

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

Date: 27 November 2019
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 5 December 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 meeting held on the 12 September 2019 (Pages 1 - 8)

The Minutes of the meeting held on the 12 September 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 3 December 2019.

5 First line assurance: Commercial Strategy Update (Pages 9 - 12)

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

Contact: Tim Smith (01743 258676).

6 First line assurance: Children's Direct Payments Update

The report of the Interim Assistant Director Children's Social Care and Safeguarding is to follow.

Contact: Sonya Miller (01743 254264)

7 Second line assurance: Treasury Strategy Mid-Year Report 2019/20 (Pages 13 - 34)

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

Contact: James Walton (01743) 258915

8 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative (Pages 35 - 68)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

9 Governance Assurance: Annual review of Audit Committee Terms of Reference (Pages 69 - 78)

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

Contact: James Walton (01743) 258915

10 Governance Assurance: Annual Audit Committee Self-Assessment (Pages 79 - 102)

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

Contact: James Walton (01743) 258915

11 Third line assurance: Internal Audit Charter (Pages 103 - 120)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski 01743 257739

12 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2019/20 (Pages 121 - 138)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

13 Third line assurance: External Audit, Audit progress report and sector update (Pages 139 - 152)

The report of the Engagement Lead is attached.

Contact: Richard Percival (0121) 232 5434

14 Date and Time of Next Meeting

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

15 Exclusion of Press and Public

To RESOLVE that in accordance with the provision of Schedule 12A of the Local Government Act 1972, Section 5 of the Local Authorities (Executive Arrangements)(Meetings and Access to Information)(England) Regulations and Paragraphs 2, 3 and 7 of the Council's Access to Information Rules, the public and press be excluded during consideration of the following items.

16 Exempt minutes (Exempted by Categories 2, 3 and 7) (Pages 153 - 154)

The exempt minutes of the meeting held on the 27 June 2019 are attached for

confirmation.

Contact Michelle Dulson (01743) 257719

17 First line assurance: Theatre Severn update (Exempted by Categories 1, 2 and 3) (Pages 155 - 160)

The exempt report of the Interim Head of Culture and Heritage is attached.

Contact: Clare Featherstone (01743) 255067

18 Third line assurance: Highways Term Maintenance Contract Kier 2019/20 (Exempted by Category 5) (Pages 161 - 164)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

19 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 165 - 170)

The exempt report of the Principal Auditor is attached.

Contact: Peter Chadderton (01743) 257727



Committee and Date

Audit Committee

5 December 2019

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 12 SEPTEMBER 2019 1.30 - 3.10 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Peter Adams (Chairman)

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

31 Apologies for Absence / Notification of Substitutes

31.1 Apologies for absence were received from Councillors Chris Mellings and Michael Wood.

31.2 Councillor Roger Evans substituted for Councillor Chris Mellings and Councillor Gerald Dakin substituted for Councillor Michael Wood.

32 Disclosable Pecuniary Interests

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

33 Minutes of the previous meetings held on the 27 June and 23 July 2019

33.1 RESOLVED:

That the Minutes of the meetings held on 27 June 2019 and 23 July 2019 be approved and signed by the Chairman as a correct record.

34 Public Questions

34.1 No public questions had been received.

35 First line assurance: Liquid Logic Project Review Update

35.1 The Assistant Director of Adult Services introduced the report of the Director of Adult Services – copy attached to the signed Minutes – which provided an update following the review of Liquidlogic Adults Social Care System (LAS) Project by Internal Audit,

which concluded that the current level of assurance was 'limited' and that the direction of travel was 'a weakening control environment'.

35.2 The Assistant Director of Adult Services confirmed that appropriate action had been taken to address the 6 recommendations (4 Significant and 2 Requires Attention) and all had now been completed. She reported that the project had now been implemented on time and in budget and that a lessons' learnt review would be undertaken in November/December.

35.3 Members were pleased that all recommendations had been taken on board however they did not agree that the management controls in place at the time of the audit were robust nor that the limited assurance level was due to the delay in providing information and documents to the audit team.

35.4 In response, the Assistant Director of Adult Services confirmed that the limited assurance level had had no impact on service users prior to going live on 10 December. In response to a query, the Assistant Director of Adult Services explained what was meant by 'The functionality in the system...' set out in the second bullet point on page 2 of the report.

35.5 In response to a query about whether the Head of Audit was satisfied that the recommendations had been met, she explained that she would not be able to give that assurance until the follow up audit had been undertaken and, in any case, it was for the Managers to provide their assurance. The Assistant Director of Adult Services reported that the Director had been assured by his project team that the control measures in place were robust.

35.6 **RESOLVED:**

To note that the management controls in place as part of the project were robust during the transition of the system into Business As Usual.

36 **First line assurance: Children's Direct Payments 2018/19 Update**

36.1 The Committee received the report of the Head of Safeguarding – copy attached to the signed Minutes – which sets out the progress that had been made following the 2018/19 internal audit, the final report of which was issued in March 2019.

36.2 The Service Manager informed the meeting that the review had concluded that the level of assurance was limited, having previously been good and that 17 recommendations had been made, 9 of which were significant whilst 8 required attention. Following a management review in June 2019, 3 of the 9 significant recommendations and 5 of the 8 recommendations that required attention were rated green.

36.3 Concern was raised by Members that the level of assurance had fallen from being good to being limited with 17 areas of concern. In response, the Service Manager explained that the service had been missing a key post for a significant amount of time which had finally been filled in December 2018, following which, the system control weaknesses in this area were strengthened.

36.4 In response to a query the Service Manager informed the Committee that recommendation 16 in relation to the Personal and Sensitive Data Risk Assessment had been completed with no significant impact on service users.

36.5 A further progress report was requested following the management review being undertaken in October 2019.

36.6 RESOLVED:

- a) To note the review that took place on 19 June in relation to the recommendations made from the audit.
- b) To note the progress that has been made to address the recommendations in the 12 March Audit Report to ensure that all improvements were effectively implemented and monitored via the management responses.
- c) That a further report be provided to a future meeting of the Audit Committee.

37 Second line assurance: Risk Annual Report 2018/19 incorporating Strategic Risks Update

37.1 The Committee received the report of the Risk and Insurance Manager – copy attached to the signed Minutes – which sets out the challenges and achievements accomplished by the Risk and Insurance Team during 2018/2019 (and up to the preparation of this report).

37.2 The Risk and Insurance Manager informed the meeting that the Emergency Planning Unit had recently been incorporated into the team, which had been renamed 'Risk, Insurance and Resilience Team'. She then drew attention to the 'good' assurance level achieved following a risk management audit undertaken by external auditors.

37.3 The Risk and Insurance Manager informed the Committee how the quarterly reviews of strategic risks were undertaken in order to ensure that risk levels were closely monitored. She reported that the last review had been undertaken in June 2019. There were currently 16 strategic risks identified on the register, 8 of which were considered high risk, as detailed in the report.

37.4 Turning to Operational Risks, the Risk and Insurance Manager reported that all operational risks had been moved onto a specific 'SharePoint' site to allow a real time view of current operational risk exposure which could be updated whenever changes were required. She reported that Project Risk Registers would also be moved onto the 'SharePoint' site.

37.5 The Risk and Insurance Manager reported that an additional level of business continuity tactical plans were being developed for HR, Finance and Assets which were currently being finalised and would provide a corporate approach across these areas. She then drew attention to the Business Continuity exercise recently undertaken along with the week-long live exercise undertaken during Business Continuity week in May each year.

37.6 In response to a query, the Risk Management Officer explained how businesses came to be invited to the 'Your Business Matters' facilitated sessions. She reported

that currently the Emergency Planning Team contacts were invited by email, but in future, the Business Growth Team were hoping to extend the invitation to wider businesses. Data from these sessions would be provided next year and would include the percentage of businesses that attended.

37.8 Both the Risk and Insurance Manager and the Risk Management Officer answered a number of queries from Members in relation to the following strategic risks: Staffing, Work Related Stress, Failure to Safeguard Vulnerable Children/Adults and the Economic Impact of Brexit. The Risk and Insurance Manager explained that there were detailed risk profiles sitting behind each risk and reminded Members that if they wished they could ask for individual risk profiles to be brought by the risk owner to future meetings for Members to look at in more detail.

37.9 In relation to Failure to Safeguard Vulnerable Children/Adults the Risk and Insurance Manager explained that the impact of the risk could be mitigated by having a lot of controls in place and this may well be the reason for the lower 'likelihood' score for Safeguarding Vulnerable Children. Members requested that both the Director of Children's Services and the Director of Adult Services be invited to the next meeting to discuss the risk profiles.

37.10 Concern was raised about whether the Economic Impact of Brexit should have a higher score as it could have an effect on a number of different areas. In response, the Risk and Insurance Manager confirmed that this was being reviewed as part of the Strategic Risk Update for September and it was felt that the definition needed to be wider. She reported that the Brexit Lead Officer was being updated via the EU Working Group on a weekly basis and that the risk would be escalated if required.

37.11 RESOLVED:

- A. To accept the position as set out in the report.
- B. That the Directors for both Children's Services and Adult Services be invited to attend the next meeting of the Audit Committee to discuss their current strategic risks.

38 Second line assurance: Annual Treasury Report 2018/19

38.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) – copy attached to the signed Minutes – which informed members of treasury activities for Shropshire Council for 2018/19, including the investment performance of the internal treasury team to 31 March 2019.

38.2 The Head of Finance, Governance and Assurance (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark by 0.29% and that performance over the last three years was 0.29% per annum above benchmark delivering an underspend of £5.061 million. This was mainly due to a review of the Minimum Revenue Provision policy.

38.3 The Head of Finance, Governance and Assurance (Section 151 Officer) drew attention to the significant levels of ongoing savings and one-off adjustments and highlighted the minimum reporting requirements for the review and scrutiny of the Council's treasury management policy and activities undertaken by Audit Committee before being reported to full Council for approval.

38.4 RESOLVED:

To accept the position as set out in the report.

39 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2019/20

- 39.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided members with an update of work undertaken by Internal Audit in the four and a half months since the beginning of the financial year and the start of Shropshire Council's approved audit plan implementation.
- 39.2 The Head of Audit advised Members that 35% of the revised Plan had been completed and the team were on target to achieve 90% completion by year end. The Head of Audit drew attention to the reduction in the overall audit plan from 2,362 days to 2,258 days in order to reflect adjustments in risks and a reduction in available resources. She also reported a significant increase in the demand for fraud investigations (from 36% last year up to 50% this year).
- 39.3 The Head of Audit drew attention to the assurance levels and reported that four good, nineteen reasonable, seven limited and four unsatisfactory assurance opinions had been issued. The 34 final reports contained 360 recommendations, two of which were fundamental in relation to Brockton CE Primary School and Legionella which were detailed at paragraph 5.14 of the report.
- 39.4 The Head of Audit highlighted those areas where Audit had added value in the delivery of work and reported that the number of lower level assurances to date (32%) was slightly lower than for the previous year (33%).
- 39.5 **RESOLVED:**

- a) That performance to date against the 2019/20 Audit Plan set out in this report be noted.
- b) That the adjustments required to the 2019/20 plan to take account of changing priorities set out in **Appendix B**, be approved.

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

- 40.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which summarised the key findings arising from the work carried out for the year ended 31 March 2019.
- 40.2 The External Auditor drew attention to the unqualified opinion on both the Council's financial statements and the Value for Money conclusion and confirmed that they were on track to complete the Certification of Grants works by 30 November 2019.
- 40.3 The External Auditor discussed the impact of the McCloud ruling on pension liabilities which had led to an increase on the balance sheet of £11.8m which had been processed through the Council's financial statements. He then drew attention to the unadjusted misstatement in relation to the JPUT (Jersey Property Unit Trust).

- 40.4 Turning to the Value for Money Conclusion, the External Auditor reported that there continued to be a funding gap for which the Council needed to put plans in place to address. In relation to the proposed changes to fees, these were being discussed with the Director of Finance, Governance and Assurance (Section 151 Officer).
- 40.5 In response to a query with regards the 2020/21 budget, Members were reminded of the discussion at Full Council in July in relation to the economic growth and revenue generation strategy. The Director of Finance, Governance and Assurance (Section 151 Officer) explained that budget setting was an ongoing process which officers continued to monitor. The position for the next financial year had been broadly updated and the Financial Strategy set for 2020 however, there was no information for the financial year 2020/21 so it was uncertain what this would look like.
- 40.6 In response to a further query, the Director of Finance, Governance and Assurance (Section 151 Officer) explained that the General Fund Balance was not set at 2%, instead it was a risk-assessed target and the balance of £15.5m was the level that officers anticipated would be required. He reported that a risk assessment was undertaken every year to determine the level of the General Fund Balance and he confirmed that he anticipated that the Council would be setting a balanced budget for 2020/21.
- 40.7 In response to concerns, the External Auditor explained that the Council had the opportunity to take action to address the risks and that External Audit would continue to review and report on the situation. He stressed that this was a challenge faced by all Councils, not just Shropshire Council.

40.8 RESOLVED:

That the contents of the report be noted.

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

- 41.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2019. The External Auditor drew attention to the unadjusted misstatements set out on page 13 of the report but reported that an unqualified opinion would be given.

41.2 RESOLVED:

That the contents of the report be noted.

42 Third line assurance: External Audit: Audit progress report and sector update

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

42.2 The External Auditor drew attention to the progress to date set out on page 4 of the report and he confirmed that External Audit continued to meet with officers as appropriate. In relation to the Annual Certification Letter, it was confirmed that any matters arising from this work going forward would be clarified in the letter.

42.3 RESOLVED:

That the contents of the report be noted.

43 Date and Time of Next Meeting

43.1 Members were reminded that the next meeting of the Audit Committee would be held on the 5 December 2019 at 1.30pm.

44 Exclusion of Press and Public

44.1 RESOLVED:

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

45 Exempt Minutes (Exempted by Categories 2, 3 and 7)

45.1 RESOLVED:

That the exempt minutes of the meeting held on 27 June 2019 be approved and signed by the Chairman as a correct record.

46 Third line assurance: Fraud, special investigation and RIPA updates (Exempted by Categories 2, 3 and 7)

46.1 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.

46.2 RESOLVED

That the contents of the report be noted.

Signed (Chairman)

Date:



Committee and Date	Item
Audit Committee 5 th December 2019	

MANAGEMENT REPORT – COMMERCIAL STRATEGY UPDATE

Responsible Officer Tim Smith, Assistant Director Commercial Services
e-mail: tim.smith@shropshire.gov.uk Tel: (01743) 258676

1. Background

- 1.1 Members of the Audit Committee received a commercial strategy update in June 2019 which set out the priorities, objectives and methodology for appraising capital investment proposals along with a summary of the investment projects that are at various stages of development and delivery.
- 1.2 This followed the internal audit of the commercial strategy and plans for 2018/19 which resulted in an unsatisfactory level of assurance.
- 1.3 The audit work identified a number of significant issues leading to the following recommendations:
 - 1.3.1 To ensure that the Commercial Strategy's goals and objectives which are to increase income from investment are clear and achievable. Audit officers concluded that;
 - the recent review undertaken by Risk Management and the addition of the new strategic risk which is the failure to deliver the Commercial Strategy and the Council being unable to meet the corporate outcomes;
 - there is a lack of an investment fund to help deliver the £10m to £15m of additional revenue;
 - revision of the target to deliver a minimum of £5m of new revenue income by the 31.03.2020 be revised down to £2m;
 - 1.3.2 A full review of the Commercial Strategy should be undertaken. This review should ensure that targets are achievable, up to date and that the Strategy fully supports the corporate outcomes and the Financial Strategy's aims and objectives. Any changes to the Strategy should be approved by Cabinet.
 - 1.3.3 To demonstrate accountability and responsibility for all commercial projects and to comply with the business case and project methodology as set out in the Commercial Strategy; key officers, including Directors should be reminded that commercial projects across the Council should be subject to the approved Hopper process. Projects that are currently progressing outside of this process should be subject to review to ensure that they are appropriate, meet the Council's corporate outcomes and financial objectives

and that the risks to these projects have been fully considered.

- 1.3.4 A review of commercial projects should be undertaken to ensure that the targets set in the Commercial Strategy can be achieved given that it is 18 months since the strategy was approved and only one commercial project is currently in delivery.
 - 1.3.5 Information such as the project prioritisation pipeline spreadsheet which has been prepared for Directors to approve should include key information such as the cost of the project, value for money, external funding, income payback, annual return, potential total return, yield and indicative return on investment. Projects should not be approved unless all the financial information is available, and it meets the criteria as set out in the Commercial Strategy.
 - 1.3.6 The strategic risk score for the commercial strategy risk should be agreed and included in the Strategy Risk Profile. Once complete the profile should be submitted to the Risk Management Officer for review.
 - 1.3.7 A full review of the commercial projects should be undertaken to establish if the Council's vision to be financially sustainable by 2020/21 is achievable.
- 1.4 A considerable amount of work has been undertaken in financial year 2019/20 to address the recommendations in the report. These are set out in the autumn 2019 update below.

2. 2019 Autumn Update

- 2.1 The following updates are provided chronologically to correspond with the issues and actions set out in paragraphs 1.3.1 to 1.3.7 above

2.1.1 To ensure that the Commercial Strategy's goals and objectives to increase income from investment are clear the following has been implemented

- A new strategic risk has been introduced to the council's strategy risk register which is the failure to deliver the Commercial Strategy and the Council being unable to meet the corporate outcomes. The risk was assigned to the Executive Director of Place and mitigating actions to address this are reported and reviewed on a quarterly basis.
- An investment fund of up to £40m has been identified for financial year 2019/20 and 2020/21 to help deliver additional revenue. Several investment proposals and projects have been approved by Cabinet and Council. The balance of the £40m will be reported and approved in the capital budget strategy in February 2020.
- The revision of the target to deliver a minimum of £5m of new revenue income by the 31.03.2020 down to £2m has been

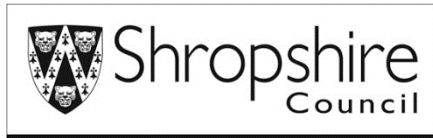
considered and shall be included in the revenue budget for 2020/21.

