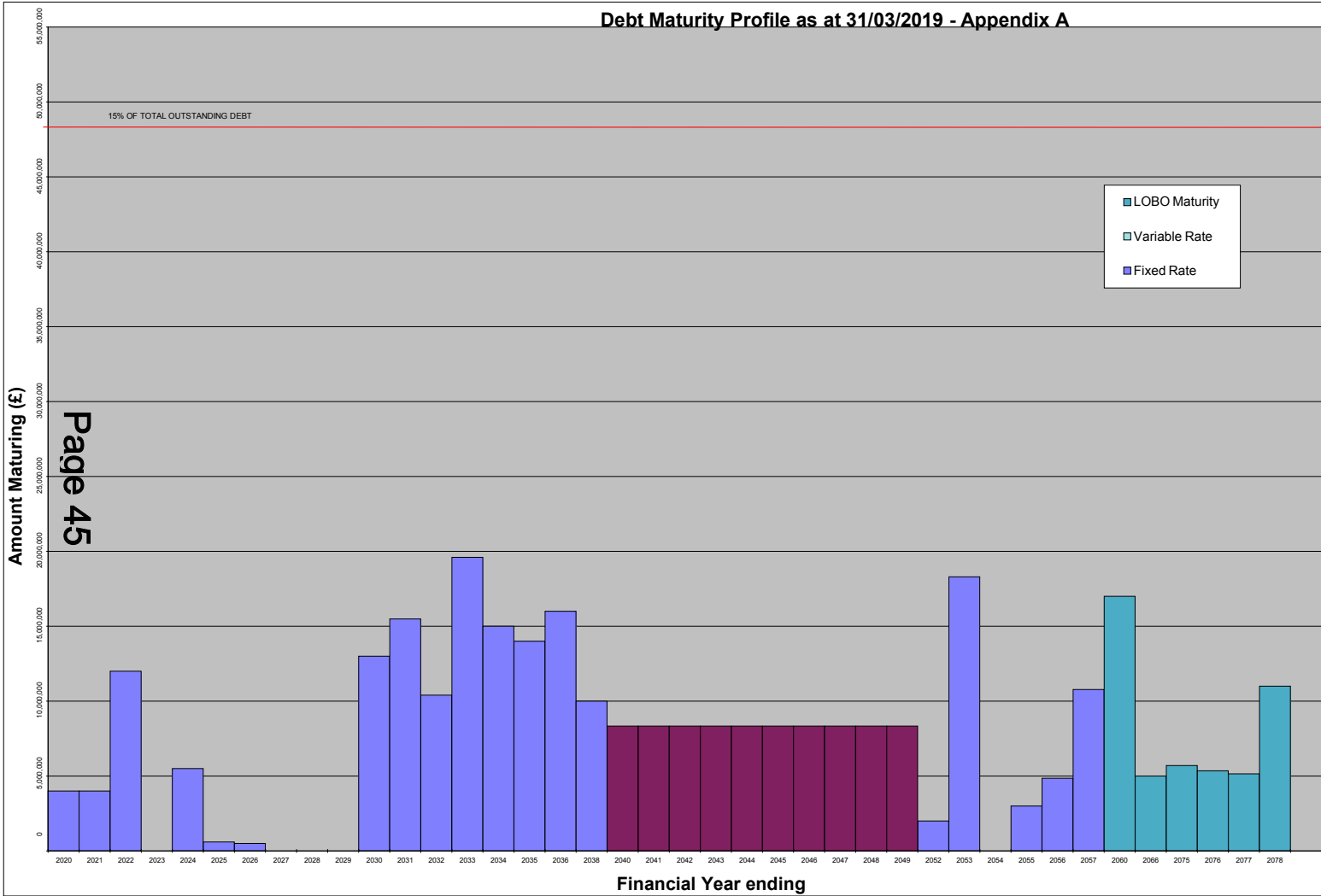
N/A

Appendices

A. Debt Maturity Profile as at 31 March 2019

B. Prudential Indicators 2018/19

2020	1,000,000	2021	1,000,000	2022	12,000,000	2023	0	2024	5,500,000	2025	600,000	2026	500,000	2027	0	2028	0	2029	0	2030	13,000,000	2031	15,000,000	2032	15,000,000	2033	16,000,000	2034	15,000,000	2035	14,000,000	2036	10,000,000	2037	3,000,000	2038	8,330,000	2039	8,330,000	2040	8,330,000	2041	8,330,000	2042	8,330,000	2043	8,330,000	2044	8,330,000	2045	8,330,000	2046	8,330,000	2047	8,330,000	2048	8,330,000	2049	8,330,000	2050	0	2051	2,000,000	2052	1,900,000	2053	1,800,000	2054	0	2055	1,000,000	2056	4,800,000	2057	11,770,000	2058	0	2059	0	2060	17,000,000	2061	5,000,000	2062	5,000,000	2063	5,000,000	2064	5,000,000	2065	5,000,000	2066	5,000,000	2067	5,000,000	2068	5,000,000	2069	5,000,000	2070	5,000,000	2071	5,000,000	2072	5,000,000	2073	5,000,000	2074	5,000,000	2075	5,000,000	2076	5,000,000	2077	5,000,000	2078	5,000,000	2079	5,000,000	2080	5,000,000	2081	5,000,000	2082	5,000,000	2083	5,000,000	2084	5,000,000	2085	5,000,000	2086	5,000,000	2087	5,000,000	2088	5,000,000	2089	5,000,000	2090	5,000,000	2091	5,000,000	2092	5,000,000	2093	5,000,000	2094	5,000,000	2095	5,000,000	2096	5,000,000	2097	5,000,000	2098	5,000,000	2099	5,000,000	2100	5,000,000
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APPENDIX B

SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2018/19

- C1. The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.
- C2. The ratio of financing costs compared to the net revenue stream of the Council was lower than expected in 2018/19 due to net revenue stream being higher than estimated.

Prudential Indicator	2018/19 Revised Estimate	2018/19 Actual
	%	%
Non HRA Ratio of financing costs to net revenue stream	8.8	8.3

Prudential Indicator	2018/19 Revised Estimate	2018/19 Actual
	%	%
Non HRA Ratio of financing costs (net of investment income) to net revenue stream	8.2	7.6
HRA Ratio of financing costs to HRA net revenue stream	38.8	37.6

- C3. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2018/19.