- 2.1.2 A full review of the Commercial Strategy has been undertaken with regular updates provided to the Capital Investment Board which is chaired by the councils S151 officer and which includes all directors of the council and lead officers involved with capital and investment projects. It has been agreed that targets should be revised and are achievable, are up to date and that the Strategy fully supports the corporate outcomes and the Financial Strategy's aims and objectives. Members of the Capital Investment Board agreed that changes to the Strategy should be approved by Cabinet in February 2020.
- 2.1.3 The Capital Investment Board which includes all Directors of the council receive regular updates and reports to ensure that commercial projects across the Council are subject to the approved Hopper process. An expression of interest is completed for each project proposal and appraised using a scoring matrix. The projects which achieve the requisite score will be developed into a business case which sets out the inputs, outputs and outcomes for each project. The business cases form the basis of information required for decision reports taken to Cabinet and Council dependent on the level of funding required for each in accordance with the council's constitution.
- 2.1.4 A full review of all known and proposed council projects which require capital financing has been undertaken by officers and reported to the Capital Investment Board. This includes commercial projects which derive a positive financial return. Three investment projects are in delivery, three have been approved by Council and are subject to contract negotiation and a further pipeline of income generating projects has been identified up to 2023/24 which require further appraisal and capital financing.
- 2.1.5 Information such as the project prioritisation pipeline spreadsheet which has been prepared for Directors to approve does include key information such as the cost of the project, value for money, external funding, income payback, annual return, potential total return, yield and indicative return on investment. Investment projects will not be approved unless of the financial information is available. The financial scoring criteria will be revised, as part of the review of the Commercial Strategy, to reflect changes to the Public Works Loan Board base rate and to ensure that projects achieving a positive return on investment (having considered the financing costs and any other revenue costs) are scored appropriately.
- 2.1.6 The strategic risk score for the commercial strategy risk has been agreed and included in the Strategy Risk Profile. The profile has

been submitted to the Risk Management Officer for review. Quarterly performance reports are provided by the Executive Director of Place.

- 2.1.7 A full review of the commercial projects has been undertaken, as part of the capital project prioritisation process, to establish if the Council's vision to be financially sustainable by 2020/21 is achievable. Funding for the delivery of further commercial projects has been identified at £40m to achieve £2m additional income as set out in 2.1.1 above.
- 2.2 The above update is intended to provide reassurance to Audit Committee members that the key issues identified in the November 2018 internal audit report have been addressed. A full review of the current Commercial Strategy has been undertaken by officers and will be reported to Cabinet in February 2020. This will include reference to the investment fund and revisions that will be made to the financial strategy and capital budget.
- 2.3 Additional staff are being recruited to the council's commercial investment team to ensure that the approved methodology to identify, appraise and report performance against revised targets in the commercial strategy are suitably resourced.

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) Councillor Steve Charmley - Deputy Leader and Portfolio Holder for Assets, Economic Growth and Regeneration.
Local Member
Appendices



<u>Committee and Date</u>	<u>Item</u>
Cabinet 18 November 2019	
Audit Committee 05 December 2019	
Council 12 December 2019	
	<u>Public</u>

TREASURY STRATEGY 2019/20 – MID YEAR REVIEW

Responsible Officer James Walton

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

Tel: (01743) 258915

1. Summary

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

- An economic update for the first six months of 2019/20
- A review of the Treasury Strategy 2019/20 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2019/20
- A review of the Council's borrowing strategy for 2019/20
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2019/20

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.95% on the Council's cash balances outperforming the benchmark by 0.38%. This amounts to additional income of £257,250 for the first six months of the year which is included within the Council's projected outturn position.
- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.
- On 9 October 2019 the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. The impact of this is that borrowing through the PWLB will become more expensive.

2. Recommendations

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

2.2 Members note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

- 4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 The six monthly performance is above benchmark and has delivered additional income of £257,250 which will be reflected in the Period 6 Revenue Monitor.
- 4.3 The Council currently has £129m held in investments as detailed in Appendix A and borrowing of £308m at fixed interest rates.

5. Background

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

5.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -

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

A report setting out the Council's Capital Strategy was taken to full Council in February 2019.

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

6. Economic update

6.1 **UK Economy** – The first half of the year has been a time of upheaval on the political front as Theresa May resigned as Prime Minister to be replaced by Boris Johnson on a platform of the UK leaving the EU on or before 31 October, with or without a deal. However, in September, his proroguing of Parliament was overturned by the Supreme Court and Parliament carried a bill to delay Brexit until 31 January 2020 if there is no deal by 31 October. MPs also voted down holding a general election before 31 October, though one is likely before the end of 2019. So far, there has been no majority of MPs for any one option to move forward on enabling Brexit to be implemented. At the time of writing the whole Brexit situation is highly fluid and could change radically by the day. Given these circumstances and the likelihood of an imminent general election, any interest rate forecasts are subject to material change as the situation evolves. If the UK does soon achieve a deal on Brexit agreed with the EU then it is possible that growth could recover relatively quickly. The MPC could then need to address the issue of whether to raise Bank Rate at some point in the coming year when there is little slack left in the labour market; this could cause wage inflation to accelerate which would then feed through into general inflation. On the other hand, if there was a no deal Brexit and there was a significant level of disruption to the economy, then growth could weaken even further than currently and the MPC would be likely to cut Bank Rate in order to support growth. However, with Bank Rate still only at 0.75%, it has relatively little room to make a big impact and the MPC would probably suggest that it would be up to the Chancellor to provide help to support growth by way of a fiscal boost by e.g. tax cuts, increases in the annual expenditure budgets of government departments and services and expenditure on infrastructure projects, to boost the economy.

6.2 The first half of 2019/20 has seen UK economic growth fall as Brexit uncertainty took its toll. In its Inflation Report of 1 August, the Bank of England was notably downbeat about the outlook for both the UK and major world economies. The MPC meeting of 19 September reemphasised their concern about the downturn in world growth and also expressed concern that prolonged Brexit uncertainty would contribute to a build-up of spare capacity in the UK economy, especially in the context of a downturn in world growth. This mirrored investor concerns around the world which are now expecting a significant downturn or possibly even a recession in some major developed economies. It was therefore no surprise that the Monetary Policy Committee (MPC) left Bank Rate unchanged at 0.75% throughout 2019, so far, and is expected to hold off on changes until there is some clarity on what is going to happen over Brexit. However, it is also worth noting that the new Prime Minister is making some significant

promises on various spending commitments and a relaxation in the austerity programme. This will provide some support to the economy and, conversely, take some pressure off the MPC to cut Bank Rate to support growth.

- 6.3 As for inflation itself, CPI has been hovering around the Bank of England's target of 2% during 2019, but fell to 1.7% in August. It is likely to remain close to 2% over the next two years and so it does not pose any immediate concern to the MPC at the current time. However, if there was a no deal Brexit, inflation could rise towards 4%, primarily as a result of imported inflation on the back of a weakening pound.
- 6.4 In regard to the labour market, despite the contraction in quarterly GDP growth of -0.2%, in quarter 2, employment continued to rise, but at only a muted rate of 31,000 in the three months to July after having risen by no less than 115,000 in quarter 2 itself: the latter figure, in particular, suggests that firms are preparing to expand output and suggests there could be a return to positive growth in quarter 3. Unemployment continued at a 44 year low of 3.8% on the Independent Labour Organisation measure in July and the participation rate of 76.1% achieved a new all-time high. Job vacancies fell for a seventh consecutive month after having previously hit record levels. However, with unemployment continuing to fall, this month by 11,000, employers will still be having difficulty filling job vacancies with suitable staff. It was therefore unsurprising that wage inflation picked up to a high point of 3.9% in June before easing back slightly to 3.8% in July. This meant that in real terms, earnings grew by about 2.1%.
- 6.5 As the UK economy is very much services sector driven, an increase in household spending power is likely to feed through into providing some support to the overall rate of economic growth in the coming months. The latest GDP statistics also included a revision of the savings ratio from 4.1% to 6.4% which provides reassurance that consumers' balance sheets are not over stretched and so will be able to support growth going forward. This would then mean that the MPC will need to consider carefully at what point to take action to raise Bank Rate if there is an agreed Brexit deal, as the recent pick-up in wage costs is consistent with a rise in core services inflation to more than 4% in 2020. If there is a general election soon, this could result in a potential loosening of monetary policy and therefore medium to longer dated gilt yields could rise on the expectation of a weak pound and concerns around inflation picking up although, conversely, a weak international backdrop could provide further support for low yielding government bonds and gilts.
- 6.6 **Global Economy** – President Trump's easing of fiscal policy in 2018 fuelled a temporary boost in consumption in that year which generated an upturn in the rate of strong growth to 2.9%. Growth in 2019 has been falling back after a strong start in quarter 1 at 3.1%, to 2.0% in quarter 2. Quarter 3 is expected to fall further. The strong growth in employment numbers during 2018 has reversed into a falling trend during 2019, indicating that the economy is cooling, while inflationary pressures are also weakening. The Federal Reserve finished its series of increases in rates to 2.25 – 2.50% in December 2018. In July 2019, it cut rates by 0.25% as a 'midterm adjustment' but flagged up that this was not to be seen as the start of a series of cuts to ward off a downturn in growth. It then cut rates again in September to 1.75% - 2.00% and is thought likely to cut another 25 bps in December. Investor confidence has been badly rattled by the progressive ramping up of increases in tariffs President Trump has made on Chinese imports and China has responded with increases in tariffs on American imports. This trade war is seen as depressing US, Chinese and world growth. In the EU, it is also particularly impacting Germany as exports of goods and services are equivalent to 46% of total GDP. It will also impact developing countries dependent on exporting commodities to China.

- 6.7 The trade war between the US and China is a major concern to financial markets and

is depressing worldwide growth, as any downturn in China will spill over into impacting countries supplying raw materials to China. Concerns are focused on the synchronised general weakening of growth in the major economies of the world compounded by fears that there could even be a recession looming up in the US. These concerns have resulted in government bond yields in the developed world falling significantly during 2019. If there were a major worldwide downturn in growth, central banks in most of the major economies will have limited ammunition available, in terms of monetary policy measures, when rates are already very low in most countries, apart from the US, and there are concerns about how much distortion of financial markets has already occurred with the current levels of quantitative easing purchases of debt by central banks. The latest PMI survey statistics of economic health for the US, UK, EU and China have all been sub 50 which gives a forward indication of a downturn in growth; this confirms investor sentiment that the outlook for growth during the rest of this financial year is weak.

- 6.8 Chinese economic growth has been weakening over successive years, despite repeated rounds of central bank stimulus; medium term risks are increasing. Major progress still needs to be made to eliminate excess industrial capacity and the stock of unsold property, and to address the level of non-performing loans in the banking and credit systems. Progress also still needs to be made to eliminate excess industrial capacity and to switch investment from property construction and infrastructure to consumer goods production. The trade war with the US does not appear currently to have had a significant effect on GDP growth as some of the impact of tariffs has been offset by falls in the exchange rate and by transshipping exports through other countries, rather than directly to the US.
- 6.9 Growth in the Eurozone has been slowing from +1.8 % during 2018 to around half of that in 2019. Growth was +0.4% in quarter 1 and then fell to +0.2% in quarter 2; there appears to be little upside potential to the growth rate in the rest of 2019. German GDP growth fell to -0.1% in quarter 2; industrial production was down 4% in June with car production down 10%. Germany would be particularly vulnerable to a no deal Brexit depressing exports further and if President Trump imposes tariffs on EU produced cars. The European Central Bank ended its programme of quantitative easing purchases of debt in December 2018, which meant that the central banks in the US, UK and EU had all ended the phase of post financial crisis expansion of liquidity supporting world financial markets by purchases of debt. However, the downturn in EZ growth in the second half of 2018 and into 2019, together with inflation falling well under the upper limit of its target range of 0 to 2%, (but it aims to keep it near to 2%), has prompted the ECB to take new measures to stimulate growth.

7 Economic Forecast

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

Link Asset Services Interest Rate View										
	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22
Bank Rate View	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.00	1.25
3 Month LIBID	0.70	0.70	0.70	0.80	0.90	1.00	1.00	1.00	1.10	1.20
6 Month LIBID	0.80	0.80	0.80	0.90	1.00	1.10	1.10	1.20	1.30	1.40
12 Month LIBID	1.00	1.00	1.00	1.10	1.20	1.30	1.30	1.40	1.50	1.60
5yr PWLB Rate	2.30	2.50	2.60	2.70	2.70	2.80	2.90	3.00	3.00	3.10
10yr PWLB Rate	2.60	2.80	2.90	3.00	3.00	3.10	3.20	3.30	3.30	3.40
25yr PWLB Rate	3.30	3.40	3.50	3.60	3.70	3.70	3.80	3.90	4.00	4.00
50yr PWLB Rate	3.20	3.30	3.40	3.50	3.60	3.60	3.70	3.80	3.90	3.90

- 7.2. The above forecasts have been based on an assumption that there is a resolution to an agreed deal on Brexit at some point in time. Given the current level of uncertainties, this is a huge assumption and so forecasts may need to be materially reassessed in the light of events over the next few weeks or months.
- 7.3. It has been little surprise that the Monetary Policy Committee (MPC) has left Bank Rate unchanged at 0.75% so far in 2019 due to the ongoing uncertainty over Brexit. In its meeting on 1 August, the MPC became more dovish as it was more concerned about the outlook for both the global and domestic economies. That's shown in the policy statement, based on an assumption that there is an agreed deal on Brexit, where the suggestion that rates would need to rise at a "gradual pace and to a limited extent" is now also conditional on "some recovery in global growth". Brexit uncertainty has had a dampening effect on UK GDP growth in 2019, especially around mid-year. If there were a no deal Brexit, then it is likely that there will be a cut or cuts in Bank Rate to help support economic growth. The September MPC meeting sounded even more concern about world growth and the effect that prolonged Brexit uncertainty is likely to have on growth.
- 7.4. The overall balance of risks to economic growth in the UK is probably to the downside due to the weight of all the uncertainties over Brexit, as well as a softening global economic picture. The balance of risks to increases in Bank Rate and shorter term PWLB rates are broadly similarly to the downside.
- 7.5. Long term PWLB rates are expected to rise to 3.4% in June 2020 before steadily increasing over time to reach 3.9% by December 2021.

8. Treasury Strategy update

- 8.1 The Treasury Management Strategy (TMS) for 2019/20 was approved by Full Council on 28 February 2019. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved. The details in this report update the position in the light of the updated economic position.

9. Annual Investment Strategy

- 9.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As shown by forecasts in section 7.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.75% bank rate.

- 9.2 The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, prompts a low risk and short term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 9.3 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.
- 9.3 In the first six months of 2019/20 the internal treasury team outperformed its benchmark by 0.38%. The investment return was 0.95% compared to the benchmark of 0.57%. This amounts to additional income of £257,250 during the first six months which is included within the Council's projected outturn position.
- 9.4 A full list of investments held as at 30 September 2019, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2019/20 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.
- 9.5 As illustrated in the economic background section above, investment rates available in the market have increased slightly due to the bank rate increase to 0.75% in August 2018. The average level of funds available for investment purposes in the first six months of 2019/20 was £136 million.
- 9.6 The Council's interest receivable/payable budgets are currently projecting a surplus of £1.23 million as reported in the monthly revenue monitoring reports due to no long term borrowing being undertaken, changes to the Minimum Revenue Provision (MRP) calculation previously approved by Council and investment returns achieved being higher than anticipated.

10. Borrowing

- 10.1 It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". Council's approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**. The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.
- 10.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2019/20 and have not been previously breached.
- 10.3 No new external borrowing has currently been undertaken to date in 2019/20, although discussions are currently being held at the Capital Investment Board where outline business cases are being considered. The schemes being considered are already within the current authorised borrowing limits in place. In the event the authorised borrowing limits need to be amended, this will be reported to Council for approval. The table below illustrates the low and high points across different maturity bands for borrowing rates for the first six months of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.17%	1.01%	1.13%	1.73%	1.57%
Date	03/09/2019	03/09/2019	03/09/2019	03/09/2019	03/09/2019
High	1.58%	1.73%	2.07%	2.58%	2.41%
Date	15/04/2019	17/04/2019	17/04/2019	17/04/2019	17/04/2019
Average	1.40%	1.37%	1.62%	2.20%	2.07%

- 10.4 On 9 October 2019 the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. There was no prior warning that this would happen and it now means that every local authority has to fundamentally reassess how to finance their external borrowing needs and the financial viability of capital projects in their capital programme due to this unexpected increase in the cost of borrowing. Representations are going to be made to HM Treasury to suggest that areas of capital expenditure that the Government are keen to see move forward e.g. housing, should not be subject to such a large increase in borrowing.
- 10.5 The increase to the PWLB borrowing rate was due to the pace at which councils had been borrowing from the facility during the summer; £2.0bn was taken in August and £1.6bn in September. With the PWLB only £2.3bn away from its £85bn statutory limit for liabilities, the decision to extend the cap by £10bn to £95bn was taken at the same time as the rate rise. The Treasury was worried the extra money could be taken up within less than a year, which would leave them with another decision on whether to raise the cap again. This fear led to the decision to increase the rate of borrowing by a significant amount in order to curtail Council's from borrowing significant amounts for investment purposes.

11. Debt Rescheduling

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

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

Council, 28 February 2019, Treasury Strategy 2019/20

Council, 28 February 2019, Capital Strategy 19/20 – 23/24

Council, 20 September 2018, Revised Minimum Revenue Provision Statement 2018/19

Cabinet Member:

David Minnery, Portfolio Holder for Finance

Local Member

N/A

Appendices

A. Investment Report as at 30th September 2019

B. Prudential Limits

C. Prudential Borrowing Schedule

Shropshire Council

Monthly Investment Analysis Review

September 2019

Monthly Economic Summary

General Economy

September's economic data began with the August Markit/CIPS Manufacturing PMI figure falling to 47.4, from 48.0 the previous month. The latest reading pointed to the steepest month of contraction in the manufacturing sector since July 2012 as new orders fell the most in over seven years, amid ongoing global trade tensions, slower world economic growth and Brexit uncertainty. The Construction PMI, meanwhile, fell by 0.3 points to 45.0. The latest reading pointed to the fourth consecutive month of contraction in the construction sector, led by the sharpest reduction in new work since March 2009. Rounding out the set of activity surveys for July, the Services PMI fell to 50.6 from July's figure of 51.4, leaving the Composite figure at 50.2, indicating the UK economy expanded slightly last month.

The UK posted a trade deficit of £0.22 billion in July compared to a downwardly revised £0.13 billion deficit in the prior month. Imports rose 2.7% while exports grew at a slower 2.5% rate. GDP data, meanwhile, showed that the UK economy stagnated in the three months to July, improving on the contraction in the three months to June. The stagnation reflected subdued growth in the services sector of just 0.2% and contraction in both the production and construction sectors of 0.5% and 0.8% respectively. However, year-on-year GDP growth remained steady at 1% during July.

The UK's unemployment rate fell to 3.8% in the three months to July, back at its joint lowest in the last 44 years, slightly below market expectations of 3.9%. Unemployment declined by 11,000 to 1.294 million and employment jumped by 31,000 to 32.777 million, below forecasts of a 53,000 increase. Average earnings excluding bonuses, meanwhile, rose by 3.8% in the three months to July, after a 3.9% increase in the previous period, which matched market expectations.

On an annual basis, CPI inflation fell to 1.7% y/y in 2019 from 2.1% y/y in July, below market expectation of 1.9% and the Bank of England's 2% target. This was the lowest inflation rate since December 2016, amid a slowdown in cost of transport and fall in clothing and footwear prices. The Core CPI figure (which strips out the more volatile components), decreased to 1.5% in August from 1.9% in July, the lowest figure since November 2016. Retail sales fell by 0.2% m/m in August, following an upwardly revised rise of 0.4% in the previous month and compared to market forecasts of no change. Much of the decline was attributable to a 3.2% fall in non-store (predominately online) sales. Year-on-year retail sales growth eased to 2.7%, down from 3.4% in July and below market forecasts of 2.9% growth.

The number of mortgages approved for house purchases in the UK dropped to 65,545 in August, from an 18-month high of 67,011 in July and below market expectations of 66,400. In addition, the number of approved loans secured on dwellings for remortgaging rose to 48,515 from 47,110 in July, while the number of loans for other purposes increased to 14,635 from 13,965. Net mortgage lending rose by £3.85 billion in August, missing the market's consensus of a £4.2 billion rise. The Confederation of British Industry's monthly retail sales balance jumped 33 points from a month earlier to -16 in September, recovering from a near 11-year low. It was also well above market expectations of -25. Still, the latest reading pointed to the fifth consecutive month of decline in retail sales, amid a weaker pound, concerns about potential tariffs and supply issues in the event of a no-deal Brexit. The GfK Consumer Confidence index, meanwhile, rose by 2 points to -12 last month, beating the market forecast of -14, as all five sub-indices recorded gains.

Against the backdrop, the Bank of England's Monetary Policy Committee voted unanimously to hold the bank rate at 0.75% during its September policy meeting, as was widely expected. The bank also reaffirmed its pledge to enact gradual and limited rate rises, assuming a smooth Brexit and some recovery in global growth levels.

In the US, nonfarm payrolls increased by 130,000 in August, following a downwardly revised 159,000 in July and below market expectations of 158,000. Job gains were recorded in the public sector (largely reflecting the hiring of temporary workers for the 2020 Census), health care and financial activities. Average hourly earnings for all employees increased by 0.4% m/m and 3.2% y/y. The unemployment rate remained at the 3.7% rate recorded in July, which was expected by the market.

US CPI rose by 1.7% y/y in August, marginally below consensus forecasts of a 1.8% y/y rise, largely the result of a fall in energy prices. Excluding the more volatile items, such as food and energy prices, core inflation rose to 2.4% in August, the highest this year and above market expectation of a 2.3% gain. The US economy grew at a 2.3% annual rate in the second quarter, down from the 3.1% expansion recorded in the first quarter. The Euro Area unemployment rate reduced slightly to 7.4% in August, the lowest since May 2008 and slightly below market expectations of 7.5%, as the number of unemployed continued to decline. Compared with July, the number of people unemployed in the Euro Area decreased by 115,000 to 12.169 million.

Housing

The Halifax House Price Index in the UK increased 1.8 percent year-on-year in the three months to August of 2019, following a downwardly revised 1.5 percent rise in the previous month and below market expectations of 3.4 percent.

Currency

Over the month of September, the pound moved significantly against the dollar, increasing from \$1.213 to \$1.256 in mid-late September, but ultimately fell back to finish at \$1.231. Likewise against the Euro, the pound started the month at €1.105, peaked at €1.136 and ultimately ended the month at €1.125. The pound’s volatility during the month resulted from the ever changing UK political and Brexit outlooks, as well as increasing signs of a global slowdown.

Forecast

The domestic economy remains unsettled in the run up to the Brexit deadline while the global economy follows suit (US economic figures have actually shown a decline in the past month). Link Asset Services do not expect a base rate rise until Q4 2020.

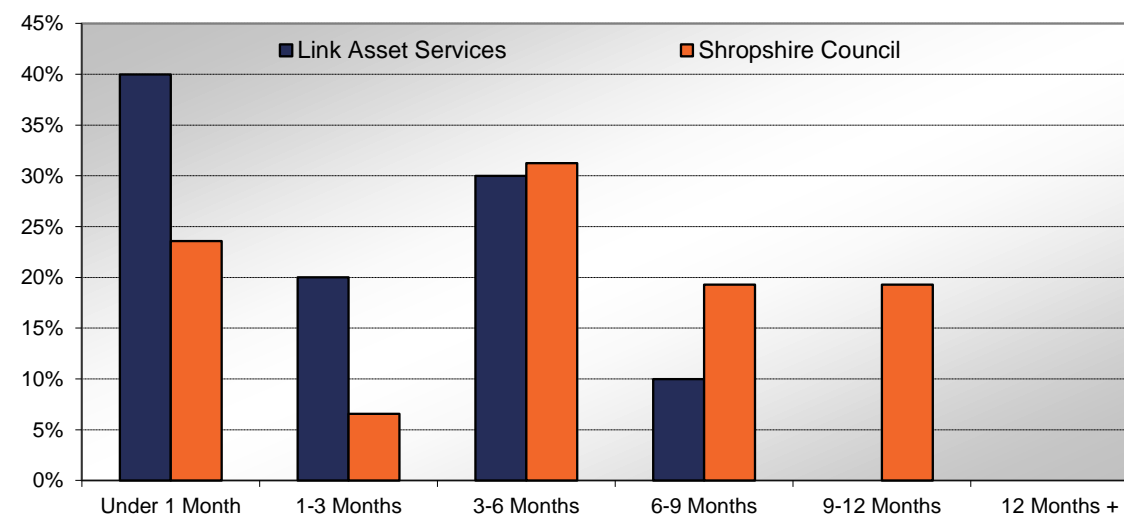
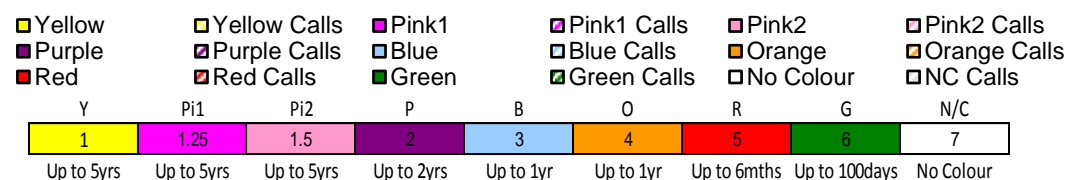
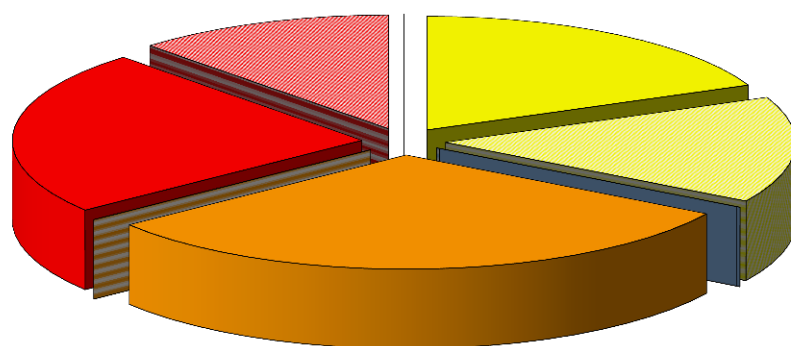
Bank Rate							
	Now	Dec-19	Mar-20	Jun-20	Sep-20	Dec-20	Mar-21
Link Asset Services	0.75%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
Capital Economics	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%	-

Shropshire Council

Current Investment List

	Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
	MMF Aberdeen Standard Investments	15,000,000	0.74%		MMF	AAA	0.000%
	MMF Insight	4,530,000	0.71%		MMF	AAA	0.000%
	Nationwide Building Society	2,000,000	0.82%	15/04/2019	15/10/2019	A	0.002%
	West Dunbartonshire Council	4,000,000	0.90%	18/04/2019	18/10/2019	AA	0.001%
	West Dunbartonshire Council	5,000,000	0.90%	23/04/2019	23/10/2019	AA	0.002%
	Barclays Bank Plc (NRFB)	500,000	0.82%		Call32	A	0.005%
	Nationwide Building Society	3,000,000	0.82%	15/05/2019	15/11/2019	A	0.007%
	Goldman Sachs International Bank	5,000,000	0.93%	07/06/2019	06/12/2019	A	0.010%
	Santander UK Plc	15,000,000	0.85%		Call95	A	0.014%
	Nationwide Building Society	5,000,000	0.81%	08/07/2019	08/01/2020	A	0.014%
	Barclays Bank Plc (NRFB)	5,450,000	0.73%	16/07/2019	16/01/2020	A	0.016%
	Coventry Building Society	5,000,000	0.85%	17/07/2019	17/01/2020	A-	0.016%
	Falkirk Council	5,000,000	1.09%	15/02/2019	20/01/2020	AA	0.007%
	Thurrock Borough Council	5,000,000	0.85%	16/07/2019	23/03/2020	AA	0.012%
	Lloyds Bank Plc (RFB)	5,000,000	1.25%	05/06/2019	05/06/2020	A+	0.036%
	HSBC UK Bank Plc (RFB)	20,000,000	1.13%	25/06/2019	25/06/2020	AA-	0.018%
	Thurrock Borough Council	5,000,000	0.92%	12/08/2019	10/07/2020	AA	0.019%
	Goldman Sachs International Bank	5,000,000	0.93%	07/08/2019	10/07/2020	A	0.041%
	Lloyds Bank Plc (RFB)	5,000,000	1.25%	12/07/2019	10/07/2020	A+	0.041%
	Lloyds Bank Plc (RFB)	5,000,000	1.25%	15/07/2019	13/07/2020	A+	0.041%
	Lloyds Bank Plc (RFB)	5,000,000	1.25%	25/07/2019	24/07/2020	A+	0.043%
	Total Investments	£129,480,000	0.95%				0.016%

Portfolio Composition by Link Asset Services' Suggested Lending Criteria



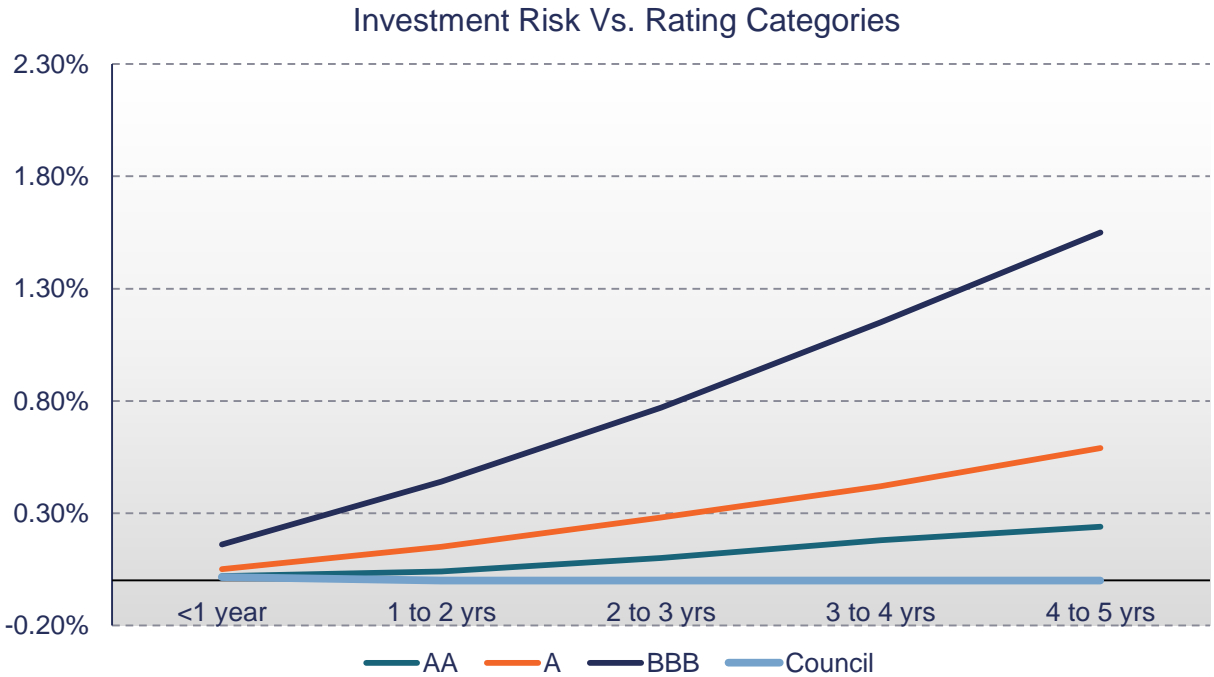
Portfolios weighted average risk number = 3.35

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

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	33.62%	£43,530,000	44.87%	£19,530,000	15.08%	0.84%	70	144	127	261
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	30.89%	£40,000,000	0.00%	£0	0.00%	1.19%	274	365	274	365
Red	35.49%	£45,950,000	33.73%	£15,500,000	11.97%	0.84%	109	170	117	209
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£129,480,000	27.05%	£35,030,000	27.05%	0.95%	147	221	186	288

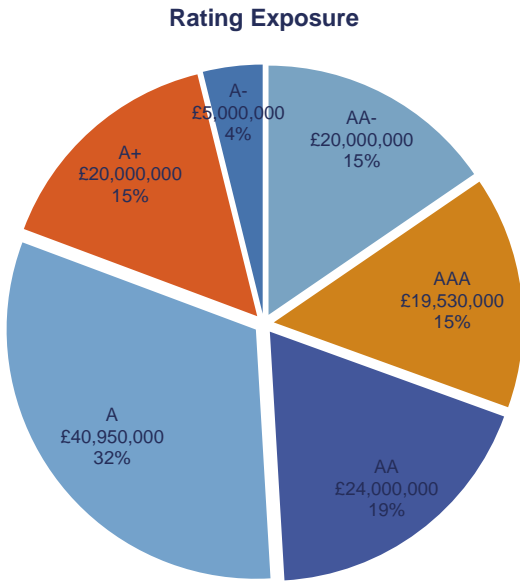
Shropshire Council

Investment Risk and Rating Exposure



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.016%	0.000%	0.000%	0.000%	0.000%



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

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

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

Shropshire Council

Monthly Credit Rating Changes
FITCH

Date	Update Number	Institution	Country	Rating Action
06/09/2019	1693	Commerzbank AG	Germany	The Short Term Rating was upgraded to 'F1' from 'F2'.

Shropshire Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
20/09/2019	1696	Credit Agricole Corporate and Investment Bank	France	The Long Term Rating was upgraded to 'Aa3' from 'A1' and the Outlook was changed to Stable from Positive.
20/09/2019	1696	Credit Agricole S.A.	France	The Long Term Rating was upgraded to 'Aa3' from 'A1' and the Outlook was changed to Stable from Positive.

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
16/09/2019	1694	NRW.BANK	Germany	The Long Term Rating was upgraded to 'AA' from 'AA-' and the Outlook was changed to Stable from Positive.
18/09/2019	1695	DZ Bank AG Deutsche Zentral Genossenschaftsbank	Germany	The Outlook on the Long Term Rating was changed to Negative from Stable.
27/09/2019	1697	Swedbank AB	Sweden	The Long Term Rating was removed from Negative Watch and placed on Negative Outlook.

Whilst Link Asset Services makes every effort to ensure that all the information it provides is accurate and complete, it does not guarantee the correctness or the due receipt of such information and will not be held responsible for any errors therein or omissions arising there from. All information supplied by Link Asset Services should only be used as a factor to assist in the making of a business decision and should not be used as a sole basis for any decision. The Client should not regard the advice or information as a substitute for the exercise by the Client of its own judgement.

Link Asset Services is a trading name of Link Treasury Services Limited (registered in England and Wales No. 2652033). Link Treasury Services Limited is authorised and regulated by the Financial Conduct Authority only for conducting advisory and arranging activities in the UK as part of its Treasury Management Service, FCA register number 150403. Registered office: 6th Floor, 65 Gresham Street, London, EC2V 7NQ. For further information, visit www.linkassetsservices.com/legal-regulatory-status.