Prudential Indicator	2018/19 Estimate	2018/19 Actual
External Debt	£m	£ m
Authorised Limit:		
Borrowing	457	312
Other long-term liabilities	103	103
Total	560	415

Prudential Indicator	2018/19 Estimate	2018/19 Actual
External Debt	£ m	£ m
Operational Boundary:		
Borrowing	407	312
Other long-term liabilities	103	103
Total	510	415

- C4. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2018/19. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator.

Prudential Indicator	2018/19 Estimate	2018/19 Actual
Net Borrowing & Capital Financing Requirement:	£ m	£ m
Gross Borrowing (inc. HRA)	312	312
Investments	100	127
Net Borrowing	212	185
Non HRA Capital Financing Requirement	307	268
HRA Capital Financing Requirement	85	85
Total CFR	392	353

- C5. Non HRA and HRA capital expenditure were both lower than anticipated during the year. Explanations for these underspends were included in the 2018/19 final capital outturn report.

Prudential Indicator	2018/19 Revised Estimate	2018/19 Actual
	£ m	£ m
Non HRA Capital expenditure	51.9	49.5
HRA Capital expenditure	8.0	5.5

- C6. The level of fixed rate and variable rate borrowing were within the approved limits for the year.

Prudential Indicator	2018/19 Estimate	2018/19 Actual
Upper Limit for Fixed/Variable Rate Borrowing	£ m	£ m
Fixed Rate (GF)	457	312
Fixed Rate (HRA)	96	85
Variable Rate	229	0

- C7. The level of fixed rate and variable rate investments were within the approved limits during 2018/19.

Prudential Indicator	2018/19 Estimate	2018/19 Actual
Upper Limit For Fixed/Variable Rate Investments	£ m	£ m
Fixed Rate	220	83
Variable Rate	220	44

- C8. Longer term investments were held at the year-end due to the investment in Shrewsbury Shopping Centres.

Prudential Indicator	2018/19 Estimate	2018/19 Actual
Upper Limit for Sums Invested over 364 days	£m	£m
Internal Team	50	0
External Manager	30	0
Shrewsbury Shopping Centres	60	41

- C9. The maturity profile was within the limits set in the Treasury Strategy.

Prudential Indicator	2018/19 Upper Limit	2018/19 Actual
Maturity Structure of External Borrowing	%	%
Under 12 months	15	1
12 months to 2 years	15	1
2 years to 5 years	45	6
5 years to 10 years	75	1
10 years to 20 years	100	36
20 years to 30 years	100	27
30 years top 40 years	100	12
40 years to 50 years	100	7
50 years and above	100	9

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Agenda Item 9



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
12 September 2019	
1:30pm	<u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2019/20

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

Telephone: 01743 257739

1. Summary

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

Four good, 19 reasonable, seven limited and four unsatisfactory assurance opinions have been issued. The 34 final reports contained 360 recommendations, two of which were fundamental.

This report proposes significant/minor revisions reducing the overall audit plan from 2,362 days, as reported in February 2019, to 2,258 days. Changes to the planned activity reflect adjustments in both risks and a reduction in available resources, recruitment is ongoing and the changes have been discussed with, and agreed by, the Section 151 Officer.

Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including sharing best practice and providing advice on system developments.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment;

- a) The performance to date against the 2019/20 Audit Plan set out in this report and any action it wishes to take in response to any low assurance levels and fundamental recommendations.
- b) The adjustments required to the 2019/20 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, governance, risk management systems and 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

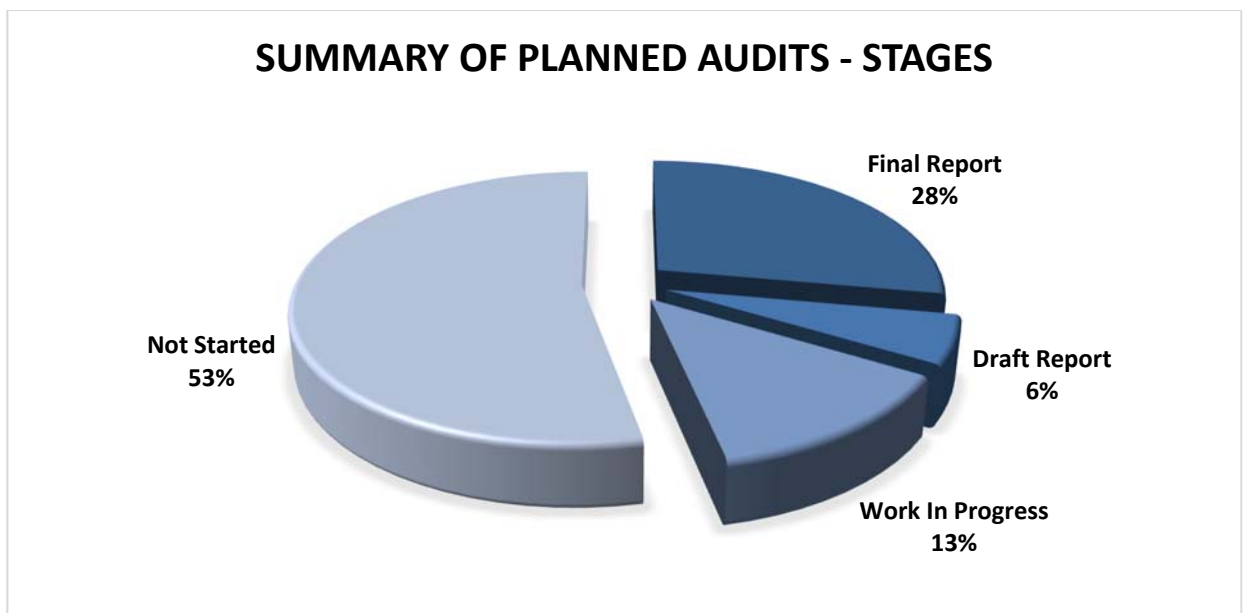
- 4.1 The Internal Audit plan is delivered within approved budgets. The work of Internal Audit contributes to improving the efficiency, effectiveness and economic management of the wider Council and its associated budgets.