Appendix B

Prudential Indicators – Quarter 2 2019/20

Prudential Indicator	2019/20 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	289*	286	286		
HRA CFR	85	85	85		
Gross borrowing	312	312	308		
Investments	100	124	129		
Net borrowing	212	188	179		
Authorised limit for external debt	442	312	308		
Operational boundary for external debt	400	312	308		
Limit of fixed interest rates (borrowing)	446	312	308		
HRA debt Limit	96**	0	0		
Limit of variable interest rates (borrowing)	223	0	0		
Internal Team Principal sums invested > 364 days	50	0	0		
Maturity structure of borrowing limits	%	%	%	%	%
Under 12 months	15	2	1		
12 months to 2 years	15	4	4		
2 years to 5 years	45	2	2		
5 years to 10 years	75	1	1		
10 years to 20 years	100	36	36		
20 years to 30 years	100	27	27		
30 years to 40 years	100	12	13		
40 years to 50 years	100	7	7		
50 years and above	100	9	9		

* Based on period 6 Capital Monitoring report including Shrewsbury Shopping Centres. **removed following Budget announcement Oct 2018

This page is intentionally left blank

Capital Financing 2019/20 - Period 6

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 08/09 2008/09 £	Applied Outturn 09/10 2009/10 £	Applied Outturn 10/11 2010/11 £	Applied Outturn 11/12 2011/12 £	Applied Outturn 12/13 2012/13 £	Applied Outturn 13/14 2013/14 £	Applied Outturn 14/15 2014/15 £	Applied Outturn 15/16 2015/16 £	Applied Outturn 16/17 2016/17 £	Applied Outturn 17/18 2017/18 £	Applied Outturn 18/19 2018/19 £	Budgeted 2019/20 £	Budgeted 2020/21 £	Budgeted 2021/22 £	First year MRP Charged	Asset Life	Final year MRP Charged	
Monkmoor Campus	24/02/2006	3,580,000																				
Capital Receipts Shortfall -Cashflow Applied:	24/02/2006	5,000,000																				
Monkmoor Campus			3,000,000		0															2007/08	25	2031/32
William Brooks					0															2011/12	25	2035/36
Tem Valley					2,000,000		3,580,000													2010/11	35	2044/45
		8,580,000	3,000,000	0	2,000,000	0	3,580,000	0	0	0	0	0	0	0	0.00	0	0	0				
Highways	24/02/2006	2,000,000	2,000,000																	2007/08	20	2026/27
Accommodation Changes	24/02/2006	650,000	410,200	39,800																2007/08	6	2012/13
Accommodation Changes - Saving	31/03/2007	(200,000)																				
		450,000	410,200	39,800	0	0	0	0	0	0	0	0	0	0	0.00	0	0	0				
The Ptarmigan Building	05/11/2009	3,744,000				3,744,000														2010/11	25	2034/35
The Mount McKinley Building	05/11/2009	2,782,000				2,782,000														2011/12	25	2035/36
The Mount McKinley Building	05/11/2009	0					-													2011/12	5	2015/16
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/2010	187,600				187,600	-	-	-	0	-	-	-	-	0.00	-				2010/11	25	2014/15
							-													5	5	2014/15
Carbon Efficiency Schemes/Self Financing	25/02/2010	1,512,442					115,656	1,312,810	83,976	-	-	-	-	-	0.00	-				2011/12	5	2017/18
Transformation schemes		92,635						92,635	-	-										2012/13	3	2014/15
Renewables - Biomass - Self Financing	14/09/2011	92,996						82,408	98,258	(87,670)	-									2014/15	25	2038/39
Solar PV Council Buildings - Self Financing	11/05/2011	56,342						1,283,959	124,584	(1,352,202)	-									2013/14	25	2038/39
Depot Redevelopment - Self Financing	23/02/2012	0							-	-	-									2014/15	10	2023/24
Oswestry Leisure Centre Equipment - Self Financing	04/04/2012	124,521						124,521												2012/13	5	2016/17
Leisure Services - Self Financing	01/08/2012	711,197							711,197											2013/14	5	2016/17
Mardol House Acquisition	26/02/2015	4,160,000									4,160,000	-								2015/16	25	2039/40
Mardol House Adaptation and Refit	26/02/2015	3,340,000									167,640.84	3,172,358.86	-	-	0.00	-				2016/17	25	2041/41
Oswestry Leisure Centre Equipment - Self Financing	01/08/2012	300,000												274,239		25,761.41				2018/19	5	2022/23
The Tannery Development - Student Block		7,641,289													3,677,843.83	3,963,444.73				2019/20	45	2064/65
Car Parking Strategy Implementation		917,000													588,497.06	328,502.94				2020/21	5	2024/25
JPUT - Investment in Units re Shrewsbury Shopping Centres		52,523,353												52,731,922	(208,569.18)					2018/19	45	2042/43
Whitchurch Medical Practice (Pauls Moss Development)	26/07/2018	3,778,000														2,000,000.00	1,678,000	100,000		2021/22	45	2045/46
Previous NSDC Borrowing		955,595			821,138	134,457														2009/10	5/25	2065/66
		93,948,968	5,410,200	39,800	2,821,138	6,848,057	3,695,656	2,896,333	1,018,015	(1,438,872)	4,327,641	3,172,359	0	53,006,161	4,057,771.71	6,317,709.08	1,678,000.00	100,000.00				
					-	-		0	0	0	0	0	0	-	0.00	408,711	-	-				

This page is intentionally left blank



Committee and Date

Audit Committee
5th December 2019
1:30 pm

Item

Public

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

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

Telephone: 01743 257739

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

- 3.1 All revisions and activities can be met from within existing budgets.

5. Background

- 5.1 The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy, Anti Money Laundering (AML) procedures and guidance, all supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 5.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in November 2018. There has been no new guidance since November and therefore no significant changes are proposed to the existing strategy which can be located on the Council's website. Speaking up about Wrongdoing policies for both staff and public have been reviewed as have the Anti Money Laundering (AML) procedures and guidance. Since last year a few Heads of Service have been redesignated as Directors and there is a change of responsibility for environmental whistleblowing issues, which are now designated to the Director of Adult Services. These minor changes have been reflected in the Strategy and supporting policies, procedures and guidance.

6. Issues

Counter Fraud, Bribery and Anti-Corruption Strategy

- 6.1 CIPFA's Code of practice on managing the risks of fraud and corruption states that an organisation needs a counter fraud strategy which sets out its approach to managing risks and defining responsibilities for action. Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. The strategy will enable the Council to:

- Acknowledge and understand fraud risks;
 - Prevent and detect more fraud; and
 - Pursue and punish fraud and recover losses.
- 6.2 The strategy reflects best practice from CIPFA's Code of practice on managing the risks of fraud and corruption, the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (the National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).
- 6.3 It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).
- 6.4 The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the Council's focus clearly on outcomes (e.g. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).
- 6.5 The strategy continues to emphasise the Council's remit to reduce losses to fraud, bribery and corruption to an absolute minimum. It:
- Demonstrates links between 'policy' work and 'operational' work.
 - Shows agreement by both the political and executive authority for the Council's approach.
 - Acknowledges fraud and identifies accurately the risk.
 - Creates and maintains a strong structure to pursue its remit including:
 - Having the necessary authority and support;
 - Providing for specialist training and accreditation;
 - Completing appropriate propriety checks;
 - Developing effective relationships with other organisations.
 - Enables actions to tackle the problem by:
 - Integrating different actions;
 - Building a strong counter fraud and anti-corruption culture;
 - Having clear actions to deter any problem;
 - Acting to prevent fraud and corruption;
 - Early detection of any issues;
 - Investigating appropriately in accordance with clear guidance;
 - Having clear and consistent sanctions where fraud or corruption is proven;
 - Having clear policies on redressing losses.
 - Focuses on outcomes and not merely activity.

- 6.6 No major changes are proposed to the Strategy. A few Heads of Service have been redesignated as Directors, all other details remain the same.

National Picture

CIFAS Fraudscape 2019

- 6.7 CIFAs is a fraud prevention service in the United Kingdom. It is a not-for-profit membership association representing organisations from across the public, private and voluntary sectors. In their 2019 fraudscape document, they report a 6% increase of fraudulent conduct in 2018, compared to the previous year. High risk areas of fraud include:

- Identity fraud
- Data theft on line and
- Money mules.

Highlighting the need for preventative controls in service areas to avoid accommodating such frauds unwittingly, i.e. data sharing, customer authentication checks, data analytics, IT and information security controls, anti-money laundering processes.

- 6.8 The CIFAs report identified dishonest action by staff to obtain a benefit by theft or deception as the most common type of internal fraud with employment application fraud seeing a 7% increase.

The Fighting Fraud and Corruption Locally Strategy (FFCL) 2016–2019

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

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

- 6.11 The following demonstrates delivery against the agreed Action Plan, since November 2018, and new developments the Council proposes over the medium-term future to further improve its resilience to fraud and corruption.

Action Plan

Action	Implementation Date and Update
To proactively use the results of previous fraud risk assessments and publicly available information from recognised organisations i.e. CIPFA, Grant Thornton, to direct counter fraud resources in the annual Internal Audit Plan.	Completed and ongoing
To refresh the Council's suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance.	Annually in November Completed and ongoing
To remind all staff and members of their role in sustaining a strong counter fraud, bribery and anti- corruption culture and the appropriate reporting channels where any fraud is suspected.	Annually in November Completed through directorates and management meetings Work is underway on a new communications plan for role out prior to March 2020.
To undertake an annual Fraud Risk Assessment covering the Council's main areas of exposure to fraud and to use the results to influence the Council's approach moving forward.	Annually in October Completed and ongoing
To update the Council's e-learning module on Fraud Awareness and to promote its uptake by all employees.	Completed and ongoing
To be an active participant in the National Fraud Initiative (NFI) and to investigate robustly suspected cases of fraud identified through NFI and report outcomes to Audit Committee.	Biannually in November Completed and ongoing
To refresh the Fraud Awareness pages on the web site and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	Completed and ongoing annually in November
Refresh of the Council's Money Laundering Policy, communication of and training on.	Completed and ongoing

CIPFA tracker

6.12 The CIPFA Fraud and Corruption Tracker (CFaCT) is an annual survey of the fraud and corruption detected in local authorities across the UK. Its intention is

to provide a more complete picture of local authorities' vigilance in respect of fraud. It examines:

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

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

6.13 The CIPFA Fraud and Corruption Tracker (CFaCT) survey gives a national picture of fraud, bribery and corruption across UK local authorities and the actions being taken to prevent it. It aims to:

- help organisations understand where fraud losses could be occurring
- provide a guide to the value of detected and prevented fraud loss
- help senior leaders understand the value of anti-fraud activity
- assist operational staff to develop pro-active anti-fraud plans.

6.14 CFaCT builds on the former Annual Fraud and Corruption Survey delivered by the Audit Commission and has been expanded to include questions commissioned by the Fighting Fraud and Corruption Locally Board and the Home Office. The total estimated value of fraud detected or prevented by local authorities in 2018/19 is approximately £253m.

- The average value per fraud remains at £3,600 in 2018/19.
- The number of frauds detected or prevented has decreased to 71,000 from the 80,000 cases found in 2017/18.
- Council tax fraud represents 78% of the identified instances of fraud with an estimated value of £30.6m.
- The estimated volume and value of insurance fraud cases in the UK more than doubled in 2018/19 compared to the previous year.
- The estimated average value per case of blue badge fraud has increased from £499 to £657 in 2018/19.
- For 2018/19, the three greatest areas of perceived fraud risk continue to be procurement, council tax single person discount (SPD) and adult social care.
- For 2018/19, the four main types of fraud (by volume) that affect local authorities continue to be council tax, housing, blue badge fraud and business rates.

CIPFA's Counter Fraud Assessment Tool

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

6.16 Whilst no organisation is fraud proof, Shropshire Council continues to take robust steps to improve its resilience and to meet the standard set out in the CIPFA

Code of Practice on Managing the Risk of Fraud and Corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance.

National Fraud Initiative (NFI)

- 6.17 The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise. There have been no direct updates since their report covering April 2016 to the 31 March 2018, reported to Committee last year, in which the NFI identified and prevented in England £275.3m fraud, overpayments and errors, of which the main categories of fraud were:
- Pension fraud and overpayments (£144.8m)
 - Fraudulently or wrongly received, council tax single person discount (£32.6m)
 - Housing benefit fraud and overpayment (£24.9m)
- 6.18 Results currently for Shropshire of the 2018/19 data matching exercise are shown in the table below. Please note there are a small number of investigations still outstanding across these reports which may impact further on the figures shown. In the event of additional savings being identified prior to the closure of this exercise, these will be advised to the Audit Committee in due course.

Area of Investigation	Outcome of Investigations	Saving Identified
Deceased Pensioner Matches	75 matches were identified, and all matches investigated. 11 deceased pensioners were identified as receiving a pension into the deceased pensioner's bank account when the service had not been advised of the death. This resulted in overpayments of £19,408.64. £17,844.46 in respect of the overpayments has been recovered from the estates or next of kin. The balance of £1,564.18 relates to three amounts which are still subject to recovery proceedings. Next of kin details have been received for all three members and overpayments are being reclaimed.	£19,408.64
Blue Badges to Deceased Persons	The report identified 420 matches and all matches were investigated.	£0.00

Area of Investigation	Outcome of Investigations	Saving Identified
	<p>This identified 182 errors for resolution. In all 182 cases the Blue Badge Team confirmed they had not been notified of the death but had since cancelled the blue badge.</p> <p>It is not a legal requirement for the return of a blue badge upon the death of the holder.</p>	
Concessionary Bus Passes to Deceased Persons	<p>These reports identified 1,138 matches. All matches were investigated and identified a total of 992 errors where the Council had not been notified of the pass holders' death.</p> <p>All passes have since been cancelled. The Cabinet Office estimates a saving of £24.00 per pass, however, the service area think £1 per pass is a more reasonable figure to cover administration.</p>	£23,808
Residential Care Home Residents to Deceased Persons	<p>The report identified 65 matches, all were investigated and confirmed to be due to timing differences.</p>	£0.00
Housing/ Council Tax Benefits/ Council Tax Reduction Scheme	<p>Dispensation has been obtained from the Cabinet Office that the team would only sample investigate a small number of matches due to existing controls in place in respect of real time reporting and processes for annual billing.</p> <p>No overpayments were identified on the matches reviewed.</p>	£0.00
Creditor Reports	<p>Creditor reports on possible duplicate payments, invalid VAT registration numbers and duplicate supplier accounts were provided.</p> <p>Audit Services investigated potential duplicate payments and</p>	£3,184.00

Area of Investigation	Outcome of Investigations	Saving Identified
	<p>to date two duplicate of £668.50 and £2,515.50 have been identified and the money recovered.</p> <p>Investigations identified that on one occasion an invoice had been paid twice in error as the reference was the same and not picked up by existing controls due to invoice number format. On the second occasion an invoice for the same service at a school had been received from two different group companies, with both invoices being paid at the same time.</p> <p>Both occasions are considered error rather than fraud.</p>	
Housing Tenants to Deceased Persons	These reports identified 66 matches. All were investigated and found to be due to either timing differences or mis-matches.	£0.00
Personal Budgets to Deceased Persons	<p>A total of four matches were identified and investigated.</p> <p>It was confirmed that the matches were all due to timing issues and no frauds or errors were identified.</p>	£0.00
Other reports	Other reports such as deceased parking permit holders, taxi drivers to in-country immigration, personal budgets to pensions, payroll to payroll and procurement were all investigated and where appropriate records have been updated accordingly. No savings have been identified from these reports.	£0.00
Total Savings		£46,400.64

6.19 The final national report in respect the 2018/19 data matching exercise has yet to be issued and a copy will be made available to the Committee when this is published.

Transparency requirements

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

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

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

- 6.21 RIPA continues in force for the purposes of investigatory powers relating to directed surveillance and the use of covert human intelligence sources (CHIS); however, from April 2019, the Investigatory Powers Act 2016 (IPA) became the primary piece of legislation governing the Council's use of investigatory powers for the lawful acquisition of communications and data about communications. The Investigatory Powers Commission has also created a powerful new Investigatory Powers Commissioner (IPC) to oversee how these powers are used.
- 6.22 All Council applications to acquire communications data are processed through the National Anti-Fraud Network who act as the Council's Single Point of Contact (SPoC). National Anti-Fraud Network (NAFN) engages with the applicant and the Office for Communications Data Authorisations (OCDA) to obtain authorisations on the Council's behalf. A senior manager at service manager level or above within the Council must be made aware of all applications before they are submitted to NAFN for processing. The Council's current RIPA Policy is being reviewed to determine the most appropriate way to update the Policy in line with the new IPA requirements.
- 6.23 Social Media: The Investigatory Powers Commissioner's Office (IPCO) and human rights campaigners continue to express concerns and challenge public authorities about the way in which social media is used to monitor, gather intelligence and undertake investigations. As a result, work is currently underway to consider whether there is a need for a separate social media policy and/or to amend the Council's current RIPA Policy to set out and clarify the Council's position. Further details in this respect will be provided to the committee in due course.

Whistleblowing Policy

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

Anti-Money Laundering (AML) Procedure

- 6.26 The Council's Anti-Money Laundering procedure and guidance have been reviewed, they continue to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 and require no updates this year. Feedback on the training available on the Council's electronic training tool, Leap into Learning, has been very positive. The AML Officer and her deputies continue to stay aware of their requirements. In addition, Directors continue to spread awareness, identify any money laundering risks in their areas to be shared at least annually with the AML Officer and to identify employees who need training.

Serious Organised Crime Checklist

- 6.27 Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Organised crime groups may seek to benefit from public services in different ways, including to raise money through fraudulent activity and to use businesses / services used by LA's to launder criminal proceeds. In this way public money can be lost to LA's and can ultimately fund other illegal activity.
- 6.28 In 2017, the Home Office provided a Serious and Organised Crime report and checklist which highlighted that assessing the risk from serious and organised crime and corruption is essential in allowing the Council to identify areas of concern, potential vulnerabilities and to act to strengthen processes and structures that safeguard public money. The checklist evaluates our response and activities in relation to:
- Awareness, Strategy, Guidance and Training
 - Risk Management
 - Communication and Information/ Intelligence Sharing
 - Whistleblowing
 - Assurance
 - Operational controls for
 - Licensing
 - Planning/ Development management
 - Social Housing
 - Procurement
 - Insider threat
- 6.29 Directors, Heads of Service and key Procurement Officers have completed and continue to evidence activities against the checklist providing a balanced assessment of the Council's exposure to the risks. In the main, at this high level, risks appear well managed and where improvements can be made, actions have been highlighted as part of an improvement plan.
- 6.30 The Council's Commissioning and Assurance Board is overseeing operational management of these actions and a report to Cabinet and Directors is planned in December.

Awareness and training

- 6.31 Fraud awareness training introduced in 2018 on the Council's eLearning tool, Leap into Learning has resulted in positive feedback from recipients. Questions

explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy.

Qualified officers

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

Shropshire Council counter fraud risks and plans

6.33 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed and shared across all directorates. There is no change to the high-risk area of housing benefits. Thirteen medium risk areas continue to be identified, an increase of two on last year. The total list of risks is:

High

- Housing benefits

Medium

- Payroll, fraudulent travel, expense, overtime and timesheets
- Pension continues after death
- Employee commits benefit fraud
- Inappropriate and incorrect contract awards
- False invoicing
- Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action
- Theft of cash
- Council tax discounts
- NDR reliefs
- Parking abuse including blue badge use/disabled parking
- Direct payments / personal budgets
- Property and taxi licenses
- Schools diversion of resources

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

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk.

- The 2018/19 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits continues. The results of which will be worked through to identify any control risks and deal with any potential fraudsters.
- To reduce the risk of cybercrime and the impact it would have on all areas of the Council, a full IT risk assessment is conducted and audit reviews planned and completed in these specialist areas. This does not form part of the risk assessment on fraud.
- Internal Audit resources are deployed to provide assurance and advice in respect of new initiatives such as the Enterprise Resource Planning system project.

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

- Housing Rents Client Side
- Comforts Funds and Establishments including Day Centres and Schools
- IT application reviews, i.e. Technology Forge Property Services System; CONFIRM-Highways Management System, Civica Icon Income Management; Liquid Logic; Enterprise Resource Planning
- Contracts and tendering, e.g. Bulky Waste
- Final Grant claims, e.g. Strengthening Families Grant
- Financial systems, i.e. Debt Recovery, Income Collection, Purchase Ledger, Sales Ledger, General Ledger, Payroll System
- Parking
- Sickness Management
- Public Services Network (PSN)
- General Data Protection Regulations (GDPR) / Freedom of Information
- Monitoring Use of Facilities

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

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, the strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy

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

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

CIPFA Fraud and Corruption Tracker (CFaCT) survey report 2019

National Fraud Initiative (NFI) Report 2018

Home Office Serious and Organised Crime report and checklist 2017

Cifas Fraudscape 2019 Full Digital Report

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

Local Member n/a

Appendices: Not applicable



Counter Fraud, Bribery and Anti-Corruption Strategy

POLICY STATEMENT AND STRATEGY

Document Details:

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

Date: November 2019

Review Arrangements: Next Review Date - November 2020

Counter Fraud, Bribery and Anti-Corruption Policy Statement

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

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

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

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

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

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

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

Counter Fraud, Bribery and Anti-Corruption Strategy

1. Introduction

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

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

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

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

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

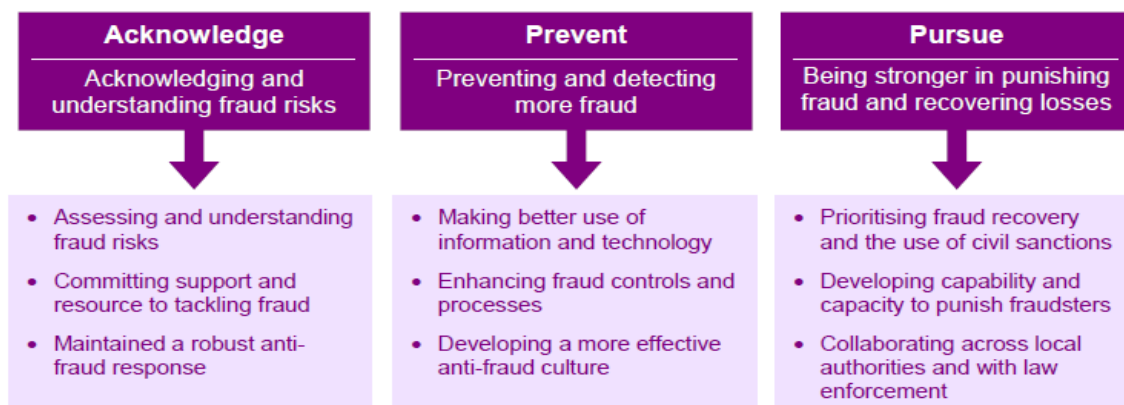
The five key elements of the CIPFA Code are to:

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

Act in response to fraud, bribery and corruption

PURSUE

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



2. Definitions

What is Fraud?

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

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

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

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

What is Bribery?

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

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

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

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

What is Corruption?

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

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

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

What is Theft?

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

3. Scope

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

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

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

4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

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

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

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

Managing the Risk of Fraud and Corruption

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

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

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

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

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

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

6. Fighting Fraud Locally: Acknowledge – Prevent – Pursue

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

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

PREVENT	Better Use of Information Technology	We will make use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud. We will also use computer assisted audit techniques, search engines and data matching facilities at a local level to investigate suspected frauds. Any such exchange or use of information will be undertaken in accordance with the principles contained in the Data Protection Act 2018. We will play an active part in the National Fraud Initiative (NFI) data matching exercise.
	Fraud Controls and Processes	We will educate managers on their responsibilities for operating effective internal controls within their service areas. We will promote strong management and good governance that provides scrutiny and independent challenge to risks and management controls. Routine Audit reviews will seek to highlight vulnerabilities in the control environment and make recommendations for improvement.
	Anti-Fraud Culture	We will promote and develop a strong counter fraud culture, raise awareness, provide a fraud e-learning tool and provide information on all aspects of our counter fraud work. In addition, personal development plans provide employees with specific skills that further support the counter fraud, bribery and anti-corruption culture, i.e. updated financial training, information security training, etc.

P	Fraud	A crucial element of our response to tackling fraud is recovering any
----------	--------------	---

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

7. Responsibilities

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

8. Reporting, Advice, Support

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

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

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

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

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

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

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

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

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

9. Investigations

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

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

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

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

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

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

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

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

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

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

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

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

10. Strategy Review

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

APPENDIX 1



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:
 - Your immediate Supervisor or Line Manager (or more senior management depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing).
 - The Head of Audit, Ceri Pilawski on 01743 257739 or the Section 151 Officer, James Walton on 01743 258915.
 - The Whistleblowing Hotline on 01743 252627 or email audit@shropshire.gov.uk.
 - Audit Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND, 01743 257737.

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

TOP TIPS

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

SAFEGUARDS

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

INVESTIGATION

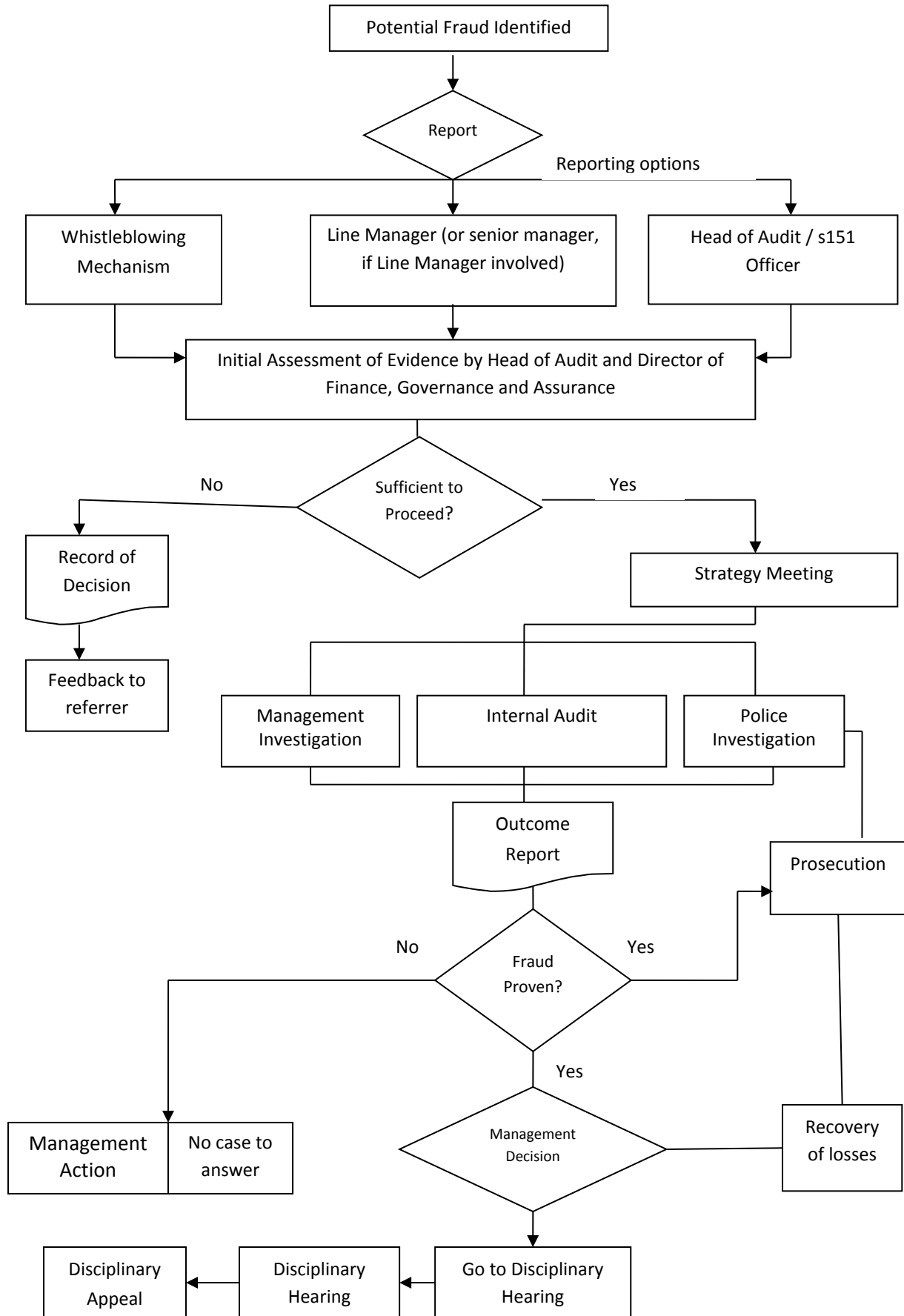
15. All suspected fraud must be referred to the Head of Audit.
16. The Head of Audit will assess the initial information and decide how to proceed. This may include a strategy meeting with the relevant manager where appropriate.
17. Following best practice, Audit will investigate most cases of suspected fraud –

management may investigate low level fraud involving an employee after consultation with Audit.

POTENTIAL OUTCOMES

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

Appendix 1 - The Council's typical fraud response plan



APPENDIX 2

NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

SPECIFIC RESPONSIBILITIES**APPENDIX 3**

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

Appendix 4

Shropshire Council – Loss Recovery Approach

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

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

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

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

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

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

Financial Considerations in relation to reporting fraud to law enforcement authorities

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

(1) The focus of criminal proceedings is not exclusively upon compensating the victim.

(2) In proceedings brought by the Crown Prosecution Service, the Council has limited control over the question of whether the Court makes any compensation orders¹.

(3) There are statutory limits² to the amount of compensation that the Magistrates Courts can order.

(4) Those convicted of criminal offences may lose their liberty and or their livelihood and thereby are unable to compensate the Council.

(5) Unlike Civil Courts the Criminal Courts must take account of a defendant's ability to pay before imposing financial penalties.

(6) Proceeds of Crime Act 2002 proceedings are complex and are restricted to matters dealt with in the Crown Court.

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

² Section 40 (1) Magistrates' Courts Act 1980

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

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

Adopted Strategy

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

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

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

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

This page is intentionally left blank



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
5 December 2019	
1:30pm	<u>Public</u>

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer James Walton

e-mail: James.walton@shropshire.gov.uk Tel: 01743 258915

1. Summary

Effective audit committees bring many benefits to an organisation, and to ensure that the Council continues to provide an effective Audit Committee, the Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis. The Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their refreshed: Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition. The Terms of Reference are attached as an **Appendix A**; there are no proposed changes.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Audit Committee terms of reference are reviewed annually to ensure that they are fit for purpose and up to date. They clarify the role of the Audit Committee and ensure that the Council has robust internal control arrangements in place.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.

4. Financial Implications

- 4.1 There are no financial implications.

5. Background

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

Issues and Conclusion

- 5.6 There have been no updates that require reflection in the Audit Committee's current Terms of Reference and therefore no changes proposed to those approved in 2018.

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

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

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

Local Member N/A

Appendices: Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

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

Meetings

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

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

CORE FUNCTIONS

Governance risk and control

10. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
11. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and assurances on how effectively the Seven Principles of Public Life are supported¹.
12. To consider the Council's arrangements for securing value for money, supporting standards and ethics and review assurances and assessments on the effectiveness of these arrangements.
13. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
14. To monitor the effective development and operation of risk management in the Council.
15. To monitor progress in addressing risk-related issues reported to the committee; Seek assurances that action is taken by management in risk related issues identified by auditors and inspectors; Resolve any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.
16. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
17. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
18. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
19. To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

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

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

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

28. To consider summaries of specific internal audit reports as requested.
29. To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.
30. To contribute to the Quality Assurance and Improvement Programme and to the external quality assessment of Internal Audit that takes place at least once every five years.
31. To support the development of effective communication with the Head of Audit.

External Audit

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

Financial reporting

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

Treasury Management

40. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
41. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity².
42. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management in accordance with best practice.

Accountability Arrangements

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

Work plan

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

² Clause 3 Treasury Management Code of Practice

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

Powers of the Audit Committee

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

Audit Committee Competency Framework

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

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

And that the Committee should receive appropriate levels of training.

Reviewed November 2019, no updates required.



Committee and Date

Audit Committee

5th December 2019

13:30 pm

Item

Public

AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

Responsible Officer James Walton

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

Tel: 01743 258915

1. Summary

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

2. Recommendations

Members are asked to:

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

REPORT

5. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2018 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 5.2 Shropshire Council has used this guidance to self-assess the Audit Committee against this recommended practice as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 5.3 The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Members considered the assessment model in some detail at a training session in October 2017 and an externally facilitated session in March 2018. Annual refreshers are undertaken with Member involvement and reported to this Committee, the last in November 2018. In preparation for 2019/20, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.
- 5.4 There have been no changes to membership since the previous training skills evaluations were completed and therefore no further updates are sought on these, the next full review will be in May 2020.

- 5.5 Continued learning from the original training self-assessments is important and the data extracted continues to be used to inform training sessions and identify areas for continued improvement. Information from self-assessments is considered against ongoing requests from committee members in response to current topics.
- 5.6 Training sessions provided since October 2018 have included:
- Strategic Risk – Commissioning.
 - Could more use be made of social media in improving communications?
 - Fraud risk assessments, organised crime, money laundering and other fraud, bribery and corruption activities aimed at prevention.
 - Audit Committee self-assessment feedback.
 - Cyber Security – first and second line assurance
 - IT Audit and General IT Controls – third line assurance
 - Single Person Discount council tax review
 - Programme Assurance – what to look for
 - Cloud services – what does this mean for Shropshire Council and the Audit Committee?
 - New systems programme assurance for the Audit Committee
 - Commissioning as a strategic risk
 - CIPFA statement of the Head of Internal Audit
 - Assurance on the process of identifying, monitoring and achieving savings to stay within identified budgets
 - Challenging officers on the systems within their area to deliver against the Financial Strategy.
 - from a Finance perspective
 - from a Service perspective; Children Services.
- 5.7 In addition to training sessions the following information has been shared with and between members:
- Transformation guidance for audit committees (NAO)
 - Cyber and information security guide (NAO)
 - Round-up for audit committees (NAO)
 - Better oversight over local authority governance (NAO)
 - CIPFA Audit Committee updates
 - Northamptonshire progress report
 - Guidance for audit committees on cloud (NAO)
 - Framework to review programmes (NAO)
 - Leading internal audit in the public sector (CIPFA)
 - Role of Head of Internal Audit (CIPFA)
 - Embedding ethics in your organisation (CIPFA)
 - Fraud awareness workbook for members (LGA) shared with all councillors.
- 5.8 **Appendix B** provides a summary from the two self-assessments, detailed in 5.3 above, showing the areas members have identified for future focus and refresh sessions and where updated training has been provided.
- 5.9 Following the current review of the Audit Committee self-assessment of good practice, a few areas of partial compliance were identified and question 13

was not currently applicable. These are summarised below with the proposed actions to improve for members to consider as components in an action plan looking forward.

SAR ¹	Partial compliance	Proposed action
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Members continue to consider areas identified for improvement in the Annual Governance Statement against their work and training plans, to ensure coverage of all areas the committee requires assurances from.
12	Has an effective audit committee structure and composition of the committee been selected? <ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership. 	Consider future training requirements and feed into training plans.
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Committee sees this as an ongoing theme. It has received support from CIPFA on this to help assess its performance.
23	Has the committee evaluated whether and how it is adding value to the organisation?	Members continue to challenge how they can add value to the Council.

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

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

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

CIPFA: Audit Committees in Local Authorities and Police, 2018 edition

Cabinet Member (Portfolio Holder)

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

Local Member n/a

Appendices

A Self-assessment of good practice November 2019

B Analysis of training requirements and the effectiveness of the Audit Committee based on the 2017 self-assessments, refreshed in 2018 and 2019

C Self-assessment of good practice November 2019 showing evidence

¹ SAR = Self-assessment reference

Appendix A: Self-assessment of Good Practice November 2019

Good practice questions		Yes	Partly	No
Audit Committee purpose and governance				
1.	Does the authority have a dedicated audit committee?	✓		
2.	Does the audit committee report directly to full council?	✓		
3.	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓		
4.	Is the role and purpose of the audit committee understood and accepted across the authority?	✓		
5.	Does the audit committee provide support to the authority in meeting the requirements of good governance?		✓	
6.	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓		
Functions of the committee				
7.	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?			
	• Good governance	✓		
	• Assurance framework, including partnerships and collaboration arrangements	✓		
	• Internal audit	✓		

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

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

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

Appendix B: Analysis of training requirements based on 2017 self-assessments, refreshed in 2018 and 2019.