5. Background

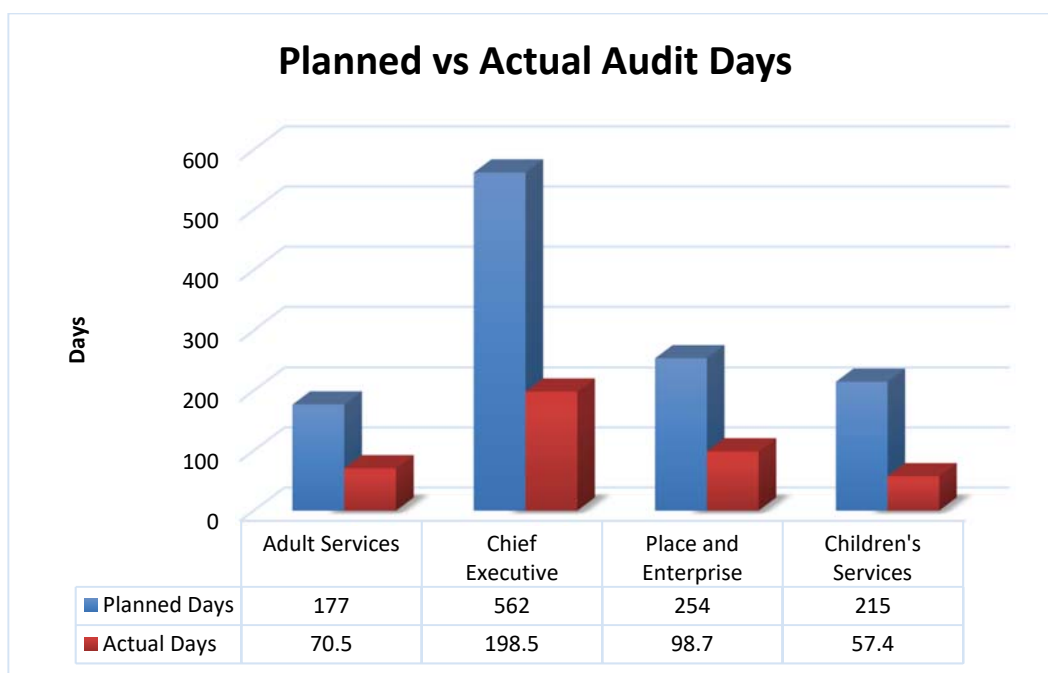
- 5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews, appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 5.2 The 2019/20 Internal Audit Plan was presented to, and approved by, members at the 25th February 2019 Audit Committee, with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 11th August 2019 and includes revisions to the plan.

Performance against the plan 2019/20

- 5.3 Revisions to the 2019/20 plan provide for a total of 2,258 days following a reduction in resources whilst also reflecting adjustments in risks. Performance to date is marginally higher than previous delivery records at 35% (29% 2018/19), overall the team is on track to deliver a minimum of 90% of the annual plan by year end.
- 5.4 Resourcing problems have been experienced during the first four months of the plan. The team has seen unplanned long-term sickness and an appointment of an Auditor has led to a further trainee vacancy within the team, with the associated recruitment delays. Investment in training and mentoring new staff continues to demand resources. Against this several audits were carried over from the previous year reflecting the complexity and nature of the work undertaken. There has also been a high demand for fraud investigations with 49% of the contingency being used compared to 36% last year, across various reviews which has seen the reallocation of resources from planned work. Many reviews are ongoing.
- 5.5 In total, 34 final reports have been issued in the period from 1st April 2019 to 11th August 2019. The following chart shows performance against the approved Internal Audit Plan for 2019/20:



- 5.6 Audits have been completed over several service areas as planned:

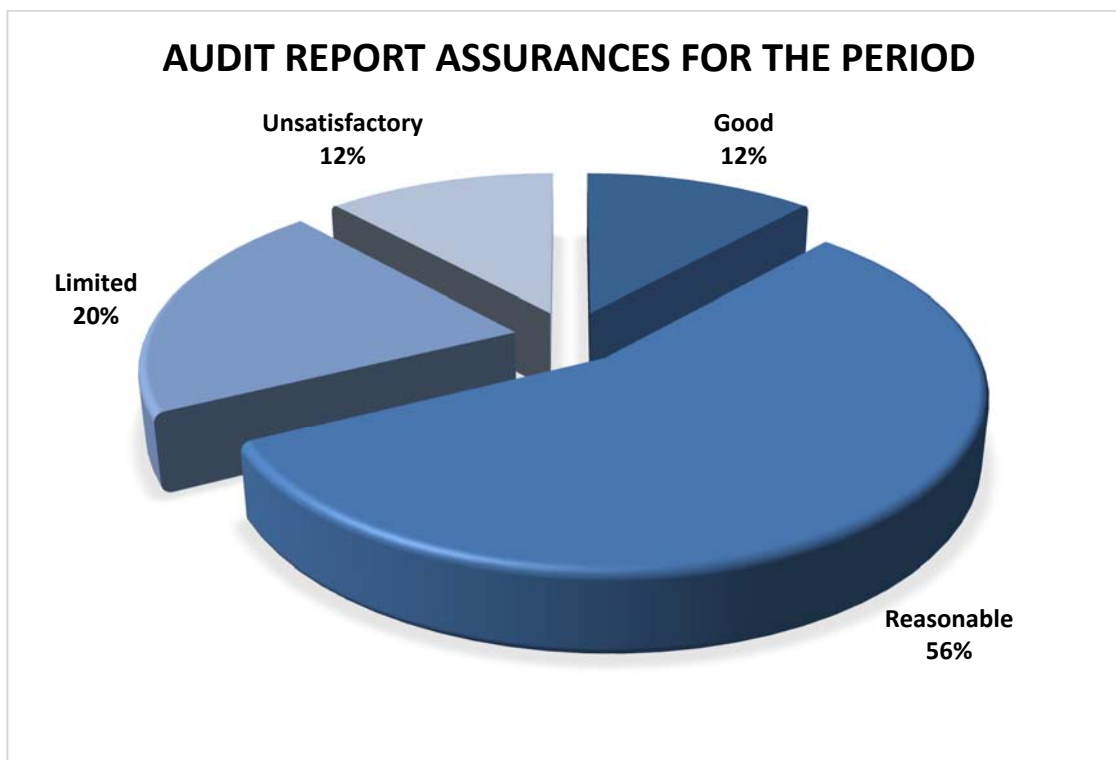


5.7 The following audits have been completed since the beginning of the year:

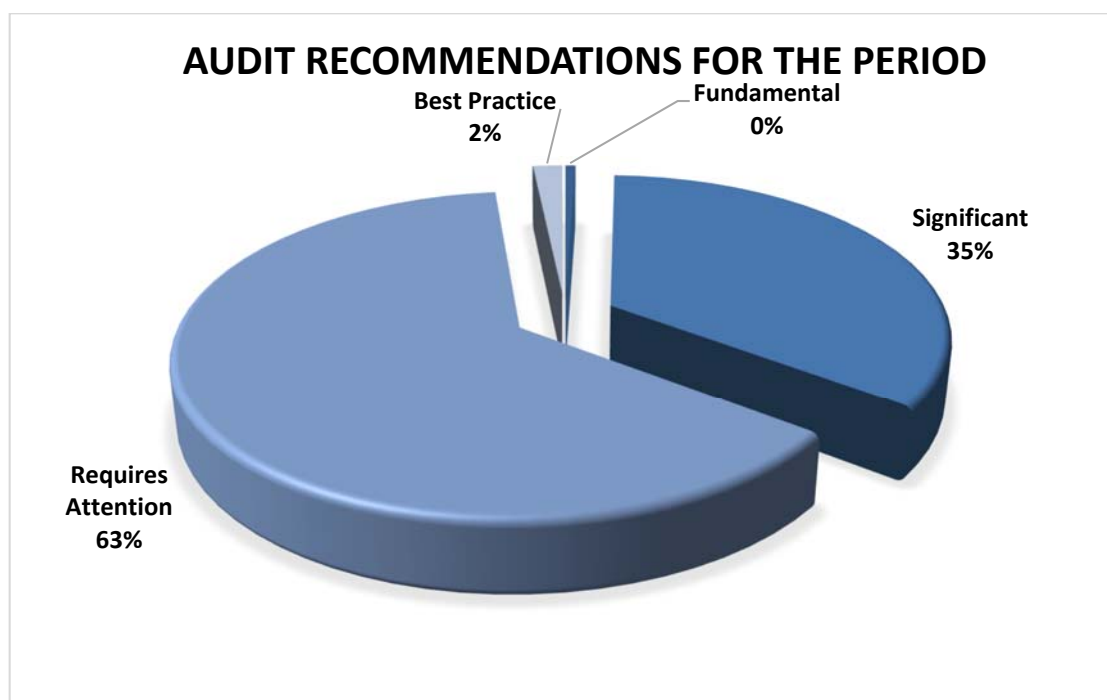
- Help to Change Client Side
- Chipside Parking System Application Review 2018/19
- Parking - Cash Collection 2018/19
- Housing Rents Client Side 2018/19
- Liquid Logic Data Migration
- Albert Road Comforts Fund
- Albert Road Day Centre
- Acton Scott Working Farm Museum
- Technology Forge Property Services System Application Review 2018/19
- Economic Growth Strategy 2018/19
- CONFIRM-Highways Management System Application Review 2018/19
- Bulky Waste
- Brockton CE Primary School 2018/19
- Woodlands School
- Strengthening Families Grant April 2019 Claim
- Strengthening Families Grant June 2019 Claim
- Civica Icon Income Management Application 2018/19
- Debt Recovery 2018/19
- Income Collection 2018/19
- Purchase Ledger 2018/19
- Sales Ledger 2018/19
- Enterprise Resource Planning (ERP) Data Migration Review 2018/19
- General Ledger 2018/19
- Payroll System 2018/19
- Sickness Management 2018/19
- Teacher's Pension Scheme Recommendation Follow Up 2018/19
- IT Project Management Adequacy of Arrangements 2018/19
- Public Services Network (PSN)

- General Data Protection Regulations (GDPR) / Freedom of Information 2018/19
- Monitoring Use of Facilities 2018/19
- Asbestos
- Health and Safety
- Legionella
- Contracts and Tendering - Corporate 2018/19

5.8 The assurance levels awarded to each completed audit area appear below:



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



- 5.10 Up to the 11th August 2019, 23 reports have been issued, providing good or reasonable assurances, accounting for 68% of the opinions delivered. This is comparable with the previous year outturn of 67%. Limited and unsatisfactory assurances are currently 32% compared to the previous year outturn of 33%.
- 5.11 During this period, there is no strong pattern of areas attracting lower assurance levels. Control objectives evaluated and not found to be in place as part of these audit reviews appear in a summary of the planned audit reviews which resulted in limited assurance in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.
- 5.12 Seven 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 a grant claims.
- 5.13 A total of 360 recommendations have been made in the 34 final audit reports issued this year; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.14 Two fundamental recommendations have been identified in relation to Brockton CE Primary School and Legionella which are detailed below:

**Brockton CE Primary School
Recommendation**

Expenditure over £50,000 should be subject to formal tender. The cost of the contract over its whole term should be included when calculating the value. In addition, and as agreed in the Autumn Term 2018 meeting, expenditure over £5,000 should be approved by the Governing Body. Evidence of this should be clearly noted in the Governing Body minutes. The school should ensure that Contract Rules are adhered to with any future contracts. Further advice should be sought from Nigel Denton (Commissioning

Development and Procurement Manager). (Updated from recommendation made and agreed in 2017/18).

Management response

Multiple quotes to be obtained for 2020/21.

Audit comment:

This was discussed during the audit debrief meeting in February 2019, therefore this should have been actioned prior to entering into a contract for 2019/20 unless a contract had already been signed prior to the audit visit

Agreed implementation date

September 2019

The school has attracted two unsatisfactory audits previously and there has been little action demonstrated to address the system control issues identified, this is being communicated to Children's Services and Members are asked to consider appropriate options.

Legionella

Recommendation

Urgent action should be taken to ensure quarterly, and annual legionella checks are carried out throughout the Shirehall, Old Vicarage and Crown Court buildings. This should be added to the schedule of checks carried out under contract by Graham Asset Management Ltd or by training in-house staff to manage this appropriately.