Training requirements

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

H	High
M	Medium
L	Low

Rank	Skills: Core	Evidence of training since April 2017
H ²	Organisational knowledge	October 2017 ³
H	Audit Committee role and functions	June 2017, March and October 2018
H	Governance	June 2017, September 2018
H	Internal Audit	June 2017, October 2019
H	Financial management and accounting	June 2017, September 2018, October 2019
H	External Audit	June 2017
H	Risk Management	June and October 2017, September 2018, November 2019
H	Counter-fraud	December 2017, June 2019
H	Values of good governance	June 2017
M	Treasury management	June 2017
H	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	
H	Focus on improvement	September 2018
H	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	

² Based on 4/9 completed

³ Contract management

Audit Committee, 5 December 2019: Audit Committee Self-Assessment of good practice

	Skills: Specialist	
L	Accountancy	October 2019
L	Internal Audit	June 2017
L	Risk Management	June and October 2017, September and November 2018
L	Governance and Legal	October 2017 ⁴
M	Service knowledge relevant to the functions of the organisation	October 2019
M	Programme and project management	June 2019
L	IT system and IT governance	November 2018, March 2019, June 2019
Analysis of the effectiveness of Audit Committee based on 2017 self-assessments		
M ⁵	Promoting the principles of good governance and their application to decision making.	
M	Contributing to the development of an effective control environment.	
M	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	
M	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	
M	Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	
M	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	
M	Supporting the development of robust arrangements for ensuring value for money.	
M	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.	
M	Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	

⁴ Contract management

⁵ Based on 3/9 completion

Appendix B2: Ongoing progress update against the improvement plan for an effective Audit Committee reported initially June 2018, refreshed December 2019

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

1. Improve engagement with Cabinet members – Actioned and ongoing

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

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

2. Could risk owners be more involved in reporting on risks to the AC? Actioned and ongoing

Training in September 2018 and November 2019, explored this as part of an Audit Committee and Risk Management session. Members look to invite risk owners more frequently to both meetings and training sessions.

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

3. Audit to provide more explanation regarding the importance and relevance of the items they present. Actioned and ongoing.

Committee reports will be considered by officers and members and where further clarity is required this will be sought and delivered. Training sessions are used to explore issues prior to the formal reporting to committee, examples are governance and risk management frameworks.

Appendix C: Self-assessment of Good Practice showing evidence

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

⁶ Terms of reference

	Good practice questions	Yes/ No/ Partly	Evidence
			The annual report from Committee to Council informs all members of the Committee's activities.
5.	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Partly	<p>ToR para 10-19. ToR Para 45, j. The Committee's work plan identifies areas of governance that it provides support on, this can be seen in Committee agendas at February/March meetings. The Annual Assurance report to Council presented to the June Committee demonstrates this further and the Annual Governance Statement identifies significant areas for improvement which the Committee can focus on. Members in November 2018 could participate in a survey evaluating ethics and doing the right thing in the Council. Most members that responded are aware of the Code of Conduct, the process for reporting a breach and believe the Code to be clear in respect of the expectation of ethical member conduct. Overall members responding to the survey demonstrated a high awareness of the ethical standards required of them and their delivery of these.</p> <p>Proposed Action: <i>Members continue to consider areas identified for improvement in the Annual Governance Statements against their work and training plans, to ensure coverage of all areas the committee requires assurances from.</i></p>
6.	Are the arrangements to hold the committee to account for its	Yes	No complaints from Council. Annual report to Council appears on June Audit Committee agenda allows members

	Good practice questions	Yes/ No/ Partly	Evidence
	performance operating satisfactorily?		to comment and challenge the Committee's work. Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council and the Annual Governance Statement action plans Proposed Action: <i>An action to review this, to keep it current, is included above.</i>
	Functions of the committee		
7.	Do the committee's terms of reference explicitly address all the core areas identified in CIPFAs 2018 Position Statement?	Yes	
	<ul style="list-style-type: none"> • Good governance 		ToR para 10+
	<ul style="list-style-type: none"> • Assurance framework including partnerships and collaboration arrangements 		ToR para 10+
	<ul style="list-style-type: none"> • Internal audit (IA) 		ToR para 20+
	<ul style="list-style-type: none"> • External audit 		ToR para 32+
	<ul style="list-style-type: none"> • Financial reporting 		ToR para 38+
	<ul style="list-style-type: none"> • Risk management 		ToR para 14+

	Good practice questions	Yes/ No/ Partly	Evidence
	<ul style="list-style-type: none"> Value for money or best value 		ToR para 12+
	<ul style="list-style-type: none"> Counter-fraud and corruption 		ToR para 17+
	<ul style="list-style-type: none"> Supporting the ethical framework 		<i>ToR para 11+</i>
8.	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	<p>Evaluation is through the:</p> <ul style="list-style-type: none"> Self-assessment of compliance with this best practice document, reported to December. Annual report to Committee is written to map back to the terms of reference. Annual work plan, reported to March Committee, which maps back to the ToR. Agendas, minutes and reports of Committee support that all core areas are being reviewed.
9.	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	<p>Wider areas are:</p> <ul style="list-style-type: none"> Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 7. Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A

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

	Good practice questions	Yes/ No/ Partly	Evidence
12.	Has an effective audit committee structure and composition of the committee been selected? This should include:	Partly	
	<ul style="list-style-type: none"> Separation from the executive 	Yes	ToR, para 1 Where it has been recognised that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 	Partly	<p>ToR, para 47+</p> <p><i>This is demonstrated by self-assessments completed by Members⁷ used to inform the training plans covered in publicly available reports on the Committee's annual work plan (February) and the annual report to Council (June). Members have wide experience and continuity of knowledge, some of which sit on Audit Committee's for other public-sector organisations, members also have private business knowledge, financial, and governance awareness. Where members feel further knowledge or training is required they can and do raise this, demonstrated through work, training plans and self-assessments.</i></p> <p>Proposed Action: <i>Consider future training requirements and feed into training plans.</i></p>
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	Yes	ToR, para 1

⁷ Completed 2017, no change in members since this date.

	Good practice questions	Yes/ No/ Partly	Evidence
	<ul style="list-style-type: none"> Consideration has been given to the inclusion of at least one independent member (where this is not already a mandatory requirement). 	Yes	<p>There are currently no independent members on the Committee. Appointment would follow good recruitment processes including evaluation of the skills sets required, advertising, clear job specifications and descriptions, selection and awarding processes.</p> <p><i>Consideration has been given to such an appointment and provision is made in the ToR, para 3.</i></p>
13.	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?	N/A	As above.
14.	Does the chair of the committee have appropriate knowledge and skills?	Yes	<p>Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance at Committee and resulting recommendations and minutes, available on public web sites.</p> <p>The Chair also works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks as they develop.</p> <p>The Chair can identify and influence future training requirements for himself and other Committee members.</p>
15.	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Regular training sessions are agreed with the Chair and wider members of the Committee.</p> <p>Demonstrated by:</p>

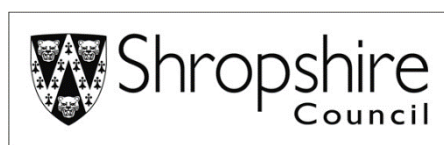
	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Completion of the skills assessment (completed autumn 2017). • Committee work plan (February/March Committee agenda) • Evidence of training including agendas, supporting training documents etc. available on request.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

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

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

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence • Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements • Supporting the development of robust arrangements for ensuring value for money • Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks • Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability <p>In addition, agendas and work is planned and shows clearly where the levels of assurance are coming from, providing opportunity to challenge and ensure a balanced information base is received by members.</p> <p>Proposed Action: <i>Members continue to challenge how they can add value to the Council.</i></p>

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



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
5 th December 2019	
1:30 pm	<u>Public</u>

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski

e-mail: Ceri.pilawski@shropshire.gov.uk

Tel: 01743 257739

1. Summary

The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis; for 2019 the only change is the introduction for clarity and completeness of the Overall Assurance Opinion in Annex A.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. Background

- 5.1 The Public Sector Internal Audit Standards (PSIAS) 2017 are mandatory for internal audit in public services, including local government. They reflect and are based upon the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors. In addition, amendments were made to the public-sector requirements and public-sector interpretations which form part of the PSIAS. The Internal Audit Charter continues to reflect the standards.
- 5.2 Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Audit's reporting relationship with the Audit Committee; authorises access to personnel, records, and physical properties relevant to audit work; and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in Annex B of the Charter.
- 5.3 The Internal Audit Charter refers to;
- The nature of assurance services provided to the Council.
 - Organisational independence.
 - Individual objectivity.
 - Impairment to independence or objectivity.
 - Proficiency and due professional care.
 - Continuing professional development.
 - Quality assurance and improvement programme – internal and external.
- 5.4 The Charter will communicate the contribution that Internal Audit makes to the Council and includes:
- Internal Audit's mission
 - Purpose, principles and responsibilities.
 - Independence and objectivity.
 - Competencies and standards.
 - Planning.
 - Nature of work.
 - Reporting.
 - Quality assurance.
 - Fraud and corruption.
 - Rights of access.
- 5.5 Final approval of the Internal Audit Charter resides with Shropshire Council's Audit Committee.
- 5.6 In June 2019, definitions for the Overall Assurance Opinion were revisited and have been applied to all Internal Audit customers, for clarity and completeness, these are now included in the Audit Charter at Annex A and associated changes are highlighted in The Charter in bold and underlined.

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

Accounts and Audit Regulations 2015;
Public Sector Internal Audit Standards 2017
Internal Audit Quality Assurance Improvement Programme – External Assessment, February 2017
CIPFA Statement on the role of the head of internal audit in public service organisations, 2019 edition
CIPFA Local government application note for the United Kingdom Public Sector Internal Audit Standards 2019 edition

Cabinet Member (Portfolio Holder):

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

Local Member: All

Appendix A: Internal Audit Charter with annexes A and B

Appendix A



INTERNAL AUDIT CHARTER

MISSION STATEMENT

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

INTERNAL AUDIT CHARTER

INTRODUCTION

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

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

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

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

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

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

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

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

Principles

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

Objectives

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

Responsibilities

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

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

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

⁷ Source Public Sector Internal Audit Standards April 1st, 2017.

⁸ Assurance opinions and recommendation categories are defined in Annex A

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

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

INDEPENDENCE AND OBJECTIVITY

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

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

COMPETENCIES AND STANDARDS

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

INTERNAL AUDIT PLANNING

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

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

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

NATURE OF WORK

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

Governance

31. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
 - ensuring effective organisational performance management and accountability;
 - communicating risk and control information to appropriate areas of the organisation;
 - coordinating the activities of, and communicating information among, the audit committee, external and internal auditors and management;
 - the internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

Risk Management

32. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- organisational objectives support and align with the organisation's mission;
 - significant risks are identified and assessed;
 - appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite;
 - relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.
33. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.
34. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by managing risks.

Control

35. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:
- achievement of the organisation's strategic objectives;
 - reliability and integrity of financial and operational information;
 - effectiveness and efficiency of operations and programmes;
 - safeguarding of assets; and
 - compliance with laws, regulations, policies, procedures and contracts.
36. In accordance with the PSIAS, most individual audits are undertaken using the risk based systems audit approach, the key elements of which are listed below:
- identify and record the objectives, risks and controls;
 - establish the extent to which the objectives of the system are consistent with higher level corporate objectives;
 - evaluate the controls in principle to decide if they are appropriate and can be reasonably relied upon to achieve their purpose;
 - identify any instances of over and under control;
 - determine an appropriate strategy to test the effectiveness of controls, i.e. through compliance and/or substantive testing;
 - arrive at conclusions and produce a report, leading to management actions as necessary and providing an opinion on the effectiveness of the control environment.
37. To reduce duplication of effort Internal Audit will work in partnership to identify and place reliance on assurance work completed elsewhere in the Council. A computerised audit management system, supported by working papers, is used to streamline working practices. This reflects best professional practice.

INTERNAL AUDIT REPORTING

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

- ensure that appropriate risk based arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not acting.

39. The Head of Internal Audit reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Head of Internal Audit produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. The annual report:
- includes an opinion on the overall adequacy and effectiveness of the Council's control environment (**definitions in Annex A**);
 - discloses any qualifications to that opinion, together with the reasons for the qualification;
 - presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
 - draws attention to any issues the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement;
 - compares the work undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
 - comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

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

¹⁰ Qualified independent assessor or assessment team

the annual report¹¹. Significant deviations will be considered for inclusion in the Annual Governance Statement.

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

FRAUD AND CORRUPTION

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

RIGHTS OF ACCESS

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

Reviewed 16 October 2019

¹¹ For both internal and external reviews

Annex A

Public Sector Internal Audit Standards

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

Overall Assurance Opinion

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

<u>Overall Assurance Opinion</u>	<u>Indication of when this type of opinion may be given**</u>	<u>Traditional Opinion</u>
<u>Substantial</u>	<u>Limited number of medium risk related weaknesses identified but generally only low risk rated weaknesses have been found in individual assignments/ observations.</u> <u>No one area is classified as high or/ critical risk</u>	<u>Unqualified</u>
<u>Reasonable</u>	<u>Medium risk rated weakness identified in individual assignments/ observations that are not significant in aggregate to the system of governance, risk management or control.</u> <u>High risk rated weaknesses identified in individual assignments/ observations that are isolated to specific systems, processes and services</u> <u>None of the individual assignment reports/ observations have an overall high or critical risk</u>	
<u>Limited</u>	<u>Medium risk related weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected and/or</u> <u>High risk rated weaknesses identified in individual assignments/ observations that are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or</u> <u>Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and</u>	

<u>Overall Assurance Opinion</u>	<u>Indication of when this type of opinion may be given**</u>	<u>Traditional Opinion</u>
	<u>More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk</u>	
<u>No Assurance</u>	<u>High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or</u> <u>Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or</u> <u>More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk</u> <u>Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk</u>	<u>Qualified</u>
<u>Disclaimer</u>	<u>An opinion cannot be issued because insufficient internal audit work has been completed due to either:</u> <u>-restrictions in the agreed audit programme, which means that audit work would not provide sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control, or</u> <u>- unable to complete enough reviews and gather sufficient evidence to conclude on the adequacy of arrangements for governance, risk management and control</u>	<u>Qualified</u>

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

Audit assurance Opinions for engagements are graded as follows

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a sound system of control but there is evidence of non-compliance with some of the controls.
Limited	Evaluation and testing of the controls that are in place performed in the areas examined identified that, whilst there is basically a

	sound system of control, there are weaknesses in the system that leaves some risks not addressed and there is evidence of non-compliance with some key controls.
Unsatisfactory	Evaluation and testing of the controls that are in place identified that the system of control is weak and there is evidence of non-compliance with the controls that do exist. This exposes the Council to high risks that should have been managed.

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

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

Consultancy Activity

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

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

The nature and scope of the work may include:

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

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

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

Code of Ethics

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

There are four principles in the code of ethics:

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

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

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

Annex B

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

Shropshire and Wrekin Fire and Rescue Authority

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

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council

STaRH

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

West Mercia Energy

Senior Management	Treasurer Managing Director
Board	Joint Committee

Shropshire County Pension Fund

Senior Management	Pension Fund Administrator
Board	Pensions Committee



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
05 December 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 three months since the previous Audit Committee. Fifty six percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in line with previous delivery records. The team is on target to achieve 90% delivery by the year end.

Four good, six reasonable, four limited and three unsatisfactory assurance opinions have been issued since the last report. The 17 final reports contained 168 recommendations, five of which were fundamental.

This report proposes minor revisions reducing the overall audit plan from 2,258, as reported in September 2019, to 2,250 days. The changes have been discussed with, and agreed by, the Section 151 Officer and will have no impact on the level of information on which the Head of Audit can reach a year end opinion.

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 and any action it wishes to take in response to any low assurance levels and fundamental recommendations brought to Members attention.
- 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, risk management systems and

governance procedures. Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes. In delivering the plan, the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Without this, failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.

3.2 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:

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

3.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).

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

4. Financial implications

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

5. Background

5.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.

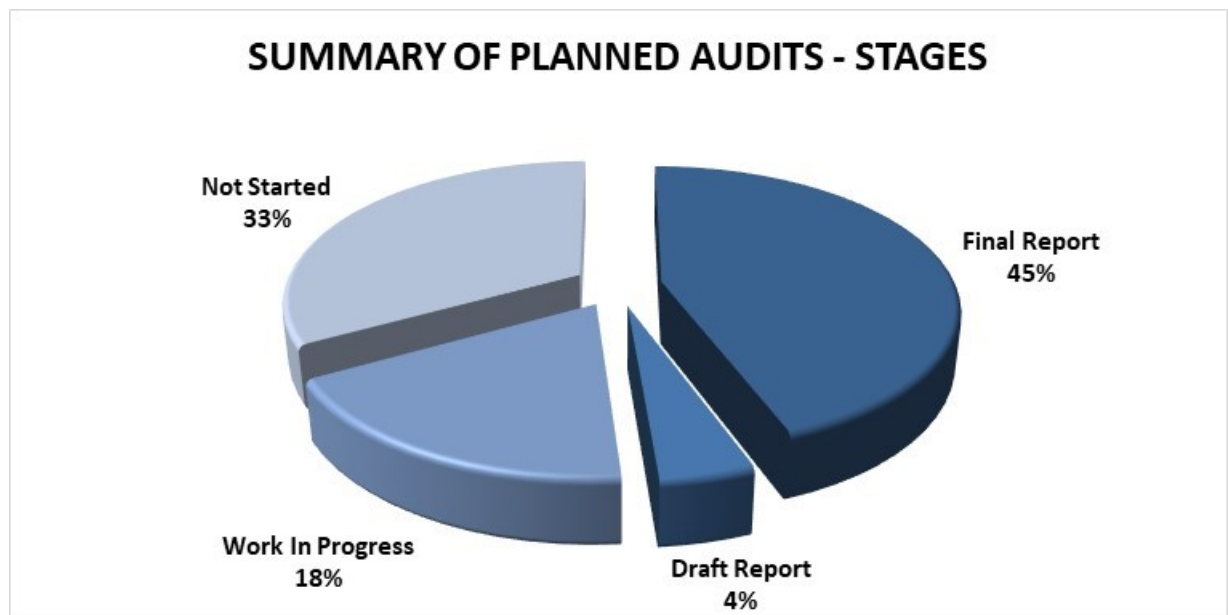
5.2 The 2019/20 Internal Audit Plan was presented to, and approved by, members at the 25th February 2019 Audit Committee, with adjustments being approved in September 2019. This report provides an update on progress made against the plan up to 31st October 2019 and includes revisions to the plan to reflect the ongoing reduction in resources.

Performance against the plan 2019/20

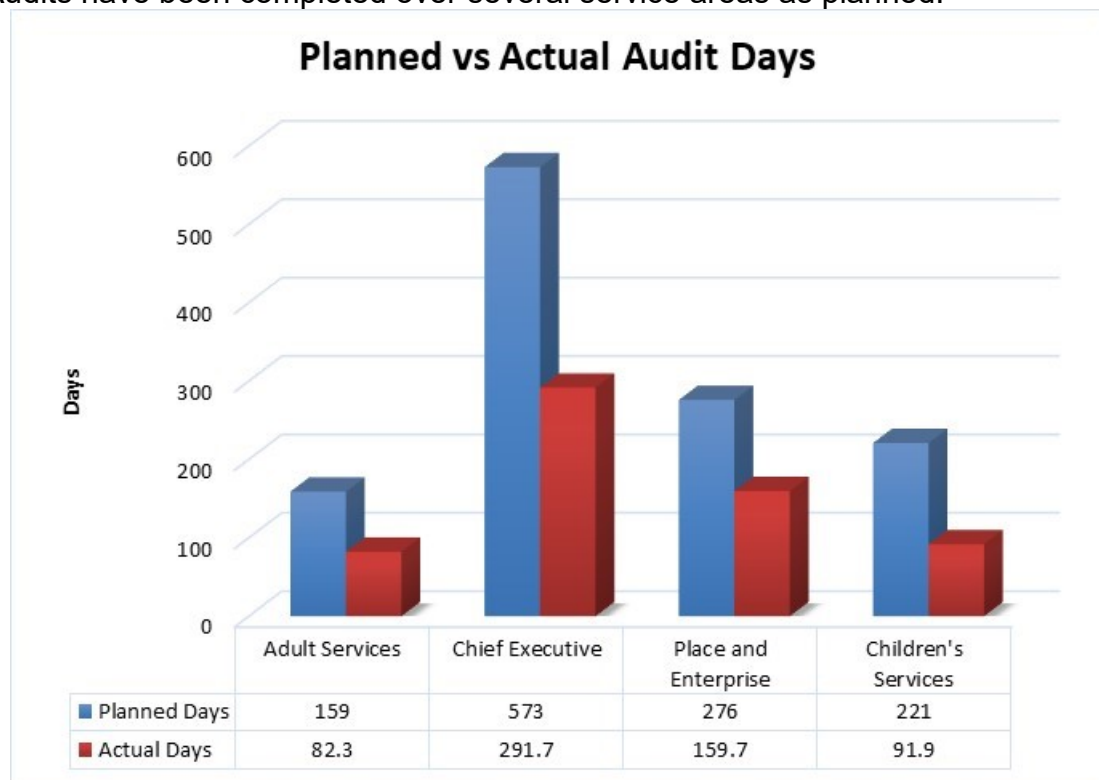
5.3 Minor revisions to the 2019/20 plan provide for a total of 2,250 days (compared to 2,258 as reported in September). Performance to date is in line with previous delivery records

at 56% (52% 2018/19), overall the team is on track to deliver a minimum of 90% of the revised annual plan by year end.

- 5.4 In total, 17 final reports have been issued in the period from 12th August to 31st October 2019. The following chart shows performance against the approved Internal Audit Plan for 2019/20:



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

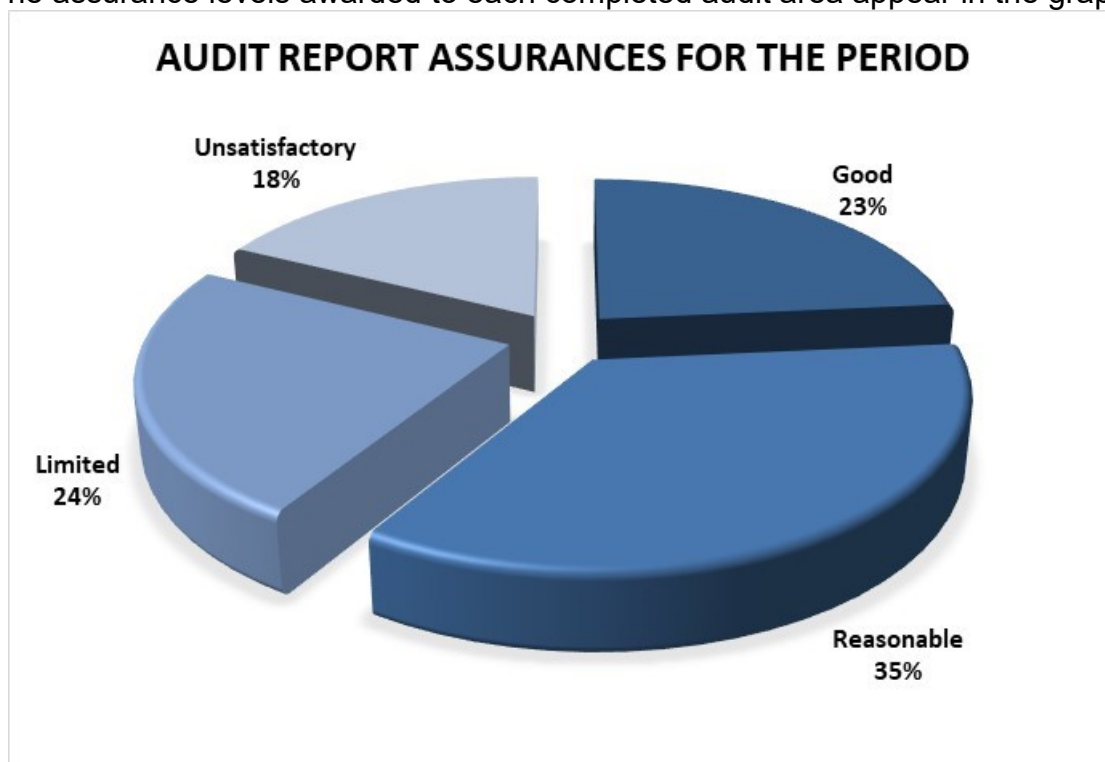


- 5.6 The following audits have been completed since the 12th August 2019:

- Adult Placements 2018/19

- HomePoint¹ Contract
- Personal Budgets and Direct Payments (Adults) 2018/19
- Security of Council Buildings
- Highways Term Maintenance Contract
- Street Lighting
- Street Scene - Dog Wardens
- The Lantern
- Martin Wilson School
- Minsterley Primary School
- CareFirst Decommissioning
- Section 11² Arrangements
- Strengthening Families³ September Grant Claim
- SAMIS Decommissioning
- Information Security Policy
- Nutanix⁴
- Privileged User Security

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



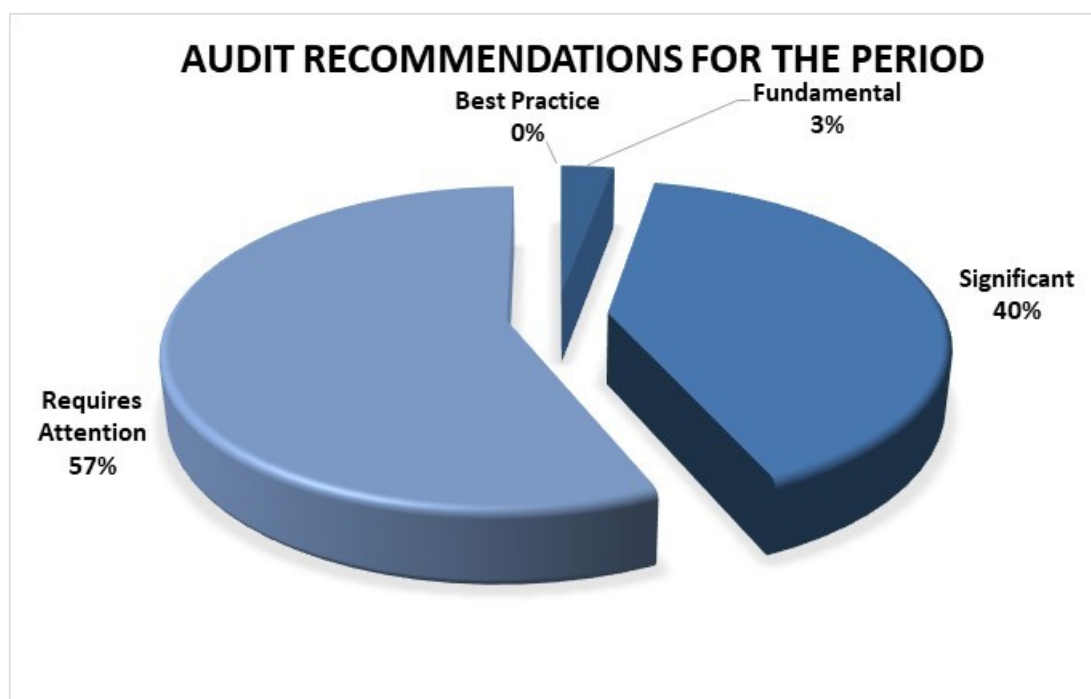
5.8 The overall spread of recommendations agreed with management following each audit review are as follows:

¹ Shropshire HomePoint provides a one-stop solution for people seeking housing and manages the Shropshire Housing Waiting List

² Duties on a range of organisations and individuals to ensure that their functions, and any services that they contract out to others, are discharged regarding the need to safeguard and promote the welfare of children

³ 'Strengthening Families' is the Shropshire interpretation of the national Troubled Families programme. It aims to support families who might need extra help to be happy, healthy and safe with services working together to provide families with the right support at the right time.

⁴ Nutanix is the new server infrastructure platform ensuring ongoing PSN compliance, reducing our server estate footprint, delivering increased stability and freeing third line engineering from management overhead.



- 5.9 Up to the 31st October 2019, ten reports have been issued providing good or reasonable assurances and accounting for 58% of the opinions delivered. This represents a decrease in the higher levels of assurance for this period, compared to the previous year outturn of 67%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 42% compared to the previous year outturn of 35%.
- 5.10 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 unsatisfactory or 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**. Full consideration of the audit review findings and management responses to the Highways Term Maintenance Contract review are explored in the exempt part of the agenda.
- 5.11 Five draft reports, awaiting management responses, will be included in the next quarter results. Work has also been completed for external clients in addition to the drafting and auditing of financial statements in respect of several honorary funds and the certification of grant claims.
- 5.12 A total of 168 recommendations have been made in the 17 final audit reports issued in the period 12th August to 31st October 2019; these are broken down by audit area and appear in **Appendix A, Table 7**.
- 5.13 Five fundamental recommendations have been identified, three are detailed below, the remaining two are covered in the exempt part of the agenda:

1. Martin Wilson 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. The school should ensure that Contract Rules are adhered to with any future contracts. Further advice should be sought from the Commissioning Development and Procurement Manager.

Risk: Inappropriate and unapproved expenditure resulting in a financial loss to the school. Non-compliance with the school's authorisation limits. A potential failure to achieve best value by not appointing the most cost-effective supplier.

Management Response: Contacted Commissioning Development and Procurement Manager's office re. tender process for school meals and photocopier contract. Following finance clerk advice, accessed DfE guidance on tender process. Consider requested Framework Report prepared by Shropshire Council's Procurement and Category Management Officer.

Agreed implementation date: September 2019

2. Street Scene – Dog Wardens

Recommendation: A full management review of the Dog Wardens service should be undertaken to ensure that there are appropriate policies and working practices in place to comply with legislation, Council policy and Financial and Contract Rules. This should include a review of the arrangements with the external service provider to ensure that value for money is obtained and an adequate service is provided.

Risk: Failure to deliver a Dog Wardens service in accordance with legislation and acceptable procedures and standards could lead to complaints about the process which may result in the Council incurring reputational damage. Further financial losses may occur if the Council's policies and procedures are not adhered to.

Management Response: A set of standard operating procedures will be produced for the dog warden service. This will cover all aspects relating to the audit report and the full range of service currently provided. This will ensure that the service can be delivered in a more consistent and effective way. It will also enable a more effective management approach to be adopted in future. In advance of the standard operating procedures being produced and implemented, a risk-based approach to the 34 points highlighted will be implemented. This will involve a RAG score being given and some areas actioned as a priority.

Agreed Implementation Date: April 2020.

3. Workforce and Development: Safe Security

Recommendation: The safe should always be kept locked and the key held securely. The office within the area should be locked when the room is unattended. Management consideration should be given as to whether any disciplinary action should be taken against the officer that left the safe and its contents unsecured and in doing so breached financial rules.

Risk: Income and assets are not secured leading to a potential for theft resulting in a financial loss to the Council. Innocent officers with access to the office may be investigated if income cannot be accounted for.

Management Response: I will write a checklist (to do) and a 'before leaving the office', procedure. This will be applied to the door as well as a visual guide on exiting the room. Discussion with the officer on the security and possible implications of not securing money or cheques. Discussion about the potential for theft and what could happen in this situation as well as the reputational damage to the Council with security and data. I will talk about the "what if someone had taken some money from the safe", and that this could lead to full disciplinary with potential of having to leave Council employment.

Agreed Implementation Date: August 2019.

- 5.14 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.
- 5.15 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**.
- Feedback given on the Financial transparency of local authority-maintained schools and academy trusts consultation, this outlines the current financial transparency arrangements for academy trusts and local authority maintained schools and considers possible changes.
 - Advice has been provided across several service areas:
 - Management of imprest accounts and school funds, to ensure compliance with financial rules and safety of the financial assets.
 - Council's Corporate Retention Schedule to ensure information is only retained for as long as it is needed for business, legal or historical purposes, in respect of foster training records.
 - Disposal processes and supporting documentation in respect of Property Services, Warp IT⁵ and the Smoking Cessation service.
 - New system requirements for corporate bookings, nursery providers; waste permits and Sharepoint adoption.
 - Guidance to the Tuition Medical Behavioural Support Service (TMBSS) in relation to updates to their IT Security and Acceptable Use policies.

Direction of travel

- 5.16 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	16%	49%	21%	14%	100%
2018/19	26%	41%	27%	6%	100%
2017/18	20%	44%	29%	7%	100%
2016/17	7%	45%	31%	17%	100%

⁵ Finding new owners for items that would otherwise have to be disposed of

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	1%	61%	37%	1%	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%

- 5.17 The number of lower level assurances 35%, at this point in the year, is comparable to the outturn for 2018/19 of 33%. However, the proportion of areas attracting unsatisfactory assurance (14%) is higher and moving towards the levels seen in 2016/17 (17%). Whilst this does not yet demonstrate a complete picture, it is an early indicator of a weakening control environment across the Council. Reviews in the final quarter of 2019/20 will be concentrating on the main financial, human resource and governance systems. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 12th August to 31st October 2019.

Performance measures

- 5.18 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)

Internal Audit Performance and Revised Annual Audit Plan 2019/20 – Audit Committee 12th September 2019
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 12th August to 31st October 2019

Table 2: Final audit report assurance opinions issued in the period 12th August to 31st October 2019

Table 3: Unsatisfactory and limited assurance opinions in the period 12th August to 31st October 2019

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Audit recommendations made in the period 12th August to 31st October 2019

Table 8: Recommendation follow up process (risk based)

Appendix B - Audit plan by service 12th August to 31st October 2019

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

	Original Plan	Revised Plan	31 October 2019 Actual	% of Original Complete	% of Revised Complete
Chief Executive	520	573	291.7	56%	51%
Finance, Governance and Assurance	293	334	150.5	51%	45%
Governance	14	14	8.9	64%	64%
Workforce and Development	213	207	114.2	54%	55%
Legal and Democratic	0	18	18.1	0%	101%
Adult Services	158	159	82.3	52%	52%
Social Care	96	124	65.3	68%	53%
Public Health	42	25	10.3	25%	41%
Public Protection	20	10	6.7	34%	67%
Place and Enterprise	310	276	159.7	52%	58%
Children's Services	252	221	91.9	36%	42%
Schools	113	135	69.6	62%	52%
Other	139	86	22.3	16%	26%
S151 Planned Audit	1,240	1,229	625.6	50%	51%
Contingencies and other chargeable work	894	784	465.0	52%	59%
Total S151 Audit	2,134	2,013	1,090.6	51%	54%
External Clients	228	237	169.4	74%	71%
Total	2,362	2,250	1,260.0	53%	56%

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

Table 2: Final audit report assurance opinions issued in the period from 12th August to 31st October 2019

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	1	2	1	0	4
Finance, Governance and Assurance	0	0	1	0	1
Governance	0	0	0	0	0
Workforce and Development	1	2	0	0	3
Legal and Democratic	0	0	0	0	0
Adult Services	0	2	1	0	3
Social Care	0	2	1	0	3

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Public Health	0	0	0	0	0
Public Protection	0	0	0	0	0
Place and Enterprise	0	1	1	3	5
Children's Services	3	1	1	0	5
Children's Services: Schools	0	1	1	0	2
Children's Services: Others	3	0	0	0	3
Total for the period					
➤ Numbers	4	6	4	3	17
➤ Percentage	23%	35%	24%	18%	100%
Percentage 2019/20 to date	16%	49%	21%	14%	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 12th August to 31st October 2019⁶

Unsatisfactory assurance

Place and Enterprise: Highways Term Maintenance Contract – Considered in the exempt part of the agenda

Place and Enterprise: The Lantern

- 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.
- Regular budget monitoring is performed and any significant variations are investigated.
- Assets held are recorded, can be accounted for and are safeguarded against loss.

Place and Enterprise: Street Scene – Dog Wardens

- The system is operated in accordance with up to date policies, procedures, Financial Rules, statutory regulations and legislation.
- There is an appropriate recording process in place for Dog Warden activities.
- 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.
- Disclosure and Barring Service (DBS) checks have been performed for relevant staff.
- Adequate management information is obtained and reviewed at an appropriate level.
- Information / data processing risks are managed appropriately.

Limited assurance

⁶ 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.