Management response

Quotes for the three sites have been received from Grahams Compliance Services; the quotes were acceptable and the three sites added to the schedule on 18/6/19.

Agreed implementation date

18/06/19

A follow up audit will be scheduled for 2020/21.

- 5.15 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.
- 5.16 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at **Appendix A, Table 1**.
- Enterprise Resource Planning (ERP) is a management methodology and software; its administration is more than just technical or operational, it is a full business process to support the Council. An Administration Health Check was conducted on the Enterprise Resource Planning (ERP) System Administration, the function that manages the software. The Health check looked at where the Council was and what was required to ensure that the administration could support the new system appropriately moving forward.
 - Several financial evaluations have been conducted providing information prior to engaging with new suppliers and in assessing the financial stability of existing

suppliers to evaluate the need to engage business continuity plans where necessary.

- Schools financial value standards (SFVS) have been assessed for grant maintained schools to inform the programme of financial assessment and audit. SFVS are referred to as part of specific audits to see if it is in line with Audit's independent judgements. Audit makes the governing body and the local authority aware of any major discrepancies in judgements and follows up on recommendations in line with agreed processes.
- The Head of Internal Audit supported the Highways Service in a recruitment exercise.
- Advice has been provided on mobile phone disposal and re-use; sale of assets at a school; inappropriate use of imprest at school; electric car expense reimbursements; retention policies; inappropriate use of budget and school fund money; and business world functions.
- The draft Direct Payments policy has been considered and commented upon.
- Work has been undertaken to review the corporate approach to security incidents.

Direction of travel

5.17 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
2019/20 to date	12%	56%	20%	12%	100%
2018/19	26%	41%	27%	6%	100%
2017/18	20%	44%	29%	7%	100%
2016/17	7%	45%	31%	17%	100%
2015/16	14%	35%	42%	9%	100%
2014/15	17%	47%	28%	8%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2019/20 to date	2%	63%	35%	0%	100%
2018/19	2%	60%	37%	1%	100%
2017/18	3%	56%	41%	0%	100%
2016/17	4%	50%	46%	0%	100%
2015/16	4%	54%	42%	0%	100%
2014/15	6%	53%	40%	1%	100%

5.18 The number of lower level assurances 32%, at this point in the year, is slightly lower than the outturn for 2018/19 of 33%. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances to date this year. This does not currently demonstrate any one area of concern which is a positive result, however, Members should note that only a proportion of the plan has been completed to date and the main financial and governance areas are yet to be completed.

Performance measures

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

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 2019/20 - Audit Committee 25th February 2019
Public Sector Internal Audit Standards (PSIAS)
Audit Management system
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)

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

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 1st April 2019 to 11th August 2019
Table 2: Final audit report assurance opinions issued in the period 1st April 2019 to 11th August 2019
Table 3: Unsatisfactory and limited assurance opinions in the period 1st April 2019 to 11th August 2019
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Audit recommendations made in the period 1st April 2019 to 11th August 2019
Table 8: Recommendation follow up process (risk based)

Appendix B - Audit plan by service 1st April 2019 to 11th August 2019

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period 1st April 2019 to 11th August 2019

	Original Plan	Revised Plan	11 August 2019 Actual	% of Original Complete	% of Revised Complete
Chief Executive	520	562	198.5	38%	35%
Finance, Governance and Assurance	293	309	86.4	29%	28%
Governance	14	14	8.9	64%	64%
Workforce and Transformation	213	221	85.1	40%	39%
Legal and Democratic	0	18	18.1	0%	101%
Adult Services	158	177	70.5	45%	40%
Social Care	96	130	60.0	63%	46%
Public Health	42	37	9.8	23%	26%
Public Protection	20	10	0.7	4%	7%
Place and Enterprise	310	254	98.7	32%	39%
Children's Services	252	215	57.4	23%	27%
Schools	113	122	42.9	38%	35%
Other	139	93	14.5	10%	16%
S151 Planned Audit	1,240	1,208	425.1	34%	35%
Contingencies and other chargeable work	894	814	282.5	32%	35%
Total S151 Audit	2,134	2,021	707.6	33%	35%
External Clients	228	237	80.9	35%	34%
Total	2,362	2,258	778.5	33%	35%

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

Table 2: Final audit report assurance opinions issued in the period from 1st April 2019 to 11th August 2019

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	1	12	3	2	18
Finance, Governance and Assurance	0	5	1	1	7
Governance	0	0	0	0	0
Workforce and Transformation	1	6	0	1	8
Legal and Democratic	0	1	2	0	3
Adult Services	1	5	1	0	7
Social Care	1	3	0	0	4

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Public Health	0	1	0	0	1
Public Protection	0	1	1	0	2
Place and Enterprise	0	2	2	1	5
Children's Services	2	0	1	1	4
Children's Services: Schools	0	0	1	1	2
Children's Services: Others	2	0	0	0	2
Total for 2019/20 to date					
➤ Numbers	4	19	7	4	34
➤ Percentage	12%	56%	20%	12%	100%
Percentage 2018/19	26%	41%	27%	6%	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%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st April 2019 to 11th August 2019 listed by service area¹

Unsatisfactory assurance

Children's Services: Brockton Primary School (Unsatisfactory 2015/16 and 2017/18)

- Previous audit recommendations have been implemented.
- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- The school fund is operated in accordance with the school fund notes of guidance.

Finance, Governance and Assurance: Debt Recovery (Unsatisfactory 2017/18)

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

Place and Enterprise: Acton Scott Working Farm Museum (Limited 2017/18)

- Previous audit recommendations have been implemented.
- Budget income is identified, collected and banked in accordance with procedures.

¹ Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

- Purchases are appropriate, authorised, recorded correctly and comply with
- Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- Regular budget monitoring is performed and any significant variations are investigated.
- Stocks held are appropriate, controlled and can be accounted for.
- Assets held are recorded, can be accounted for and are safeguarded against loss.
- Appropriate procedures are in place for the security of staff and material assets
- Electronically held data is secure and can be restored in the event of IT failure.

Workforce and Development: Legionella

- There are up to date contracts to carry out monitoring, surveying and risk assessments procedures to control the risk of Legionella.
- There are procedures to monitor the information and reports received from contractors and ensure that where appropriate, remedial works are ordered and carried out on a timely basis.

Limited assurance

Adult Services, Public Protection: Chipside Parking System Application Review (Limited 2016/17)

- The application is secure.
- Users have received the required training.
- There are continuity processes are in place to ensure system availability.
- Management/Audit trails are in place.
- Clear procedures are in place for the authorisation of changes and system changes are applied by appropriately qualified staff.
- Interfaces with the system are secure, efficient and effective.

Finance, Governance and Assurance: Purchase Ledger (Reasonable 2017/18)

- The recommendations made in the previous audit have been implemented.
- Purchase orders are raised in accordance with Financial Rules.
- Goods received procedures are defined and are operated effectively.
- Prepayment checks ensure that payments are made only to bona fide creditors on properly authorised invoices.
- Payments made are accurate, complete, have not been previously paid and are made at the optimal time.

Legal and Democratic: GDPR / Freedom of Information (Reasonable 2017/18)

- Appropriate organisational measures have been taken to ensure the compliance requirements are met for GDPR (General Data Protection Regulation).
- An information audit has been completed identifying all personal data held, processed and shared.
- Internal procedures have been amended across the organisation to take account of GDPR.
- Guidance and training has been provided for all levels of the organisation on GDPR.

- Appropriate management arrangements are in place to collate, review and issue responses to both subject access and FOI requests within the legislative timescales and to the required quality

Legal and Democratic: Monitoring use of Facilities (Not previously audited)

- Appropriate management arrangements are in place which include appropriate risk assessment and definition of which Council’s IT facilities are to be monitored.
- Procedures are in place to follow up on suspicious activity, which is logged and remedial action is taken where required.

Place and Enterprise: Confirm Highways Management System (Limited 2017/18)

- To ensure that the recommendations made in the 2017/18 audit have been implemented as per the original management responses.
- The System complies with all external legislation and policies.
- The application is secure.
- Users have received the required training.
- There are continuity processes are in place to ensure system availability.
- Management/Audit trails are in place.
- Interfaces with the system are secure, efficient and effective.

Place and Enterprise: Economic Growth Strategy (Not previously audited)

- An Economic Growth Strategy has been formally documented.
- An appropriate governance structure is in place.
- Performance reports are produced and disseminated appropriately.

Children’s Services: Woodlands School (Limited 2014/15)

- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- Electronically held data is secure and can be restored in the event of IT failure.

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

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

controls that do exist. This exposes the Council to high risks that should have been managed.

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

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

Table 6: Glossary of terms

Significance

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

Head of Internal Audit Annual Opinion

The rating, conclusion and/or other description of results provided by the Head of Internal Audit addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Head of Internal Audit based on the results of 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 the 1st April 2019 to 11th August 2019

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	6	103	41	1	151
Finance, Governance and Assurance	1	46	18	0	65
Governance	0	0	0	0	0
Workforce and Transformation	4	36	13	1	54
Legal and Democratic	1	21	10	0	32
Adult Services	0	44	9	0	53
Social Care	0	25	5	0	30
Public Health	0	15	4	0	19
Public Protection	0	4	0	0	4
Place and Enterprise	0	38	33	0	71
Children's Services	0	42	42	1	85
Children's Services: Schools	0	42	41	1	84
Children's Services: Others	0	0	1	0	1
Total for 2019/20 to date					
➤ Numbers	6	227	125	2	360
➤ Percentage	2%	63%	35%	0%	100%
Percentage 2018/19	2%	60%	37%	1%	100%
Percentage 2017/18	0%	41%	56%	3%	100%
Percentage 2016/17	4%	50%	46%	0%	100%
Percentage 2015/16	4%	54%	42%	0%	100%
Percentage 2014/15	6%	53%	40%	1%	100%

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 1st APRIL TO 11th AUGUST 2019

	Original Plan Days	Sept. Revision	Revised Plan Days	11th August 2019 Actual	% Original Plan Achieved	% Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	14	0	14	8.9	64%	64%
Finance Governance & Assurance						
Finance Transactions	85	18	103	23.3	27%	23%
Finance and S151 Officer	88	-20	68	20.3	23%	30%
Financial Management	73	18	91	22.3	31%	25%
Procurement and Contract Management	40	0	40	20.5	51%	51%
Risk Management and Insurance	7	0	7	0.0	0%	0%
	293	16	309	86.4	29%	28%
Workforce and Development						
Human Resources	70	1	71	21.8	31%	31%
Information Governance	8	0	8	0.8	10%	10%
ICT	110	-6	104	24.1	22%	23%
Occupational Health & Safety	25	11	36	36.4	146%	101%
Print Services	0	2	2	2.0	0%	100%
	213	8	221	85.1	40%	39%
Legal and Democratic						
Legal Services	0	18	18	18.1	0%	101%
CHIEF EXECUTIVE	520	42	562	198.5	38%	35%
ADULT SERVICES						
Social Care Operations						
Long Term Support	53	17	70	34.3	65%	49%
Assistive Services	10	0	10	0.0	0%	0%
Provider Services - Comforts Funds	6	6	12	8.2	137%	68%
Provider Services - Establishments	12	1	13	4.9	41%	38%
Housing Services	15	10	25	12.6	84%	50%
	96	34	130	60.0	63%	46%
Public Health						

	Original Plan Days	Sept. Revision	Revised Plan Days	11th August 2019 Actual	% Original Plan Achieved	% Revised Plan Achieved
Emergency Planning	12		12	0.5	4%	4%
Help to Change Client Side	10		10	9.3	93%	93%
Public Health Contracts	10	-10	0	0.0	0%	0%
Public Health Projects (include CCG links)	10	5	15	0.0	0%	0%
	42	-5	37	9.8	23%	26%
Public Protection						
Environmental Protection and Prevention- Public Protection	20	-10	10	0.7	4%	7%
ADULT SERVICES	158	19	177	70.5	45%	40%
PLACE AND ENTERPRISE						
Business, Enterprise and Commercial Services						
Commercial Services	10	-3	7	0.0	0%	0%
Strategic Asset Services	45	-2	43	11.3	25%	26%
	55	-5	50	11.3	21%	23%
Economic Development						
Business Growth and Investment	35	-2	33	0.4	1%	1%
Development Management	15	-10	5	1.3	9%	26%
Project Development	15	-15	0	0.0	0%	0%
	65	-27	38	1.7	3%	4%
Infrastructure and Communities						
Highways	70	3	73	47.3	68%	65%
Environmental Maintenance	8	0	8	2.2	28%	28%
Library Services	5	4	9	7.3	146%	81%
Public Transport	20	-10	10	3.8	19%	38%
Waste	8	0	8	8.6	108%	108%
	111	-3	108	69.2	62%	64%
Culture and Heritage						
Theatre Severn and OMH	14	0	14	0.0	0%	0%
Leisure Services	38	-16	22	0.0	0%	0%
Outdoor Recreation	6	-6	0	0.0	0%	0%
Visitor Economy	21	1	22	16.5	79%	75%
	79	-21	58	16.5	21%	28%
PLACE AND ENTERPRISE	310	-56	254	98.7	32%	39%

	Original Plan Days	Sept. Revision	Revised Plan Days	11th August 2019 Actual	% Original Plan Achieved	% Revised Plan Achieved
CHILDREN'S SERVICES						
Safeguarding						
Children's Placement Services & Joint Adoption	69	-10	60	8.0	12%	13%
Safeguarding	16	0	16	3.6	23%	23%
	85	-10	76	11.6	14%	15%
Learning and Skills						
Education Improvements	54	-37	17	2.9	5%	17%
Primary/Special Schools	87	3	90	12.6	14%	14%
Secondary Schools	26	6	32	30.3	117%	95%
	167	-28	139	45.8	27%	33%
CHILDREN'S SERVICES	252	-38	215	57.4	23%	27%
Total Shropshire Council Planned Work	1,240	-33	1,208	425.1	34%	35%
CONTINGENCIES						
Advisory Contingency	60	0	60	10.0	17%	17%
Fraud Contingency	200	0	200	97.1	49%	49%
Unplanned Audit Contingency	100	-95	5	0.0	0%	0%
Other non-audit Chargeable Work	534	15	549	175.4	33%	32%
CONTINGENCIES	894	-80	814	282.5	32%	35%
Total for Shropshire	2,134	-113	2,021	707.6	33%	35%
EXTERNAL CLIENTS	228	9	237	80.9	35%	34%
Total Chargeable	2,362	-104	2,258	788.5	33%	35%

Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2019
September 2019

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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 completed our financial statements audit for 2018/19, providing you with an unqualified opinion.

The statutory deadline for the issue of the 2018/19 opinion was not met, but we were able to provide our opinion on 1 August 2019. This is still a significant achievement for your finance team.

Due to the progression of the McCloud court case, additional work was undertaken around the pension liability estimates. Revised figures were requested from the actuary and adjustments were made to your financial statements to reflect these figures.

We also undertook additional procedures to support the estimations around asset values, both in relation to your Property, Plant and Equipment and the valuation of your JPUT investment.

Additional fees have been discussed with your Director of Finance, Governance and Assurance and will be submitted to PSAA for approval.

Key issues arising from the opinion audit will be fed into a wash-up process with finance staff which will be completed in the Autumn. We continue to strive to identify ways to streamline the process and continue to provide an efficient and effective audit.

All our significant conclusions are summarised in our Annual Audit Letter which is presented to this Committee meeting.

Value for Money

We have completed our value for money conclusion work for 2018/19 providing an unqualified conclusion on your arrangements. As in previous years, the financial resilience of your Council in the medium to long-term remains a significant challenge and will be something we focus our attention on in future years.

The findings from the 2018/19 value for money conclusion work will be a key start point for identifying the risks for 2019/20 and will be fed into our risk planning process in the Autumn.

Other areas

Certification of claims and returns

We are required to certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. This certification work for the 2018/19 claim will be concluded by November 2019.

There are other grant claims which the Council appoints us to complete. Letters of Engagement will be confirmed and once appointed, we will complete the testing required.

The results of the certification work are reported to you in our certification letter.

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
Fee Letter Confirming audit fee for 2018/19.	April 2018	Complete
Accounts Audit Plan 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
Interim Audit Findings 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	Complete
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2019	Complete
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2019	Complete – issued on 1 August 2019
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2019	Complete
Annual Certification Letter 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

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.

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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.

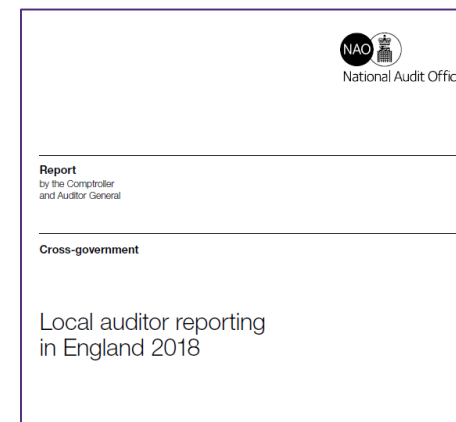
Qualified conclusions on arrangements to secure value for money locally are both unacceptably high and increasing. Auditors qualified their conclusions on arrangements to secure value for money at an increasing number of local public bodies: up from 170 (18%) in 2015-16 to 208 (22%) in 2017-18. As at 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 issues 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.

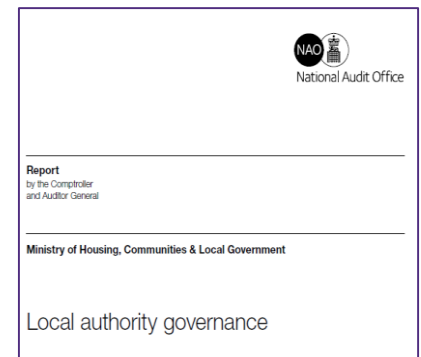
The report is available on the NAO website:

<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?



National Audit Office – Planning for new homes

The National Audit Office (NAO) has recently published a report on *Planning for new homes*. This report is part of a series on housing in England, including *Housing in England: overview (2017)* and *Homelessness (2017)*. The latest report focuses on the Ministry of Housing, Communities and Local Government's (MHCLG's) objective for housing in England to deliver a million homes by the end of 2020; half a million by the end of 2022; and to deliver 300,000 net additional homes a year on average.

The report recognises that increasing the supply of new homes is a complex task and one of the measures MHCLG has introduced to help achieve the objective is reforming the planning system. The report notes that the planning system is fundamental to providing new homes and it assesses how effectively MHCLG supports the planning regime to provide the right homes in the right places through:

- supporting local authorities to produce plans for how the supply of new homes will meet need in their area;
- supporting local authorities and the Planning Inspectorate in having effective and sufficiently resourced planning processes and teams to deal with planning applications and appeals; and
- working effectively with local authorities, other government departments and developers to ensure infrastructure to support new homes is planned and funded.

The report finds that at present, the system is not providing value for money and that the supply of new homes has failed to meet demand. It notes that a number of factors have contributed to the planning system not working and some of these include:

- the process of setting the need for new homes;
- the reductions in local authority capability;
- the under-performing Planning Inspectorate; and
- failures in the system to ensure adequate contributions for infrastructure.

The report recognises that MHCLG's new National Planning Policy Framework is an important step, but it is too early to tell whether the changes it introduces will be effective. The report also makes a number of recommendations for MHCLG to implement alongside the framework to help the planning systems work more effectively.

The report concludes that the Department and government more widely need to take this much more seriously and bring about improvement if they are to meet their ambition of 300,000 new homes per year by the mid-2020s.

The report is available on the NAO website:

<https://www.nao.org.uk/report/planning-for-new-homes/#>



NAO Report

Challenge question:

Has your Authority got a robust plan in place to work in partnership with your districts to deliver the additional houses needed over the next five years?



National Audit Office – Pressures on children’s social care

The Local authorities in England have statutory responsibility for protecting the welfare of children and delivering children’s social care. In extreme cases they may use their statutory powers to place children in need on protection plans or even take them into care. Local authorities are also responsible for delivering non-statutory services for all children and young people, such as children’s centres. The Department for Education (the Department) provides statutory guidance on delivering these functions. It also has overall policy responsibility for children’s services, and has the strategic vision that all vulnerable children, no matter where they live, should have access to high-quality support by 2022.

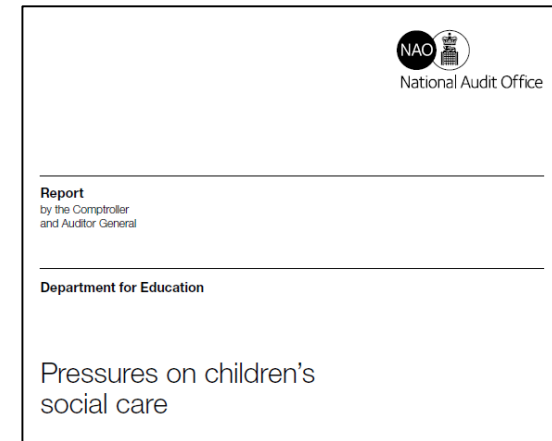
The report sets out recent trends in pressures on children’s social care demand and activity and the response of both national and local government to these pressures. It also sets out analysis the NAO conducted about what is causing variations in children’s social care demand and activity between different local authorities. The report covers:

- the pressures on children’s social care;
- the response of national and local government to increasing demand for children’s social care; and
- NAO analysis of what is causing variations in demand for children’s social care between local authorities.

The report notes that, while the Department has put in place a programme of reform, it still does not fully understand what is driving demand for children’s social care or why there is such wide variation between local authorities in their children’s social care activity and costs. It has not yet done the work to tie together available sources of information and therefore lacks a well-informed pathway to achieve its goal. While the Department has recognised the need for this analysis, it will not complete the work until summer 2019. Even if its analysis is completed successfully it will be a tall order for the Department to achieve its goal within three years.

The report is available on the NAO website:

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>



NAO Report

Challenge question:

Has your Authority considered the NAO report, and how any local variations in demands can be addressed?



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 24 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.

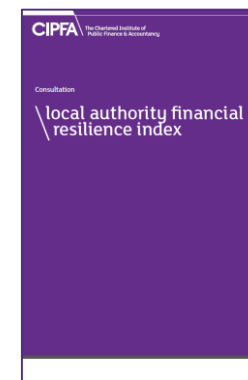
“Most respondents agreed to the need for transparency – but a sizable number had concerns over the possibly negative impacts of adverse indicators and many councils wanted to see their results prior to publication.”

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 Director of Finance, Governance and Assurance briefed members on the Council’s response to the Financial Resilience Index consultation?



CIPFA – Social Care risk tool

The Chartered Institute of Public Finance and Accountancy (CIPFA) and the Association of Directors of Adult Social Services' (ADASS) have updated the Social Care Risk Tool; an advisory risk assessment tool for discretionary use by councils with adult social care responsibility.

The tool's objective is to help authorities assess whether unsustainable financial pressures might be faced by the adult social services department. It seeks to do this by assessing the extent to which various risk factors apply. This is the third version of the risk tool and it has been expanded to include new risks that have emerged since the previous version. In addition, a number of risks have been revised to make them clearer.

The risk assessment adopts a survey format and covers the following areas:

- savings;
- local pressures; and
- culture and relationships.

Each of the areas above includes a series of questions (or indicators), and authorities are required to assess whether the indicators are strongly present (score of 5); only present to some extent (scores 2 to 4); or not at all (score of 1). The total score helps to give an indication of where the authority lies. The maximum score is 195 (there are 39 questions altogether) which represents the highest risk possible. Some of the metrics (particularly those relating to unit costs) are more illustrative than prescriptive and local authorities may wish to adjust these to reflect their local circumstances.

To download the tool:

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>



CIPFA Social Care risk tool



Challenge question:

Has your Authority completed the Social Care risk tool? Have your Directors shared the results and responses with you?

ICAEW Report: expectations gap

The Institute of Chartered Accountants in England and Wales (ICAEW) 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?



Links

Grant Thornton

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

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

National Audit Office

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

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

<https://www.nao.org.uk/report/planning-for-new-homes/#>

<https://www.nao.org.uk/report/pressures-on-childrens-social-care/>

Ministry of Housing, Communities and Local Government

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/>

CIPFA

<https://www.cipfa.org/cipfa-thinks/health/articles/social-care-risk-tool>

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of the Local Government Act 1972.

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