Adult Services: Personal Budgets and Direct Payments (Adults)

- Previous audit recommendations have been implemented.
- The system is operated in accordance with up to date policies, procedures, Financial Rules, statutory regulations and legislation, to which relevant staff have access.
- Contractual agreements are in place between all parties involved in the scheme.
- Expenditure by Service Users is monitored on a regular basis and the recovery of monies made where appropriate.
- Satisfactory arrangements are in place to make accurate payments to Service Users.

Children's Services: Martin Wilson Primary School

- 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.

Finance Governance and Assurance: SAMIS Decommissioning

- Management processes are in place to facilitate the transfer of data from the SAMIS database to an appropriate readable archive format.
- Project progress is monitored against defined timescales with opportunities to reassess the project plan against the business case if amendments are required.

Place and Enterprise: Security of Council Buildings

- Appropriate management arrangements are in place governing the security of Council buildings.
- Security of buildings is in line with policy.
- Council buildings are secure when unoccupied.

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 12th August to 31st October 2019

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	12	9	0	21
Finance, Governance and Assurance	0	6	2	0	8
Governance	0	0	0	0	0
Workforce and Development	0	6	7	0	13
Legal and Democratic	0	0	0	0	0
Adult Services	0	16	13	1	30
Social Care	0	16	13	1	30
Public Health	0	0	0	0	0
Public Protection	0	0	0	0	0
Place and Enterprise	0	31	31	3	65
Children's Services	0	36	15	1	52
Children's Services: Schools	0	32	14	1	47
Children's Services: Others	0	4	1	0	5
Total for the period					
➤ Numbers	0	95	68	5	168
➤ Percentage	0%	57%	40%	3%	100%
Percentage 2019/20 to date	1%	61%	37%	1%	100%
Percentage 2018/19	2%	60%	37%	1%	100%
Percentage 2017/18	3%	56%	41%	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 12th AUGUST to 31st OCTOBER 2019

	Original Plan Days	September Revision	November Revision	Revised Plan Days	31st October 2019 Actual	% Revised Plan Achieved
CHIEF EXECUTIVE						
Governance	14	0	0	14	8.9	64%
Finance Governance & Assurance						
Finance Transactions	85	18	0	103	24.4	24%
Finance and S151 Officer	88	-20	2	70	50.0	71%
Financial Management	73	18	7	98	34.1	35%
Procurement and Contract Management	40	0	4	44	30.7	70%
Risk Management and Insurance	7	0	12	19	11.3	59%
	293	16	25	334	150.5	45%
Workforce and Development						
Human Resources	70	1	8	79	31.9	40%
Information Governance	8	0	-4	4	3.6	90%
ICT	110	-6	-18	86	40.2	47%
Occupational Health & Safety	25	11	0	36	36.4	101%
Print Services	0	2	0	2	2.1	105%
	213	8	-14	207	114.2	55%
Legal and Democratic						
Legal Services	0	18	0	18	18.1	101%
CHIEF EXECUTIVE	520	42	11	573	291.7	51%
ADULT SERVICES						
Social Care Operations						
Long Term Support	53	17	0	70	38.0	54%
Assistive Services	10	0	0	10	0.0	0%
Provider Services - Comforts Funds	6	6	0	12	9.6	80%
Provider Services - Establishments	12	1	0	13	8.2	63%
Housing Services	15	10	-6	19	9.5	50%
	96	34	-6	124	65.3	53%

	Original Plan Days	September Revision	November Revision	Revised Plan Days	31st October 2019 Actual	% Revised Plan Achieved
Public Health	42	-5	-12	25	10.3	41%
Environmental Protection and Prevention	20	-10	0	10	6.7	67%
ADULT SERVICES	158	19	-18	159	82.3	52%
PLACE AND ENTERPRISE Business, Enterprise and Commercial Services						
Commercial Services	10	-3	0	7	0.0	0%
Strategic Asset Services	45	-2	7	50	30.6	61%
	55	-5	7	57	30.6	54%
Economic Development						
Business Growth and Investment	35	-2	0	33	2.4	7%
Development Management	15	-10	0	5	2.9	58%
Project Development	15	-15	0	0	0.0	0%
	65	-27	0	38	5.3	14%
Infrastructure and Communities						
Highways	70	3	9	82	64.9	79%
Environmental Maintenance	8	0	2	10	9.7	97%
Library Services	5	4	1	10	10.0	100%
Public Transport	20	-10	3	13	12.6	97%
Waste	8	0	0	8	8.6	108%
	111	-3	15	123	105.8	86%
Culture and Heritage						
Theatre Severn and OMH	14	0	0	14	0.3	2%
Leisure Services	38	-16	0	22	1.2	5%
Outdoor Recreation	6	-6	0	0	0.0	0%
Visitor Economy	21	1	0	22	16.5	75%
	79	-21	0	58	18.0	31%
PLACE AND ENTERPRISE	310	-56	22	276	159.7	58%

	Original Plan Days	September Revision	November Revision	Revised Plan Days	31st October 2019 Actual	% Revised Plan Achieved
CHILDREN'S SERVICES						
Safeguarding						
Children's Placement Services & Joint Adoption	69	-10	-6	53	12.3	23%
Safeguarding	16	0	0	16	5.9	37%
	85	-10	-6	69	18.2	26%
Learning and Skills						
Education Improvements	54	-37	0	17	4.1	24%
Primary/Special Schools	87	3	12	102	36.8	36%
Secondary Schools	26	6	1	33	32.8	99%
	167	-28	13	152	73.7	48%
CHILDREN'S SERVICES	252	-38	7	221	91.9	42%
Total Shropshire Council Planned Work	1,240	-33	22	1,229	625.6	51%
CONTINGENCIES						
Advisory Contingency	60	0	0	60	17.6	29%
Fraud Contingency	200	0	0	200	155.5	78%
Unplanned Audit Contingency	100	-95	0	5	0.0	0%
Other non audit Chargeable Work	534	15	-30	519	291.9	56%
CONTINGENCIES	894	-80	-30	784	465.0	59%
Total for Shropshire	2,134	-113	-8	2,013	1,090.6	54%
EXTERNAL CLIENTS	228	9	0	237	169.4	71%
Total Chargeable	2,362	-104	-8	2,250	1,260.0	56%

This page is intentionally left blank

Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2020
December 2019

Page 139

Contents

Section	Page
Introduction	03
Progress to date	04
Audit Deliverables	05
Sector Update	06

Introduction



Richard Percival

Engagement Lead

T 0121 232 5434
M 07584 591508
E richard.d.percival@uk.gt.com



Emily Mayne

Engagement Manager

T 0121 232 5309
M 07880 456112
E emily.j.mayne@uk.gt.com

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

The paper also includes:

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

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

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



Progress to date

Financial Statements Audit

We have begun our planning processes for the 2019/20 financial year audit.

Our detailed work and audit visits will begin later in the year and we have discussed initial timings with management. In the meantime we will:

- continue to hold regular discussions with management to inform our risk assessment for the 2019/20 financial statements and value for money audits;
- review minutes and papers from key meetings; and
- continue to review relevant sector updates to ensure that we capture any emerging issues and consider these as part of audit plans.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

We have discussed and agreed an additional fee with Management relating to the 2018/19 additional work in relation to McCloud, Property, Plant and Equipment and Pensions IAS 19 assurance and the JPUT accounting treatment. We have submitted a request for an additional £12,000 + VAT to PSAA and are awaiting confirmations from them prior to billing the Council.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We are currently reviewing the impact of these changes on both the cost and timing of audits. We will discuss this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, before communicating fully with the Audit Committee.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Value for Money

The scope of our work to inform the 2019/20 VfM Conclusion requires conclusions on whether:

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

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

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

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

We will consider the Council's business and identify the key risks which would impact on the Council delivering value for money. These will be communicated in the Audit Plan in March 2020.

Drawing on our conclusions from 2018/19, we anticipate that financial resilience will continue to present a key challenge for the Council in 2019/20 and beyond. We will also consider the delivery of statutory services such as Adult and Children's Social Care which are experiencing further increases in financial pressures.

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 30 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 by the statutory deadlines.

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. Your officers will be invited to attend our Financial Reporting Workshop in February, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2019	Delayed due to the sign off date for some grant claims being extended by the Department. This will be reported to your next Audit Committee.
2019/20 Deliverables	Planned Date	Status
Fee Letter Confirming audit fee for 2019/20.	April 2019	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 2019/20 financial statements.	February 2020	In progress
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 2020	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the July Audit Committee.	July 2020	Not yet due
Auditors Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	July 2020	Not yet due
Annual Audit Letter This letter communicates the key issues arising from our work.	August 2020	Not yet due
Annual Certification Letter This letter reports any matters arising from our certification work carried out under the PSAA contract.	December 2020	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

CIPFA – CFO confidence survey

In July, the Chartered Institute of Public Finance and Accountancy (CIPFA) reported the results of their annual confidence survey.

The survey found that the majority of local government finance officers have lost confidence in their future financial positions over the last year.

Seventy per cent of respondents said they were either slightly less or much less confident in their financial position this year compared to 2018-19.

The survey also found that 68% said they were either slightly less or much less confident in their ability to deliver services in 2020-21. Sixty-two per cent expressed equal confidence in their financial position for 2019-20 as they had last year.

CIPFA found that the area of greatest pressure for top tier authorities was children's social care, with the number of authorities rating it as the biggest pressure rising by six percentage points.

For districts the greatest pressures were housing, cultural services and environmental services.

Rob Whiteman, CIPFA chief executive, said: "Local government is facing greater demand pressures than ever before, with particularly pressures in adults' and children's social care and housing. Local authorities also lack certainty about their future financial positions, so it's unsurprising to see confidence on the decline.

"We have repeatedly pointed out that local government is in need of a sustainable funding solution, but meeting this demand requires more than pennies and pounds. The sector as a whole must come together to address the challenges of effective service delivery."

CIPFA's survey received a total of 119 responses from authorities in the UK - 56 top tier authorities, 47 English districts, 12 Scottish authorities, and 4 Welsh authorities.



On the same theme, a Local Government Association (LGA) survey, also reported in July, found that almost two-thirds of councils believe cash for services like adult social care, child protection and preventing homelessness will dry up by 2024-25.

The survey got responses from 141 of the 339 LGA member councils in England and Wales.

It also found that 17% of councils were not confident of realising all of the savings they had identified this year (2019-20).

The LGA said that councils needed a guarantee they will have enough money to meet growing demand pressures in particular in adult social care, children's services, special educational needs, homelessness support and public health.



Financial confidence



Challenge question:

How confident over its' financial position is your Authority? Has this changed from previous years?

MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

A robust local audit system is absolutely pivotal to work on oversight, not just because it enforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

There are potentially far-reaching consequences when audits aren’t carried out properly and to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”

In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, is expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.



National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfill their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

Page 147 Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO is consulting on potential changes to the Code in two stages:

Stage 1 involves engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

This stage of the consultation is now closed. The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO state that they have considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this will inform the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)


Stage 2 of the consultation involves consulting on the draft text of the new Code. To support stage 2, the NAO has published a consultation document, which highlights the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. Rather than require auditors to focus on delivering an overall, binary, conclusion about whether or not proper arrangements were in place during the previous financial year, the draft Code requires auditors to issue a commentary on each of the criteria. This will allow auditors to tailor their commentaries to local circumstances. The Code proposes three specific criteria:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

The consultation document and a copy of the draft Code can be found on the NAO website. The consultation is open until 22 November 2019. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the Code consultation:

<https://www.nao.org.uk/code-audit-practice/code-of-audit-practice-consultation/>


Consultation response by the National Audit Office
Local audit in England Code of Audit Practice
Issues paper: Consultation response

Local Government Association – Profit with a purpose – delivering social value through commercial activity

The Local Government Association (LGA) report 'Profit with a purpose' focuses on some of the practicalities of how councils can deliver social value through their commercial activity.

Through 'key questions' to ask, the guidance supports councils to face the challenge of how to undertake commercial activity and achieve greater value for the public purse in ways that better meet society's needs and outcomes for people and communities.

In addition, the publication features a number of short case studies highlighting some of the innovative commercial practice already achieving results for communities.

The LGA comments that the best approaches ensure the generation of social value is the primary factor driving commercial activity; from the initial decision to develop a commercial vision to how the approach is developed, and implemented, councils which are pulling ahead ensure social value is placed centre stage.

The guidance starts with an overview of what the LGA understands by 'profit with a purpose', the guidance explores different types of social value and the role of councils in driving social value alongside their commercial ambition.

The guidance then looks at how consideration and delivery of social value should be practically considered when deciding on whether to embark on commercial activity, the need for social value to be prioritised alongside financial return and the key questions councils should consider when embarking on a commercial initiative.

Following on from this, there are specific chapters on; embedding social value in governance of alternative service delivery vehicles, the role of procurement in contracting services that deliver social value and finally how to contract and performance manage social value through your service providers.

Each chapter outlines the factors that need to be considered and the 'key questions' councils should be asking themselves.

In addition, a number of short case studies are provided to highlight some of the innovative commercial practice already achieving results for communities.

The report can be downloaded from the LGA website:

<https://www.local.gov.uk/profit-purpose-delivering-social-value-through-commercial-activity>



Profit with a purpose

Delivering social value through commercial activity

Profit with a purpose



Challenge question:

If your Authority is looking at commercial activity, have you considered the LGA report?

MHCLG – Brexit preparations

Councils should be fully prepared to leave the European Union by the end of January, the Communities and Local Government Secretary announced on 3 August as he ramped up preparations.

Mr Jenrick thanked councils for all the work they have already done, but said they must step up vital preparations and committed £20 million for councils across England to prepare for delivering Brexit on 31 October amended to 31 January 2020, whatever the circumstances.

He has asked each council to designate a Brexit lead to work with central government and oversee teams in every community who will work with stakeholders in their area to plan intensively for Brexit.

The new funding comes in recognition of the central role councils will play to make sure their residents are ready for Brexit, and is expected to support a range of activity including communications, training and the recruitment of staff.

The Secretary of State said:

“From Whitehall to town halls – everyone needs to be ready to fulfil our democratic mandate to leave the European Union by the end of October.

Local government has a vital role in helping to make Brexit a success and it is absolutely right that together we intensify preparations in every community.

And to do this successfully I have asked every council to appoint a Brexit lead to work with government. We’ll be providing £20 million for councils to support the major step up in preparations.

I want all of us – central and local government – to be fully prepared for leaving the EU on 31 October whatever the circumstances. I know that we can achieve this, by continuing to work side by side with renewed national focus and intensity.”

Brexit preparations

Challenge question:

Who is your Brexit lead and how is your authority supporting Brexit preparations?



Public Accounts Committee – Local Government Governance and Accountability

The Public Accounts Committee has found that the Government has not done enough to ensure that, at a time when local authority budgets are under extreme pressure, governance systems are improved.

The Ministry of Housing, Communities & Local Government (the Department) is responsible for: ensuring that this framework contains the right checks and balances, and changing the system if necessary. The Secretary of State also has powers to intervene in cases of perceived governance failure. The framework includes: officers with statutory powers and responsibilities; internal checks and balances such as audit committees and internal audit; and external checks and balances such as external audit and sector-led improvement overseen by the Local Government Association. These arrangements represent a significant reduction in the level of central oversight in recent years following the government's decision to abolish the Audit Commission and the Standards Board for England as part of a broader reform of local audit, inspection and reporting.

The Public Accounts Committee report summary notes "Local authorities have a good overall track record with governance arrangements generally robust across the sector, and there is evidence that local authority governance compares favourably to that of the health sector. However, this is not universal and in some authorities governance is under strain, as funding reduces and responsibilities and exposure to commercial pressures change. We are worried to hear about audit committees that do not provide sufficient assurance, ineffective internal audit, weak arrangements for the management of risk in local authorities' commercial investments, and inadequate oversight and scrutiny. This is not acceptable in the more risky, complex and fast-moving environment in which local authorities now operate.

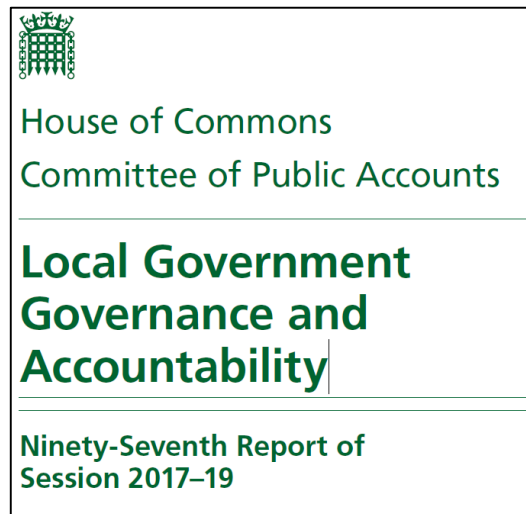
The Department has been reactive and ill-informed in its approach to oversight of the local governance system. However, the Department has now recognised that the network of bodies with responsibility for the local governance framework is fragmented and lacking the leadership needed to drive change. Encouragingly, the Department has now committed to enhancing its oversight role and producing a proactive work programme to deliver this change. We urge the Department to ensure that this activity leads to concrete actions and outcomes on a timely basis. When a local authority fails this has a significant impact on local people and the Department has a responsibility to work with local government to ensure that problems are caught early and that it can pinpoint at-risk councils. Since the abolition of the Audit Commission and other changes culminating in the Local Audit and Accountability Act 2014 there is no central assessment of value for the money, which means the Department's work is fundamental."

The report makes five conclusions, with associated recommendations:

- 1) The Department is not yet providing effective leadership of the local governance system.
- 2) The Department does not know why some local authorities are raising concerns that external audit is not meeting their needs.
- 3) The Department lacks reliable information on key governance risks, or relies on weak sources of information, meaning it has no way of pinpointing the at-risk councils.
- 4) The Department's monitoring is not focused on long-term risks to council finances and therefore to services.
- 5) There is a complete lack of transparency over both the Department's informal interventions in local authorities with financial or governance problems and the results of its formal interventions.

The Government response is available on the website below:

<https://www.parliament.uk/documents/commons-committees/public-accounts/Gov-response-to-Public-Accounts-on-the-93-98-reports.pdf>



This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 5 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank