

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

Date: Wednesday, 9 September  
2020

My Ref:

Your Ref:

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

**Date:** Thursday, 17 September 2020

**Time:** 1.30 pm

**Venue:** THIS IS A VIRTUAL MEETING - PLEASE USE THE LINK ON THE  
AGENDA TO LISTEN TO THE MEETING

Members of the public will be able to listen to this meeting by clicking on this link:

[Link to Audit Committee meeting - 17 September 2020 1.30pm](#)

Please note that this meeting will be made available through Microsoft Teams Live Events - your device will need to meet the minimum specification as detailed on the Microsoft website at this link: [Device Specification](#)

- You will need to download MS Teams (free) and click on the link to listen to the meeting if you are using a PC
- If using a mobile device, you will need to download the MS Teams app (free) before clicking the link
- Use the link at 1.30 pm on the day of the meeting and click on 'Join as Guest'
- You may receive an error message or a request for login details if you try to gain access before 1.30 pm

You are requested to attend the above meeting.  
The Agenda is attached

Claire Porter  
Director of Legal and Democratic Services (Monitoring Officer)

**Members of Audit Committee**

Peter Adams (Chairman)

Ioan Jones

Chris Mellings

Brian Williams (Vice Chairman)

Michael Wood

Your Committee Officer is:

**Michelle Dulson** Committee Officer

Tel: 01743 257719

Email:

[michelle.dulson@shropshire.gov.uk](mailto:michelle.dulson@shropshire.gov.uk)

# AGENDA

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

## **2 Disclosable Pecuniary Interests**

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

## **3 Minutes of the previous meeting held on the 31 July 2020 (Pages 1 - 8)**

The Minutes of the meeting held on the 31 July 2020 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 15 September 2020.

## **5 Member Questions**

To receive any questions of which Members of the Council have given notice. The deadline for notification for this meeting is 1.30pm on Tuesday 15 September 2020.

## **6 Second line assurance: Risk Annual Report 2019/20 incorporating Strategic Risks Update (Pages 9 - 16)**

The report of the Risk and Insurance Manager is attached.

Contact: Angela Beechey 01743 252073

## **7 Second line assurance: Annual Treasury Report 2019/20 (Pages 17 - 30)**

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

Contact: James Walton 01743 258915

## **8 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2020/21 (Pages 31 - 52)**

The report of the Head of Audit is attached.

Contact: Ceri Pilawski 01743 257739

## **9 Third line of assurance: External Audit: Audit progress report and sector update**

A verbal update will be given.

Contact: Richard Percival (0121) 232 5434

**10 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on the 29 October 2020 at 1.30 pm.

**11 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.

**12 Exempt Minutes (Pages 53 - 54)**

The Exempt Minutes of the meeting held on the 31 July 2020 are attached for confirmation.  
Contact Michelle Dulson (01743) 257719.

**13 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 55 - 60)**

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

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<u>Committee and Date</u>
Audit Committee
17 September 2020

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 31 JULY 2020 1.30 - 4.30 PM**

**Responsible Officer:** Tim Ward  
Email: [tim.ward@shropshire.gov.uk](mailto:tim.ward@shropshire.gov.uk) Tel: 01743 257713

### **Present**

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

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

85.1 There were no apologies for absence

### **86 Disclosable Pecuniary Interests**

86.1 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.

### **87 Minutes of the previous meeting held on the 25 February 2020**

#### **87.1 RESOLVED:**

That the minutes of the meeting of the Audit Committee held on 25 February 2020 be approved and signed by the Chairman as a correct record.

### **88 Public Questions**

88.1 No public questions had been received.

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

89.1 The Committee received the report of the Director of Workforce and Transformation (copy attached to the signed minutes) which gave an update on work on the Digital Transformation Project.

89.2 The Director of Workforce and Transformation advised the Committee that each of the workstreams had delivered significant benefits, not least the investment in systems that had enabled most staff to work remotely immediately following the government announcement advising that workers should work from home where possible.

- 89.3 In response to a query regarding time abuse the Director of Workforce and Transformation advised that there was the ability to monitor the use of the network, and that work was being done with Managers to ensure that they were able to support staff. The Director of Workforce and Transformation reminded Members that flexible working enabled staff to have a working pattern that suited other commitments.
- 89.4 In response to a query the Director of Workforce and Transformation advised that following the staff survey, further work was being carried out to understand the reasons why some staff were not happy to work from home.
- 89.5 A Member commented that it would be useful to have a table which set out the costs, savings and efficiencies of each of the programmes. The Director of Workforce and Transformation agreed to provide this.
- 89.6 In response to a query the Director of Workforce and Transformation confirmed that there had been a £3 million underspend on the original project budget.
- 89.7 **RESOLVED:**
- That the content of the report be noted.
- 90 **Second line assurance: Annual whistleblowing report**
- 90.1 Members received the report of the Director of Workforce and Transformation (copy attached to the signed minutes) which presented that Annual Whistleblowing report for 2019/20 which showed that there had been 20 cases reported under the Whistleblowing arrangements, a 39% decrease on the previous year.
- 90.2 The Chairman advised that Councillor David Vasmer had submitted a question and invited Councillor Vasmer to put his question.
- 90.3 Councillor Vasmer asked when the Whistleblowing Policy was last reviewed, as he felt that the current policy did not protect whistle-blowers and that this was preventing people coming forward to raise concerns. The Head of Audit advised the meeting that the Policy had last been updated in December 2019 to reflect best practice. She added that all concerns raised by whistle-blowers were taken seriously and considered in full and that she felt the whistle-blowers were fully protected by the policy and that this was not a bar to people raising concerns and that she felt for this reason the policy did not need updating. She suggested that Members of the Committee may wish to meet with Councillor Vasmer and herself outside the meeting to discuss his concerns further and consider whether anything needed to be reported to the Committee.
- 90.4 Members agreed that this was a suitable course of action and agreed that the Chairman, Councillor Vasmer and the Head of Audit meet to discuss the points raised by Councillor Vasmer.
- 90.5 **RESOLVED:**
- a) That the Committee note the contents of the report

- b) That the Chair and the Head of Audit meet with Councillor Vasmer to discuss his concerns further and to assess whether a further report to the Committee was required.

**91 Third line assurance: Internal Audit Annual report 2019/20**

- 91.1 Members received the report of the Head of Audit, (copy attached to the signed minutes) which provided them with details of work undertaken by Internal Audit to the year ended 31 March 2020. The Head of Audit advised that the revised Audit Plan was delivered above the 90% delivery target and that there had been a 3% decrease in the higher levels of assurance compared to the previous year and an equivalent increase in limited and unsatisfactory opinions.
- 91.2 Members were asked to note the Limited Assurance opinion on the Council's framework for governance, risk management and internal controls. They were concerned that the response to the Coronavirus pandemic had led to scope limitations which restricted the independent assurances provided on the key systems that have undergone fundamental changes during the year. The Head of Audit in response to COVID would be bringing back a refresh of the Audit Plan to the September meeting and will re-visit unsatisfactory rated areas.
- 91.3 A Member commented on the overall trend within schools. The Head of Audit stated that schools were audited as there was need to give assurance to the S151 Officer for school grants, and that where trends are seen over a number of schools, Internal Audit would speak to the relevant director to discuss what additional advice and support could be given.
- 91.4 In response to a query the Head of Audit confirmed that external client work was a paid for services, charges being made on a cost recovery basis.
- 91.5 In response to a query the Head of Audit confirmed that all matters with an unsatisfactory rating were followed up and if there is no improvement in direction of travel the matter was reported back to committee.
- 91.6 **RESOLVED:**  
That the Committee note
  - a) Performance against the Audit Plan for the year ended 31 March 2020.
  - b) That Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, considering public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2019/20.
  - c) The Head of Audit's limited assurance, year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2019/20 based on the work undertaken and management responses received.

**92 Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2019/20**

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

92.2 The Director of Finance, Governance and Assurance (Section 151 Officer) confirmed that the self-assessment carried out had confirmed that the Council continued to operate an effective internal Audit function and that there were no areas where the code was not complied with, although there were a few areas of partial compliance which were not considered significant.

**92.3 RESOLVED:**

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

**93 Second line assurance: Financial outturn report 2019/20**

93.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which provided details of the revenue and capital outturn position for Shropshire Council for the 2019/20 financial year.

93.2 The Director of Finance, Governance and Assurance (Section 151 Officer) advised the meeting that the report had been approved at cabinet and was brought to the Audit Committee for them to ensure that there was compliance with financial management standards.

93.3 A Member commented that there were 6.5 million of undeliverable savings shown in the report, some of which had been covered by one off savings, and asked how robust were the processes for identification of savings and then deliverability of the savings identified. The Director of Finance, Governance and Assurance (Section 151 Officer) stated that the key issue was around the process of identification and consideration of savings proposals, how deliverable was the saving and the timing of the delivery of the saving. He went on to say that there was need to continue to work on the process, and a need to ensure that the time and resources were in place to be able to deliver identified savings.

93.4 In response to a question around the bad debt provision contained in the report the Director of Finance, Governance and Assurance (Section 151 Officer) stated that the figure resulted from a calculation to identify what the situation is across the Council and that this will always vary from year to year. He agreed to circulate further information around the reasons for the variation to the Committee.

93.5 **RESOLVED:**

That the Committee note the content of the report.

94 **Second line assurance: Approval of the Council's Statement of Accounts 2019/20**

94.1 Members received the report of the Director of Finance, Governance and Assurance (S151 Officer) which set out the draft statement of accounts for the financial year 2019/20.

94.2 The Director of Finance, Governance and Assurance (S151 Officer) advised the Committee that the timescales for the production of the Annual statement had been amended due to the coronavirus pandemic and that it was hoped that the final accounts would be taken to the next Full Council meeting at the end of September but if that was not possible there was a delegation to allow the Audit Committee to sign off the accounts and a special meeting may be needed to do this.

94.3 In response to a question regarding the materiality threshold the Director of Finance, Governance and Assurance (S151 Officer) confirmed that a key variance was one that was more than £8 Million or more than 10% variance, whichever is the lower.

94.4 In response to a question regarding the valuation of assets, the Strategic Management Accountant confirmed that some valuations had been done in house and some by an external valuer who had done a desk top valuation exercise based on the best information to hand.

94.5 In response to a question regarding the increase in short term debtors the Head of Finance Management and Reporting advised that the introduction of the new finance system had slowed down debt recovery actions but that officers were catching up with the backlog.

94.6 The Chair thanked Officers for all their hard work in the production of the accounts.

94.7 **RESOLVED:**

That Members note the report

95 **Overall assurance: Annual Governance Statement and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance 2019/20**

95.1 The meeting received the report of the Director of Finance, Governance and Assurance (S151 Officer) which set out the Annual Governance Statement and provided a review of the effectiveness of the Councils internal controls and the Councils Code of Corporate governance for the financial year 2019/20.

95.2 The Director of Finance, Governance and Assurance (S151 Officer) reminded Members that there was a requirement to produce an Annual Governance Statement alongside the statement of accounts that ensured all of the key governance issues were considered, and that there was also a requirement to look

at key governance issues going forward and to produce an action plan to address these issues.

95.3 With regard to a query regarding when work to complete directorate objectives for each Director as identified in activity 4.2 in appendix C to the report would be completed. The Director of Finance, Governance and Assurance (S151 Officer) advised that with the departure of the Chief Executive and the onset of the Pandemic this work had been delayed but he would take the matter up with the Interim Chief Executives and report back to Members

95.4 A Member queried why Business World had flagged as a potential risk in terms of transparency, but that there was no reference to this in the Internal audit report. The Head of Audit informed the meeting that Business World was subject to separate audit during the time that it was set up but all parts now picked up within other audits and overtime improvements should become embedded.

95.5 **RESOLVED:**

A. That the Annual Governance Statement 2019/20 be approved.

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

96 **Third line assurance: Annual Assurance report of Audit Committee to Council 2019/20**

96.1 Members received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) (copy attached to the signed minutes) which set out the Audit Committee's Annual Assurance Report to Council for 2019/20.

96.2 A Member expressed concern that the Annual Statement of Assurance did not adequately reflect the limited assurance made in the Internal Audit report. It was agreed that the final paragraph should be amended to reflect this, and that the Head of Audit should liaise with Committee members to agree the amendments to the report prior to it being considered at Full Council.

96.3 **RESOLVED:**

That subject to the amendments agreed, the Draft Annual Assurance Report for 2019/20 be approved and that Council be recommended to accept the contents of the report.

97 **Third line assurance: External Audit: Audit fee letter**

97.1 The meeting received the report of the Director of Finance, Governance and Assurance (S151 Officer) (copy attached to the signed minutes) which set out the audit fee for the forthcoming year.

97.2 The Director of Finance, Governance and Assurance (S151 Officer) reminded Members that the PSAA set out the scale fee, which was unchanged, but that there may be additional costs relating to additional work.

**97.3 RESOLVED:**

That the contents of the report be noted.

**98 Third line assurance: External Audit: Audit Plan update**

98.1 The meeting received the report of the External Auditor which gave an update on the audit plan for Shropshire Council.

98.2 The Audit Manager drew Members attention to the risks identified around the Covid 19 pandemic and to the update on risks around value for money.

**98.3 RESOLVED:**

That the content of the report be noted

**99 Third line assurance: External Audit: Informing the risk assessment**

99.1 The meeting received the report of External Audit which updated the Committee on areas discussed with the Council as part of the audit process.

**99.2 RESOLVED:**

That the contents of the report be noted

**100 Third line of assurance: External Audit: Audit progress report and sector update**

100.1 Members received the report of the External Auditor (copy attached to the signed minutes) which updated the Committee on progress in delivering the external audit and a summary of emerging national issues.

100.2 The Engagement Lead drew Members attention to concerns around the impact of remote working and the ability to be able to deliver the audit opinion in time for the September Council meeting and suggested that a contingency plan should be put in place to allow for this. The Director of Finance, Governance and Assurance (S151 Officer) stated that there would be need for a meeting of the Audit Committee in late October. He reminded Members that there would be a delegation in place to the Committee to enable them to sign off the accounts.

**100.3 RESOLVED:**

That the contents of the report be noted.

**101 Third line assurance: External Audit: Pension fund audit plan 2019/20**

101.1 Members received the report of External Audit (copy attached to the signed minutes) which provided them with an overview of the planned scope and timing of the audit of the Shropshire Pension Fund.

101.2 The Engagement Lead reminded Members that this report had been considered by the Pensions Committee and drew Members attention to the significant risks

identified in the report. He advised that good progress was being made on completing the Pension Fund Audit.

**101.3 RESOLVED:**

That the contents of the report be noted.

**102 Date and Time of Next Meeting**

102.1 Members noted that the next meeting of the Audit Committee would be held on the 17<sup>th</sup> September 2020 at 1:30pm.

**103 Exclusion of Press and Public**

**103.1 RESOLVED:**

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.

**104 Exempt Minutes**

**104.1 RESOLVED:**

That the exempt minutes of the meeting of the Audit Committee held on 25 February 2020 be approved and signed by the Chairman as a correct record.

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

105.1 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.

**105.2 RESOLVED**

That the contents of the report be noted.

Signed ..... (Chairman)

Date: .....



<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 17 <sup>th</sup> September 2020		

## RISK MANAGEMENT ANNUAL REPORT 2019/2020

**Responsible Officer** Angela Beechey

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

Tel: (01743)  
252073

Fax: (01743)  
252858

### 1. Summary

1.1 This report sets out the challenges and achievements accomplished by the Risk, Insurance & Resilience Team during 2019/2020 (and up to the preparation of this report). The team includes both business continuity management and the civil contingencies responsibilities of emergency planning and as a result of this we have experienced an unprecedented workload due to significant weather events and Coronavirus.

1.2 The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas and this is recognised by the reputation held by Shropshire Council within the Risk and Insurance market.

### 2. Recommendations

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

## REPORT

### 3. Risk Management and Opportunities Appraisal

3.1 The management of risk is a key process which underpins the successful achievement of our priorities and outcomes. It forms part of the Annual Governance Statement and the Risk, Insurance & Resilience Team ensures that processes and protocols are established and embedded which support effective decision making.

3.2 Insurance is an effective method of risk transfer and a balance of self-insurance and third-party insurance is used based on our risk appetite.

### 4. Financial Implications

4.1 Failure to effectively and strategically manage the risks associated with developing a sustainable budget will potentially leave the Council exposed to external challenge and financial ramifications.

4.2 Through the purchase of insurance policies, the large financial risks are transferred.

### 5. Background

5.1 This year saw the Audit Team undertake a risk management audit and we are pleased to confirm that the final report again identified the assurance level as "Good".

5.2 The Opportunity Risk Management Strategy, which supports our rapidly changing environment, is reviewed on an annual basis and has now been fully embedded by the Risk, Insurance & Resilience Team throughout the council. The council needs to ensure that it is taking advantage of every opportunity possible and the strategy is therefore outcome based and focuses on the achievement of our key priorities, objectives and benefits realisation.

## 6. Additional Information – Risk Management

### 6.1 Strategic Risk Management

6.1.1 Throughout 2019/2020 our strategic risks were reviewed on a quarterly basis ensuring that the level of risk exposure was monitored closely in our rapidly challenging and changing environment.

6.1.2 This was achieved through scheduled meetings with key officers, Directors and Acting Interim Chief Executives. The outcome of each review was then reported to Directors and Informal Cabinet.

6.1.3 The Risk Profile & Action Plans for managing our strategic risks are completed and fully embedded. These detail the direction of travel for each strategic risk over the year and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged.

6.1.4 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year. Following the year end a detailed review is undertaken with Directors collectively to assess any slippage and to ensure that our current strategic risks are still relevant, defined appropriately and accurately assessed and scored. Due to the Covid 19 response, this detailed review has been postponed to later this year.

6.1.5 Reviews are also undertaken with all additional control owners to ensure that the additional controls are appropriate to mitigate the associated strategic risk. This includes clearly defining the required additional controls and ensuring realistic timescales are applied for delivery of these.

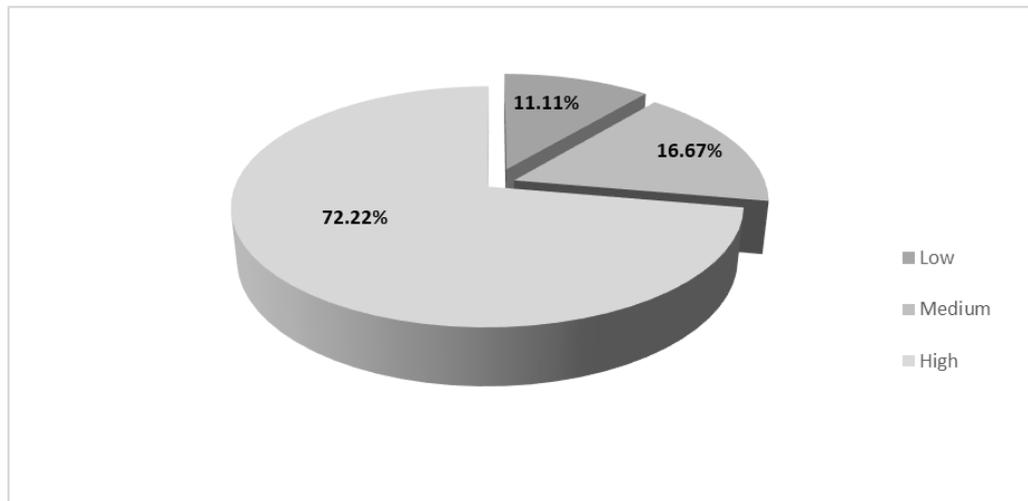
6.1.6 We have continued to use an assurance mapping process linked to our strategic risks which incorporates the three lines of defence:-

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

		• Peer Reviews
Third Line	Internal Audit	Provided by Internal Audit

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

6.1.8 The following diagrams demonstrate our overall strategic risk exposure as at June 2020 (the next review takes place during September 2020):



6.1.9 As at the June 2020 review, there were 18 strategic risks on the strategic risk register and these are each managed by specific Directors. These are detailed as follows:

Risk	Risk Owner	L	I	Status
Ability to fund Adult Services	Andy Begley	5	5	25
Ability to fund Children's Services	Karen Bradshaw	5	5	25
Staffing	Michele Leith	5	4	20
Commercial Strategy	Mark Barrow	4	5	20
Future Funding Levels	James Walton	4	5	20
Work Related Stress	Michele Leith	4	4	16
Reputation	Michele Leith	4	4	16
Effects of Climate change	Mark Barrow	4	4	16
Sustainable Budget	James Walton	4	4	16
Failure to Safeguard Vulnerable Children	Karen Bradshaw	4	4	16
Economic Impact of Brexit	Mark Barrow	4	4	16
Economic Growth Strategy	Mark Barrow	4	4	16
Impact of Covid-19	Andy Begley/ Karen Bradshaw	5	3	15
Digital Transformation Programme	Michele Leith	3	4	12
Strategic Vision and Strategy	Andy Begley/ Karen Bradshaw	2	4	8
Governance	James Walton	4	2	8
Failure to Safeguard Vulnerable Adults	Andy Begley	2	3	6
Deprivation of Liberty (DoL)	Andy Begley	2	3	6

<b>High Risks</b>
<b>Medium Risks</b>
<b>Low Risks</b>

6.1.10 The strategic risk profiles and action plans elaborate in greater detail the risk and the current controls and outstanding actions which are in place and are monitored as previously mentioned. Audit Committee can at any time elect to have a more detailed examination of any of the strategic risks and can invite the risk owner to a committee meeting to discuss their risk.

## 6.2 Operational Risk Management

6.2.1 Operational risks are reviewed on a bi-annual basis. All risks are embedded into a specific Risk Management SharePoint site which enables risks to be more pro-actively managed in a 'live' environment and enabling risk owners to update their risks whenever changes are required instead of waiting for the bi-annual review to take place. This provides a real time view of current operational risk exposure, one live version of the risk register and has removed the necessity for members of the team to collate returns.

6.2.2 Going forward this will enable PowerBI reports to be available at any time on current risk exposure across any operational area of the Council.

6.2.3 To support the implementation of any changes to operational risk management and the migration to the use of SharePoint, all operational risk owners have been trained in the use of SharePoint.

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

## 6.3 Project Risk Management

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

6.3.2 A risk register is developed at the commencement of projects. Risks are allocated to appropriate project board members for management and review. The direction of travel for projects is monitored to ensure that risks are well managed preventing delays to project plans or timescales.

6.3.3 All project risks are in the process of being migrated into the Risk Management SharePoint site which, like operational risks, will enable risks to be more pro-actively managed in a 'live' environment and enabling risk owners to update project risks in between project boards. This will also provide a real time view of project risk status.

6.3.4 Once implemented, PowerBI reports will be available at any time on current risk exposure across any project.

## 6.4 Opportunity Risk Management Strategy

6.4.1 During 2019/2020 we have continued to share our strategy with other councils and public sector bodies. Shropshire Council's Opportunity Risk Management Strategy is recognised by Alarm (the national association for risk managers), as best practice.

6.4.2 Angela Beechey and Jane Cooper continue to be involved in the activities of Alarm, both nationally and regionally, which puts the authority at the forefront

of Risk, Insurance & Resilience for developing best practice. Angela has previously been Chair of the Midlands Alarm Steering Committee and Jane has just taken over this role.

## 6.5 **Additional Information - Business Continuity Management**

6.5.1 With the many challenges faced and continuing during the year, Business Continuity Management arrangements are constantly reviewed to ensure that we have relevant skilled personnel to respond and that these people are trained appropriately.

6.5.2 We have enhanced our business continuity management arrangements further with the development of business continuity tactical plans for HR, Finance and Assets. Furthermore, additional tactical plans have been developed to respond to Coronavirus in the areas of Adult Social Care and Children's Services. These plans provide a corporate approach across these areas to manage significant business interruption events. All of these plans will be subject to review following the recovery from Coronavirus.

6.5.3 To respond to Coronavirus a Business Continuity group, chaired by Angela Beechey, was set up of senior managers and assistant directors to lead the response to the challenges faced. This group met twice weekly since March but has just reduced the frequency to once weekly. A report is provided to Directors following these meetings to update on relevant information and obtain a steer to ensure appropriate responses are taken. This group has also led on the 'Covid-safe' reinstatement of services that were ceased as a result of lockdown measures.

6.5.4 To support our business continuity management arrangements, regular testing to ensure the plans are robust is undertaken. However, this year has seen unprecedented major incident critical response as a result of two storms, significant flooding and Coronavirus. As a result of which (and as we are still in response mode for Coronavirus), no exercising has been undertaken or necessary. Exercising will be reinstated during 2021.

6.5.5 Under the Civil Contingencies Act we have a responsibility to raise awareness within the local business community of the need to have robust business continuity management arrangements in place to preserve their organisations/businesses. We were due to hold the team's inaugural 'Shropshire Resilience Conference' in May 2020. This was open to all local businesses and included speakers and exhibitors to support resilience and recovery arrangements for local business. Unfortunately, this had to be postponed to May 2021 due to Coronavirus.

## 6.6 **Additional Information – Emergency Planning**

6.6.1 2019/2020 has been and is continuing to be a challenging period; emergency response plans, both council and multi-agency, are being solidly tested. The Emergency Planning team is a small team and it has been a challenge to resource the response to these incidents as the team's responsibilities lie not only assisting the Council but also assisting the wider Local Resilience Forum (LRF) response.

6.6.2 Although the main focus is on the continuing response of Covid-19 impacts and the transition to a new normal, other key response plans have had to be

adjusted and updated to reflect the new operating measures and to ensure that the Council's response is as safe as possible for both staff and the public.

6.6.3 To support the response plans and in accordance with the requirements of the Civil Contingencies Act, the Council are required to exercise plans on a regular basis. This year we have not been able to schedule exercises within the council or with the wider LRF partnership due to the floods and Covid-19 responses. However, both incidents were and are of such impact that they have exercised our plans well and as a result of the learning, many plans are undergoing major revisions. These include the Council's Emergency Response Plan, Recovery Plan, the multi-agency Flood Plan and the joint Shropshire and Telford and Wrekin Excess Deaths Plan. A new plan, the Severe Weather Plan is being created as a result of the flooding this year.

#### 6.7 Audit Team Collaborative Working

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

#### 6.8 Risk Management & Business Continuity Training

6.8.1 We continue to provide risk management and business continuity training opportunities for all colleagues (and where requested, schools).

##### 6.8.2 Operational Risk Management Training

- Since the last report we have facilitated four operational risk management training sessions to provide refresher training to existing risk owners and introduce new risk owners to the process. This also enabled us to introduce any changes to the risk management process. In total 30 delegates attended these training sessions. The sessions enabled delegates to undertake their quarterly review with support from the Risk, Insurance & Resilience Team on hand to answer queries or provide advice.

##### 6.8.3 Risk & Insurance Training for Schools

- This training continues to be offered to all maintained schools on an annual basis. The last facilitated session 17 delegates attended representing 13 schools. These sessions will continue to be offered annually as they provide updated and relevant information in relation to changes in legislation and best practice and supports schools who have new staff.

##### 6.8.4 Loggist training

- Loggist training was developed as a result of actions in the post exercise reports and action plans produced following Business Continuity exercises. We have continued to provide loggist refresher training to ensure that they are well equipped to support future responses to real incidents or exercises.
- Loggists have been used throughout the year to support the Senior Management team in responding to incidents.

#### 6.9 External Work

6.9.1 We continue to work to develop commercial relationships with external colleagues and organisations. As a result of Coronavirus, the scheduled undertakings have been postponed.

6.9.2 Following the 'Shropshire Resilience Conference 2021' we anticipate there being an additional call upon the services the team can offer, and this will increase income generating opportunities.

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

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

Annual Governance Statement  
Risk Management Audit Report  
Opportunity Risk Management Strategy  
Business Continuity Management Policy  
Business Continuity Plan

**Cabinet Member**

David Minnery, Portfolio Holder Finance, Governance & Assurance

**Local Member**

N/A

**Appendices**

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<u>Committee and Date</u>	<u>Item</u>
Cabinet 07 September 2020	
Audit Committee 17 September 2020	
Council 24 September 2020	
	<u>Public</u>

## **ANNUAL TREASURY REPORT 2019/20**

**Responsible Officer** James Walton

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

Tel: (01743) 258915

### **1. Summary**

- 1.1. The report informs members of treasury activities for Shropshire Council for 2019/20, including the investment performance of the internal treasury team to 31 March 2020. The internal treasury team outperformed their investment benchmark by 0.42% in 2019/20 and performance for the last three years is 0.32% per annum above benchmark. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.
- 1.2. During 2019/20 the performance of the Treasury Team delivered an under spend of £3.75 million compared to budget as highlighted in paragraph 11.4 of this report. This was mainly due to Minimum Revenue Provision (MRP) savings following the Council's review of the policy and interest earned being higher and debt charges lower than budgeted.

### **2. Recommendations**

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

## **REPORT**

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

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

internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.

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

- 4.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2. The 2019/20 performance is above benchmark for the reasons outlined in paragraph 10.4 of this report and has delivered additional income of £3.75 million which has been reflected in the final Revenue Monitor report for 2019/20.

#### **5. Climate Change Appraisal**

- 5.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Treasury Team is working with the Council in order to achieve this. There are no climate change impacts arising from this report.

#### **6. Background**

- 6.1. The Council defines its treasury management activities as "the management of the authority's investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with those activities, and the pursuit of optimum performance consistent with those risks".
- 6.2. The Council is required through regulations issued under the Local Government Act 2003 to produce an annual treasury report reviewing treasury management activities and the actual prudential and treasury indicators for 2019/20. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management and the CIPFA Prudential Code for Capital Finance in Local Authorities.
- 6.3. Changes in the regulatory environment place a much greater onus on members for the review and scrutiny of treasury management policy and activities. Minimum reporting requirements are that the Council should receive the following reports:
- An annual treasury strategy in advance of the year.
  - A mid-year treasury update report.
  - An annual report following the year describing the activity compared to

the strategy.

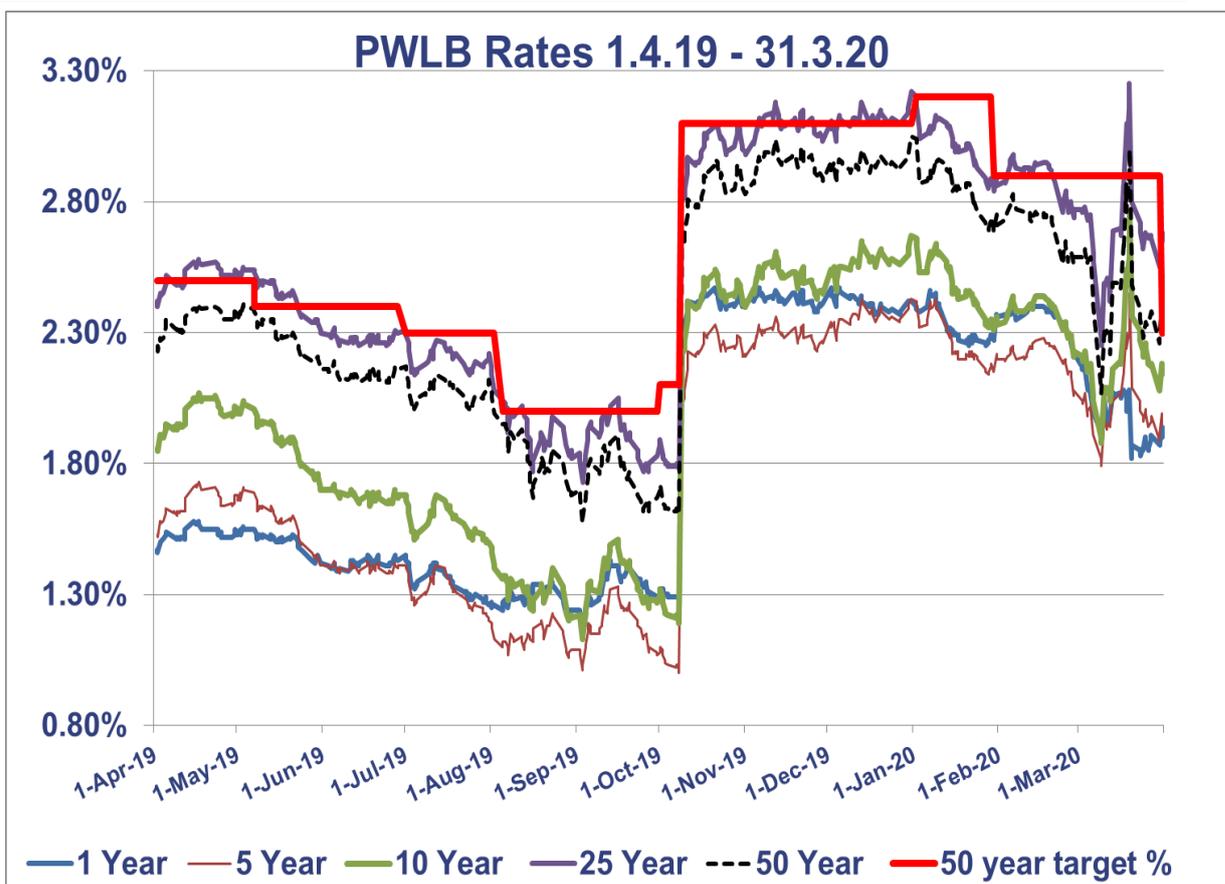
- 6.4. The CIPFA Code of Practice on Treasury Management states that these reports should be scrutinised by a nominated committee. These reports were scrutinised by the Audit Committee before they were reported to full Council for approval.
- 6.5. In addition to the minimum reporting requirements, the Director's and Cabinet also receive quarterly treasury management update reports for information.
- 6.6. The Treasury Strategy for 2019/20 was approved by Council in February 2019, the mid-year treasury update report was approved by Council in December 2019. This Annual Report sets out our actual treasury performance for the year and shows how the actual treasury performance varied from our estimates and planning assumptions.

## **7. Borrowing Strategy for 2019/20**

- 7.1. The Council's only borrowing requirement identified within the Capital Programme 2018/19 to 2020/21 was self-financing prudential borrowing of £8.197m therefore no external borrowing was required but based on the prospects for interest rates outlined in the Treasury Strategy, the Council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.
- 7.2. Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.
- 7.3. An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

## **8. Borrowing outturn for 2019/20**

- 8.1. The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2019/20 are shown in the graph below.



8.2. Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. In addition, in October 2019, the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. This made new borrowing more expensive and repayment relatively less attractive.

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

	1 Year	5 Year	10 Year	25 Year	50 Year
01/04/2019	1.46%	1.52%	1.84%	2.41%	2.24%
31/03/2020	1.90%	1.95%	2.14%	2.65%	2.39%
Low	1.17%	1.00%	1.13%	1.73%	1.57%
Date	03/09/2019	08/10/2019	03/09/2019	03/09/2019	03/09/2019
High	2.47%	2.45%	2.76%	3.25%	3.05%
Date	21/10/2019	19/03/2020	19/03/2020	19/03/2020	31/12/2019
Average	1.83%	1.77%	2.00%	2.56%	2.40%

8.4. Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2019/20.

8.5. The Council's total debt portfolio at 31 March 2020 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2019/2020
General Fund Fixed rate – PWLB	175.02	5.05%
HRA Fixed rate - PWLB	83.35	3.51%
Fixed rate – Market	49.20	4.10%
Variable rate	0	N/A

8.6. The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 20 years, market loans have an average debt period of 51 years. The total debt portfolio has a maturity range from 1 year to 59 years.

8.7. The Treasury Strategy allows up to 15% of the total outstanding debt to mature in any one year. It is prudent to have the Council's debt maturing over many years so as to minimise the risk of having to re-finance when interest rates may be high. The actual debt maturity profile is within these limits (Appendix A).

## 9. Debt rescheduling

9.1. No debt restructuring was undertaken during 2019/20. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

9.2. Although these changes have restricted debt restructuring, the current debt portfolio is continually monitored in conjunction with external advisers in the light of changing economic and market conditions to identify opportunities for debt rescheduling. Debt rescheduling will only be undertaken:

- To generate cash savings at minimum risk.
- To help fulfil the Treasury Strategy.
- To enhance the balance of the long term portfolio by amending the maturity profile and/or volatility of the portfolio.

## 10. Investment Strategy for 2019/20

10.1. Our treasury advisor originally felt when the strategy was approved by Council in February 2019 that the bank rate would remain at 0.75% during 2019/20 as it was not expected the MPC would be able to deliver on an increase in Bank Rate until the Brexit issue was finally settled. However, there was an expectation that Bank Rate would rise after that issue was settled but would only rise to 1.0% during 2020. Consequently, our treasury advisor's interest rate forecast was reviewed and their updated forecast was approved by Council in December 2019 as part of the mid-year report. Their revised forecast took account of the expectation that Bank Rate would stay

at 0.75% during 2019/20.

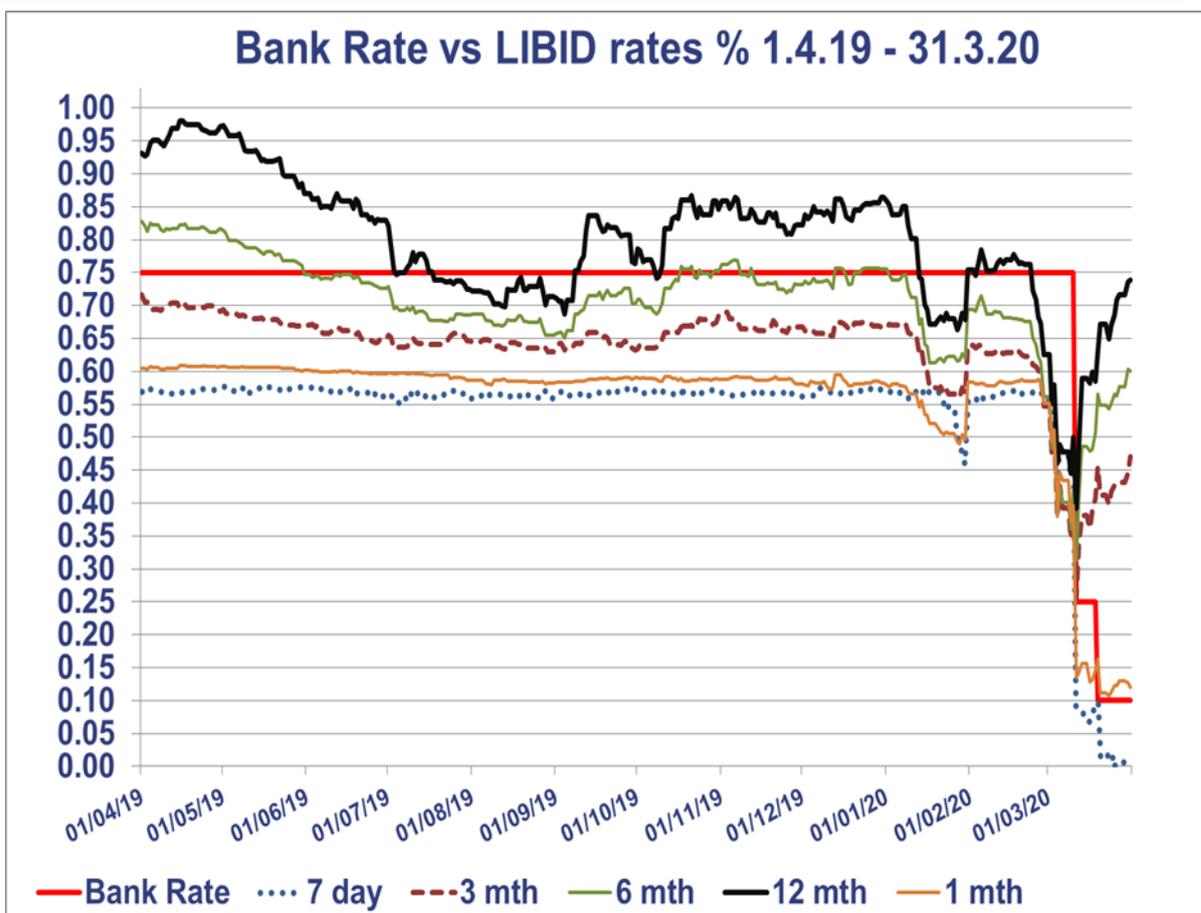
10.2. In 2019/20 investment of surplus cash was managed by the internal treasury team. The strategy for the in-house team was influenced by the need to keep funds relatively short for cash flow purposes. Lending continued to be restricted to UK banks, one overseas bank, three Building Societies, two Money Market Funds (AAA credit rating), Part Nationalised Banks, UK Government and other Local Authorities in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

## **11. Investment outturn 2019/20**

11.1 Rising concerns over the possibility that the UK could leave the EU at the end of October 2019 caused longer term investment rates to be on a falling trend for most of April to September. They then rose after the end of October deadline was rejected by the Commons but fell back again in January before recovering again after the 31 January departure of the UK from the EU. When the coronavirus outbreak hit the UK in February/March, rates initially plunged but then rose sharply back up again due to a shortage of liquidity in financial markets.

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

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



11.4 Throughout the year the average interest rate earned on investments was higher than budgeted. This resulted in the internal treasury team achieving a higher level of interest on revenue balances than budgeted. This surplus was in addition to an under-spend on debt charges due to no long-term general fund borrowing being undertaken in 2019/20. The total £3.75 million underspend was mainly due to MRP savings following a review of the Council's policy and interest earned being higher and debt charges lower than budgeted.

11.5 At 31 March 2020 the allocation of the cash portfolio was as follows:

	<b>£m</b>
• In-house short dated deposits for cash flow management	56.6
• In-house long dated deposits (up to 1 year)	48.0
• Other Local Authorities	52.5
<b>Total</b>	<b>157.1</b>

11.6 The following table shows the average return on cash investments for the internal treasury team during the year and for the last 3 years to 31 March 2020. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 7 day LIBID rate.

	<b>Return 2019/20</b>	<b>Return 3 years to 31 March 2020</b>
	<b>%</b>	<b>% p.a.</b>
Internal Treasury Team	0.96	0.74
Benchmark (7 Day LIBID rate)	0.54	0.42

11.7 The conclusions to be drawn from the table are:

- During 2019/20 the internal treasury team outperformed their benchmark by 0.42%.
- Over the 3 year period the internal team's performance has been 0.32% per annum above the benchmark.

## 12. Compliance with Treasury Limits and Prudential Indicators

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

12.2 Appendix B shows the Prudential Indicators approved by Council as part of the 2019/20 and 2020/21 (revised estimate) Treasury Strategies compared with the actual figures for 2019/20. In summary, during 2019/20 treasury activities have been within the prudential and treasury limits set in the Treasury Strategy.

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

Council, February 2019, Treasury Strategy 2019/20.

Council, December 2019, Treasury Strategy 2019/20 Mid-Year Review.

Council, February 2020, Treasury Strategy 2020/21.

Cabinet, September 2019, Treasury Management Update Quarter 1 2019/20.

Cabinet, December 2019, Treasury Management Update Quarter 2 2019/20.

Cabinet, February 2020, Treasury Management Update Quarter 3 2019/20.

Cabinet, July 2020, Treasury Management Update Quarter 4 2019/20.

#### Cabinet Member:

David Minnery, Portfolio Holder for Finance

#### Local Member

N/A

#### Appendices

A. Debt Maturity Profile as at 31 March 2020

B. Prudential Indicators 2019/20



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## APPENDIX B

### SHROPSHIRE COUNCIL PRUDENTIAL INDICATORS 2019/20

- C1. The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.
- C2. The ratio of financing costs compared to the net revenue stream of the Council was lower than expected in 2019/20 due to net revenue stream being higher than estimated.

Prudential Indicator	2019/20 Revised Estimate	2019/20 Actual
	%	%
<b>Non HRA Ratio of financing costs to net revenue stream</b>	9.3	6.9

Prudential Indicator	2019/20 Revised Estimate	2019/20 Actual
	%	%
<b>Non HRA Ratio of financing costs (net of investment income) to net revenue stream</b>	8.6	6.2
<b>HRA Ratio of financing costs to HRA net revenue stream</b>	38.8	36.8

- C3. It can be seen from the tables that the authority was well within the approved authorised limit and the operational boundary for external debt for 2019/20.

Prudential Indicator	2019/20 Estimate	2019/20 Actual
<b>External Debt</b>	<b>£m</b>	<b>£ m</b>
<b>Authorised Limit:</b>		
Borrowing	446	308
Other long-term liabilities	101	102
<b>Total</b>	<b>547</b>	<b>409</b>

Prudential Indicator	2019/20 Estimate	2019/20 Actual
<b>External Debt</b>	<b>£ m</b>	<b>£ m</b>
<b>Operational Boundary:</b>		
Borrowing	404	308
Other long-term liabilities	101	102
<b>Total</b>	<b>505</b>	<b>410</b>

C4. Gross borrowing was as anticipated due to no general fund borrowing being undertaken in 2019/20. A key indicator of prudence is that net borrowing should not exceed the capital financing requirement. It can be seen from the following figures that the Council continues to meet this prudential indicator.

Prudential Indicator	2019/20 Estimate	2019/20 Actual
<b>Net Borrowing &amp; Capital Financing Requirement:</b>	<b>£ m</b>	<b>£ m</b>
Gross Borrowing (inc. HRA)	312	308
Investments	100	157
<b>Net Borrowing</b>	<b>212</b>	<b>151</b>
Non HRA Capital Financing Requirement	289	275
HRA Capital Financing Requirement	85	85
<b>Total CFR</b>	<b>374</b>	<b>360</b>

C5. Non HRA was higher and HRA capital expenditure was lower than anticipated during the year. Explanations for these under/overspends were included in the 2019/20 final capital outturn report.

Prudential Indicator	2019/20 Revised Estimate	2019/20 Actual
	<b>£ m</b>	<b>£ m</b>
<b>Non HRA Capital expenditure</b>	56.7	61.4
<b>HRA Capital expenditure</b>	7.6	6.0

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

Prudential Indicator	2019/20 Estimate	2019/20 Actual
<b>Upper Limit for Fixed/Variable Rate Borrowing</b>	<b>£ m</b>	<b>£ m</b>
Fixed Rate (GF)	350	308
Fixed Rate (HRA)	96	85
Variable Rate	223	0

C7. The level of fixed rate and variable rate investments were within the approved limits during 2019/20.

Prudential Indicator	2019/20 Estimate	2019/20 Actual
<b>Upper Limit For Fixed/Variable Rate</b>	<b>£ m</b>	<b>£ m</b>

<b>Investments</b>		
Fixed Rate	220	104
Variable Rate	220	53

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

<b>Prudential Indicator</b>	<b>2019/20 Estimate</b>	<b>2019/20 Actual</b>
<b>Upper Limit for Sums Invested over 364 days</b>	<b>£m</b>	<b>£m</b>
Internal Team	50	0
External Manager	30	0
Shrewsbury Shopping Centres	60	20

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

<b>Prudential Indicator</b>	<b>2019/20 Upper Limit</b>	<b>2019/20 Actual</b>
<b>Maturity Structure of External Borrowing</b>	<b>%</b>	<b>%</b>
Under 12 months	15	1
12 months to 2 years	15	4
2 years to 5 years	45	2
5 years to 10 years	75	3
10 years to 20 years	100	37
20 years to 30 years	100	24
30 years top 40 years	100	13
40 years to 50 years	100	7
50 years and above	100	9

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
17 <sup>th</sup> September 2020	
1:30pm	<u>Public</u>

## INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2020/21

**Responsible Officer** Ceri Pilawski  
e-mail: [ceri.pilawski@shropshire.gov.uk](mailto:ceri.pilawski@shropshire.gov.uk)

Telephone: 01743 257739

### 1 Summary

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

Three good, four reasonable, five limited and five unsatisfactory assurance opinions have been issued. The 17 final reports contained 313 recommendations, four of which were fundamental.

This report proposes significant revisions in the coverage of planned activity for Shropshire Council with a reduction of 643 days and a slight reduction of resources overall from 2,237 days, as reported in February 2020, to 2,157 days. Changes to the planned activity reflect adjustments in both risks and a reduction in available resources for pure audit work given the impact of COVID on both the service and the client; the changes have been discussed with, and agreed by, the Section 151 Officer.

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

### 2 Recommendations

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

- a) The performance to date against the 2020/21 Audit Plan
- b) Identify any action(s) it wishes to take in response to any low assurance levels and fundamental recommendations brought to Members' attention.
- c) The adjustments required to the 2020/21 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 audit 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 Climate Change Appraisal

- 5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. Therefore, no effect.

### 6 Background

- 6.1 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.

- 6.2 The 2020/21 Internal Audit Plan was presented to, and approved by, members at the 25th February 2020 Audit Committee, with the caveat that further adjustments may be necessary. This report provides an update on progress made against the plan up to 9<sup>th</sup> August 2020 and includes revisions to the plan.
- 6.3 In March 2020, the Council went into lockdown in accordance with Government requirements to the COVID pandemic. The Head of Internal Audit informed the Chair of Audit Committee by email that business recovery plans had been instigated and in practice, there were some audits that could not be delivered because services needed to focus on recovery following the floods and then the virus. This was being done with increasingly limited resources and as a result, the same officers were not available to respond to audits. The Head of Audit reported on the impact of this in her year end opinion on the work of 2019/20. This report looks at the impact on delivery of 2020/21 planned work. Disruption has continued for the same reasons and Auditors have responded initially to emerging control risks and their management, providing a valuable resource for Finance and the wider corporate services, maximising the benefits of the team's skills. The Head of Audit will report on this, where it impairs on independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing and periodically review and approve safeguards to limit such impairments where possible with the current situation.
- 6.4 Lockdown resulted in the entire Audit function working remotely from their homes unable to access Shropshire Council or other client's premises and manual records, this situation continues. The Service was well set up to do this with flexible and agile working already the norm and a fully electronic management system supported through a cloud service. The Audit Service communicated with external clients and agreed to complete their audit reviews in the third and fourth quarters of the year, giving clients time to respond to the pandemic and to establish processes to do this safely going forward. It is expected that the service in the main with external clients will be capable of being delivered remotely. The impact on Shropshire Council work is explored in more detail below.

## **7 Performance against the plan 2020/21**

- 7.1 Revisions to the 2020/21 plan provide for a total of 2,157 days following a reduction in resources due to COVID19 whilst also reflecting adjustments in risks. Performance to date is in line with previous delivery records at 36% (35% 2019/20), overall the team is on track to deliver a minimum of 90% of the revised annual plan by the year end.
- 7.2 The beginning of the year saw an Auditor resign and the opportunity for a Finance Trainee to start with the team, this has been delayed until 2021 due to COVID. The pandemic has seen resources across the Council mobilised to respond to the situation and this impacted on the original planned audit work. In addition, team members were identified as having appropriate skills and seconded to support business continuity arrangements; provide grant and personal protective equipment (PPE) coordination and allocations; back fill key service areas, insurance claims and financial activities.
- 7.3 To reflect the secondment of staff and the changed risk environment the following adjustments to the original plan have been made:

- a) An allocation has been built in for continued support to COVID responses in the areas of business continuity, PPE and responding to Government initiatives, c640 days including the secondment in (c) below.
- b) All external contracts are prioritised for completion. Additional days have been allocated to an external client that requested the service for an additional year and voluntary bodies, 70 days. These provide a level of income.
- c) Secondment of an Auditor to Finance to enable them to sign off their professional portfolio.
- d) Inclusion of areas that may require auditing as a response to new measures under COVID have been built in, i.e. grant work<sup>1</sup>, budget management, digital mailroom.
- e) Fraud and advisory contingencies reduced to reflect activity to date, offset by counter fraud activity in specific areas, c100 days.
- f) Themed audits proposed for schools to help seek a level of assurance across several finance areas without impacting further on school resources.
- g) Data analytics have been applied to key financial systems to help with data cleansing and quality; provide a level of assurance on information held and provide data to support findings on an expanded sample base.
- h) Where audits and fundamental recommendations are due for follow up and managers are fully aware that time, resources and the impact of COVID has led to minimal improvements, audit scopes have been discussed, tailored and where appropriate delayed for a year.
- i) Cyber risk assessment introduced to consider the impact of increased remote working.
- j) Given the ongoing response to COVID and the strong risk management environment, assurance will not be separately considered this year on the processes for strategic and operational risk management and the audit has been removed from the plan. Strategic risks will still be reported to the Committee and responded to with the allocation of appropriate Audit resources.
- k) Reduced time spent on training and professional day release, c100 days.

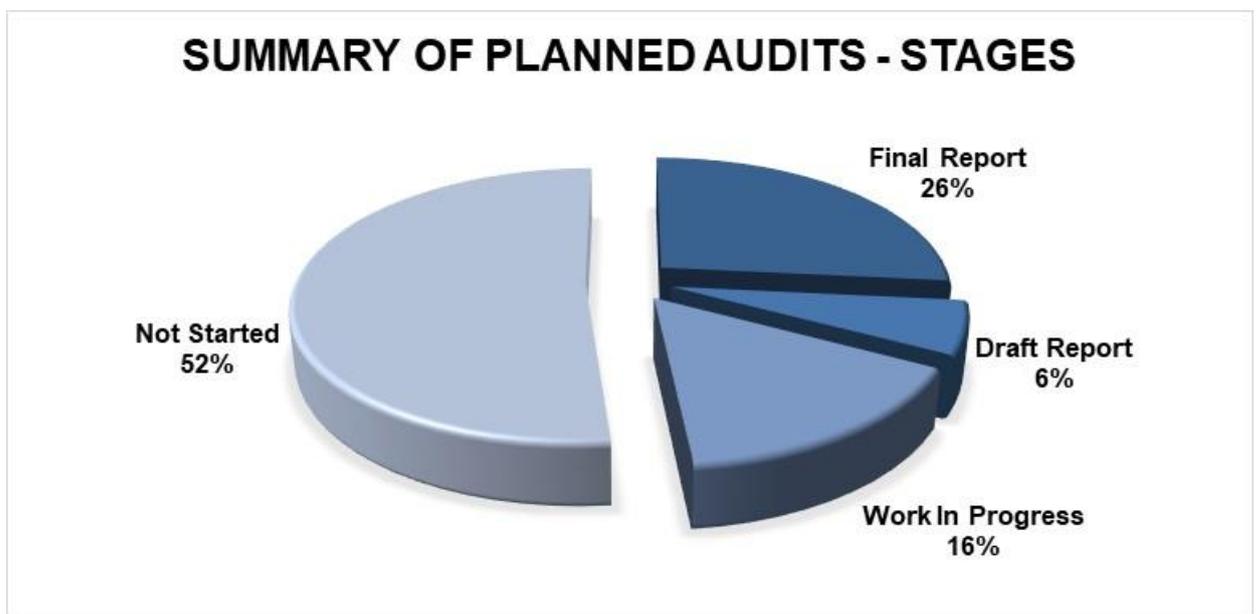
7.4 A more detailed example of the Audit Team's response is supporting the Council in administering the Governments Covid-19 Business Support Grants which were announced in March 2020. The Council has received approximately 9,000 applications under this scheme to support local businesses. To ensure rapid payment, the initial tranche of grants was matched to unique NNDR (National Non-Domestic Rates) account references and bank details held by the Council. Accounts where the Council did not hold bank details were subject to an additional bank check to verify money was being sent to the correct recipient.

7.5 Bank check has received approximately 3,800 applications to review, the majority of which have been cleared to enable payments to local businesses. The bank check process has removed 329 duplicate applications from the process ensuring that approx. £3.8 million of grant funding was not mis-appropriated. In addition, the process has resulted in 60 applications being removed on grounds of qualification or withdrawn by the applicant ensuring a further £0.7 million is available to eligible businesses. Applications under the scheme ceased at the end of August and the final queries are now being resolved to meet the Government target of all payments being processed by the end of September 2020.

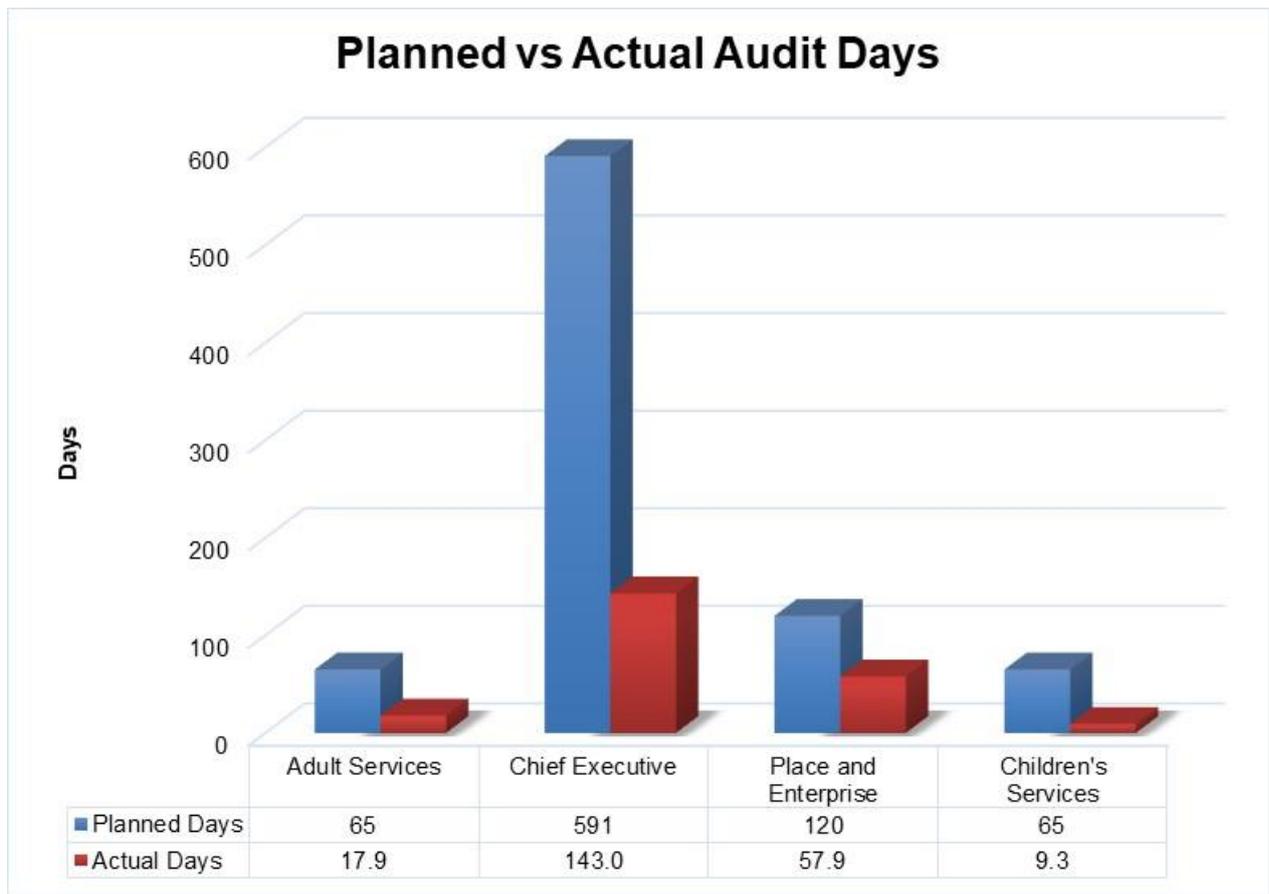
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<sup>1</sup> Test and trace/ care home grant/ business grants/ COVID funds

- 7.6 The Council has delivered robust cross team working practices since the introduction of the scheme to provide the grants quickly whilst reducing the risk of fraudulent applications. A few fraudulent applications have been stopped as a result of intelligence sharing with NAFN (National Anti-Fraud Network) and joint work with local police. To date there have been three known fraudulent applications where payments were released. The Council has made full recovery on all three applications and these cases have been reported to the Police and the Government taskforce that are looking specifically at grant related fraud.
- 7.7 The learning from administering the Covid-19 Business Support scheme has also been utilised in supporting the £5 million Discretionary Grant scheme with all applications subject to bank checks by Audit and application reviews from officers in the Economic Growth Team. The Council will also be completing NFI (National Fraud Initiative) checks on all applications as mandated by Government recently.
- 7.8 In total, 17 final reports have been issued in the period from 1st April to 9th August 2020. The following chart shows performance against the approved Internal Audit Plan for 2020/21:



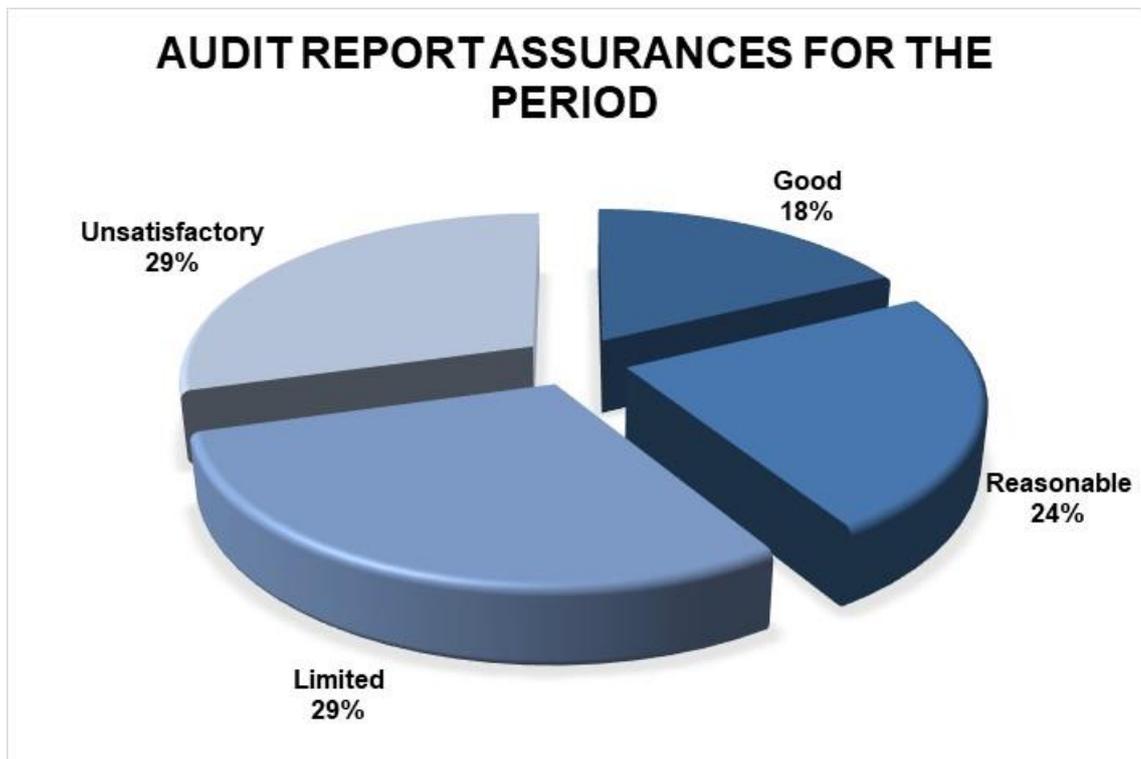
- 7.9 Audits have been completed over several service areas as planned:



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

- Corporate Governance
- Liquid Logic IT Application 2019/20
- Leisure Services Contract 19/20
- Theatre Severn 19/20
- Partnerships 19/20
- Long Mountain Primary School 19/20
- Strengthening Families Grant - June 2020 Claim
- Capital Accounting 19/20
- Debt Recovery 19/20
- General Ledger 19/20
- Imprest and Purchasing Card Spot Checks 19/20
- Purchase Ledger 19/20
- Sales Ledger - Periodic Income 19/20
- Sales Ledger 19/20
- Unit4 Business World Application 19/20
- Legionella
- Payroll 19/20

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



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



7.13 Up to the 9<sup>th</sup> August 2020, seven reports have been issued providing good or reasonable assurances and accounting for 42% of the opinions delivered. This represents a significant decrease in the higher levels of assurance for this period, compared to the

previous year outturn of 64%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 58% compared to the previous year outturn of 36%.

- 7.14 Members will be aware from the reports to the July Audit Committee of the concerns around some key financial systems and ones in Place and Enterprise. In some of these areas, managers and employees have been diverted onto business continuity pressures responding to COVID and unable to plan improvements to known internal control processes, leading to increased risks that will impact on delivery of the Council's objectives. Control objectives evaluated and not found to be in place as part of these audit reviews that have since been finalised, 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**.
- 7.15 Four 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.
- 7.16 A total of 313 recommendations have been made in the 17 final audit reports issued this year; these are broken down by audit area and appear in **Appendix A, Table 7**. Members will recall, as reported in July to the Committee that; given the timing of the audits and the impact of Coronavirus, management comments were not provided for all key systems. Where this is the case, management have committed to review the internal controls once resources allow and hope to achieve this in the first six months following the Audit, but if not, the process will be revisited with the Head of Audit.
- 7.17 Four fundamental recommendations have been identified, which are detailed below:

**Debt Recovery 2019/20**

**Recommendation** - The Debt Recovery Team procedures should be updated when the Corporate Credit Policy has been finalised and agreed. It should be ensured that the procedures and practices carried out by the Debt Recovery Team reflect requirements of the agreed Corporate Credit Policy.

**Risk** - A failure to update the debt recovery procedures and practices to reflect the Corporate Credit Policy may lead to a lack of compliance with policy resulting in delays recovering outstanding debt and a financial loss to the Council.

**Management Response**- The Corporate Credit Policy will be updated to reflect updated policies and procedures in place following the transition to the ERP system.

**Agreed Implementation Date** – December 2020.

**Leisure Services Contract 2019/20<sup>2</sup>**

**Recommendation** - Contracts should be let in accordance with Contract Rules. The cost of the contract over its whole term including any additional payments should be considered when determining if verbal, written quotes or formal tender process is required.

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<sup>2</sup> Establishment Audit follow ups will be delayed allowing for their reopening and embedding of control improvements

**Risk** - Failure to follow Contract Rules and procurement guidelines for purchases and contracts may result in excessive costs being incurred which could also lead to poor value for money and additional strain on the budget.

**Management Response** - Agreed.

**Agreed Implementation Date** – 30<sup>th</sup> June 2020

### **Pensions Payroll Interfacing**

**Recommendation** - A project plan should be produced to ensure that the issues with the data extracted from Business World and interfaced into Altair are fully identified and resolved. The project plan should include clearly defined actions, targets and milestones as well as estimates of the resources required to resolve the issues.

**Risk** - A failure to produce a project plan to ensure that the issues are resolved could lead to incorrect employee data continuing to be extracted and interfaced in the pensions system if it is not corrected, which will result in incorrect employee pension records and an incorrect Annual Benefit Statement.

An Annual Benefit Statement which was known not to be correct would not be sent out. The materiality (i.e. the number of incorrect statements) would need to be established and depending in the size of this a breach would need to be reported to the Regulator who would investigate the matter and call the fund into account. This would be a statutory breach because Local Government Pension Scheme (LGPS) regulations require the fund to issue statements prior to the deadline.

**Management Response** - There are clear improvements to be made. The issue log with clear objectives, timescales and responsibility will be used to achieve this. A project approach is not considered necessary. The actions, language, responsibilities, deadline have been updated in the lessons learnt log to provide more clarity. This is being appraised every month after running i-connect to review where amendments are made. Discussion with the HR Administrator in Payroll are underway to document the process in detail. This will further identify where intervention is needed and ensure controls are in place and become a guide for training.

**Agreed Implementation Date** – 31<sup>st</sup> July 2021

### **Theatre Severn 2019/20**

**Recommendation** - Purchases should be made in line with Shropshire Council's Contract Procedure Rules, Financial Rules, specifically section D.4. Ordering and Paying for Work, Goods and Services to ensure that public money is spent with demonstrable probity and in accordance with the Council's policies. Expenditure over £50,000 should be subject to formal tender. (Updated from the recommendation made and agreed as part of the Theatre Ticketing and Online Booking 2017/18 audit).

**Risk** - Non-compliance with Shropshire Council's Financial Rules and European tender thresholds. Non-compliance with the establishment's authorisation limits. A potential failure to achieve best value by not appointing the most suitable supplier and criticism from other suppliers if they are not given the opportunity to tender for the contract.

**Management Response** - We are working with the Procurement Team to ensure that going forward all procurement complies with the council policy. Existing contracts are being reviewed.

**Agreed Implementation Date** – 6<sup>th</sup> May 2020

- 7.18 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 Committee's involvement.

7.19 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at Appendix A, Table 1.

- Support in responding to COVID including deputising for the Chair of the Business Continuity Group; providing deputies to the Risk Management Officer for business continuity duties and supporting in facilitating actions, data collection, reporting and verification of group activities across the Council.
- Agreeing a revised approach to potential staff investigations with increased remote working, supporting managers initially in ensuring delivery.
- Attendance and challenge at various project boards and improvement groups: e.g. digital transformation, highways, direct payments.
- Review of processes supporting receipt of grants, i.e. infection control, COVID, flooding.
- Review of staff absence patterns to inform business continuity plans
- Replacement IT and security systems, e.g. education management system, digital mailroom and public building access systems.

### Direction of travel

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

Comparison of Assurance Levels (where given)

Assurances	Good	Reasonable	Limited	Unsatisfactory	Total
<b>2020/21 to date</b>	<b>18%</b>	<b>24%</b>	<b>29%</b>	<b>29%</b>	<b>100%</b>
<b>2019/20</b>	<b>15%</b>	<b>49%</b>	<b>22%</b>	<b>14%</b>	<b>100%</b>
<b>2018/19</b>	<b>26%</b>	<b>41%</b>	<b>27%</b>	<b>6%</b>	<b>100%</b>
<b>2017/18</b>	<b>20%</b>	<b>44%</b>	<b>29%</b>	<b>7%</b>	<b>100%</b>

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
<b>2020/21 to date</b>	<b>2%</b>	<b>57%</b>	<b>39%</b>	<b>1%</b>	<b>100%</b>
<b>2019/20</b>	<b>1%</b>	<b>59%</b>	<b>39%</b>	<b>1%</b>	<b>100%</b>
<b>2018/19</b>	<b>2%</b>	<b>60%</b>	<b>37%</b>	<b>1%</b>	<b>100%</b>
<b>2017/18</b>	<b>3%</b>	<b>56%</b>	<b>41%</b>	<b>0%</b>	<b>100%</b>

7.21 The number of lower level assurances 58%, at this point in the year, is significantly higher than the outturn for 2019/20 of 36%. The proportion of areas attracting unsatisfactory assurance (29%) is significantly higher than any previous year outturn. Whilst this does not yet demonstrate a complete picture, it is an early indicator of a weaker control environment across the Council. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 1<sup>st</sup> April to 9<sup>th</sup> August 2020. Members should note that only a proportion of the plan has been completed to date and these opinions include the completion of the 2019/20 main financial systems audits.

### Performance measures

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

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

Draft Internal Audit Risk Based Plan 2020/21 - Audit Committee 25<sup>th</sup> February 2020  
Public Sector Internal Audit Standards (PSIAS)  
Audit Management system  
Accounts and Audit Regulations 2015

**Cabinet Member (Portfolio Holder)**

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

**Local Member:** All

**Appendices**

**Appendix A**

Table 1: Summary of actual audit days delivered against plan 1st April 2020 to 9<sup>th</sup> August 2020

Table 2: Final audit report assurance opinions issued in the period 1st April 2020 to 9<sup>th</sup> August 2020

Table 3: Unsatisfactory and limited assurance opinions in the period 1st April 2020 to 9<sup>th</sup> August 2020

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Audit recommendations made in the period 1st April 2020 to 9<sup>th</sup> August 2020

Table 8: Recommendation follow up process (risk based)

**Appendix B** - Audit plan by service 1st April 2020 to 9<sup>th</sup> August 2020

## APPENDIX A

**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st April to 9<sup>th</sup> August 2020**

	Original Plan	Revised Plan	9th August 2020 Actual	% of Original Complete	% of Revised Complete
Chief Executive	821	591	143.0	17%	24%
Finance, Governance and Assurance	420	390	72.6	17%	19%
Governance	14	14	5.9	42%	42%
Workforce and Transformation	361	177	55.4	15%	31%
Legal and Democratic	26	10	9.1	35%	91%
Adult Services	194	65	17.9	9%	28%
Social Care	134	61	17.8	13%	29%
Public Health	29	2	0	0%	0%
Public Protection	31	2	0.1	0%	0%
Place and Enterprise	221	120	57.9	26%	48%
Children's Services	248	65	9.3	4%	14%
Schools	126	26	0.5	0%	2%
Other	122	39	8.8	7%	23%
<b>S151 Planned Audit</b>	<b>1,484</b>	<b>841</b>	<b>228.1</b>	<b>15%</b>	<b>27%</b>
Contingencies and other chargeable work	582	1,075	519.7	89%	48%
<b>Total S151 Audit</b>	<b>2,066</b>	<b>1,916</b>	<b>747.8</b>	<b>36%</b>	<b>39%</b>
External Clients	171	241	28.7	17%	12%
<b>Total</b>	<b>2,237</b>	<b>2,157</b>	<b>776.5</b>	<b>35%</b>	<b>36%</b>

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

**Table 2: Final audit report assurance opinions issued in the period from 1st April to 9<sup>th</sup> August 2020**

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	2	2	4	3	11
Finance, Governance and Assurance	1	1	4	2	8
Governance	0	01	0	0	1
Workforce and Transformation	1	0	0	1	2
Legal and Democratic	0	0	0	0	0
Adult Services	0	1	0	0	1
Social Care	0	1	0	0	1

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	0	1	2	3
Children's Services	1	1	0	0	2
Children's Services: Schools	0	1	0	0	1
Children's Services: Others	1	0	0	0	1
<b>Total for 2020/21 to date</b>					
➤ <b>Numbers</b>	<b>3</b>	<b>4</b>	<b>5</b>	<b>5</b>	<b>17</b>
➤ <b>Percentage</b>	<b>18%</b>	<b>24%</b>	<b>29%</b>	<b>29%</b>	<b>100%</b>
<b>Percentage 2019/20</b>	<b>15%</b>	<b>49%</b>	<b>22%</b>	<b>14%</b>	<b>100%</b>
<b>Percentage 2018/19</b>	<b>26%</b>	<b>41%</b>	<b>27%</b>	<b>6%</b>	<b>100%</b>
<b>Percentage 2017/18</b>	<b>20%</b>	<b>44%</b>	<b>29%</b>	<b>7%</b>	<b>100%</b>

**Table 3: Unsatisfactory and limited assurance opinions issued in the period from 1st April to 9<sup>th</sup> August 2020<sup>3</sup>**

### Unsatisfactory assurance

#### **Finance, Governance and Assurance: Debt Recovery 2019/20 (Unsatisfactory 2018/19)**

- The recommendations made in the previous audit have been implemented.
- There are adequate policies and procedures in place in respect of the recovery of debts.
- There are effective debt recovery actions carried out in practice which are in accordance with the policies and procedures.
- There is accurate and effective communication with relevant parties regarding debt recovery actions, the details of the outstanding debts and progress to collect the outstanding amounts.
- There are appropriate procedures in place to monitor recovery performance and report this to management.

#### **Finance, Governance and Assurance: Sales Ledger 2019/20 (Reasonable 2018/19)**

- The recommendations made in previous audit have been implemented.
- There are processes in place to ensure compliance with established policies and procedures.
- The set up and amendment of accounts and codes are monitored and authorised.
- The input and raising of income invoices is controlled, authorised and monitored.
- The income payments are collected and recorded accurately and promptly.
- Income received and debtors control accounts are accurately recorded in the general ledger.
- There are processes for the raising and authorisation of credit notes and write offs.
- Management information produced for debtors and invoices is timely and accurate.
- Information and data processing is secure and controlled in line with internal policy and legislation.

#### **Place and Enterprise: Leisure Services Contracts 2019/20 (Limited 2015/16)**

<sup>3</sup> Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

- Previous audit recommendations have been implemented.
- There is a contract in place and variations / extensions to the contract have been authorised correctly.
- Adequate insurance cover is held in accordance with the contracts.
- There are suitable arrangements in place to provide assurance that service delivery / performance targets are achieved in accordance with the Contract.
- There are suitable arrangements in place to verify that payments to the Contractor are valid and accurate.
- There is a clear process for dispute raising and resolution.
- The financial stability of the contractor is subject to periodic review.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

#### **Place and Enterprise: Theatre Severn 2019/20 (Limited 2017/18)**

- Previous audit recommendations have been implemented.
- 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.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

#### **Workforce and Transformation: Payroll 2019/20 <sup>4</sup>(Good 2018/19)**

- The recommendations made in the previous audit have been implemented.
- Policies and Procedures are in place which ensure compliance with legislation and internal regulations.
- Starters are appropriately authorised and set up in line with internal regulations.
- Employees are paid the correct amount each month to reflect contracted hours.
- Permanent variations are appropriately controlled.
- Temporary variations are appropriately controlled.
- There is a regular management review of the overpayments data and recoveries are appropriately controlled.
- Annual leave balances are correct.
- Transactions are processed to the ledger and reconciled on a regular basis.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

#### **Limited assurance**

#### **Finance, Governance and Assurance: General Ledger 2019/20 (Reasonable 2018/19)**

- To establish the extent to which previous recommendations have been implemented.
- Payroll data is processed to the General Ledger in an accurate, timely, complete and secure manner.
- Council Tax feeder systems are processed to the General Ledger in an accurate, timely, complete and secure manner.
- NNDR feeder systems are processed to the General Ledger in an accurate, timely and secure manner.

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<sup>4</sup> Due to the instigation of business continuity plans following resourcing issues and then the outbreak of Covid-19, Audit were unable to complete a full review of the Payroll system and processes and in some instances only parts of a control objective were assessed/tested as reported to July Committee.

- Social Care feeder systems are processed to the General Ledger in an accurate, timely and secure manner.
- There is adequate segregation of duties within Corporate Finance and the Business World systems administration.
- The General Ledger system is backed up at frequent intervals.
- Interfaces into Business World are processed accurately and in a timely manner.

#### **Finance, Governance and Assurance: Purchase Ledger 2019/20 (Limited 2018/19)**

- The recommendations made in the previous audit have been implemented.
- Orders are raised in accordance with Financial Rules.
- Prepayment checks ensure that payments are made only to bona fide creditors on properly authorised invoices.
- Credit notes are actioned in a timely manner
- Appropriate input controls are in place and are operated effectively.
- Payments made are accurate, complete, have not been previously paid and are made at the optimal time.
- Management information in respect of payments to creditors is timely and adequate.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.
- There are appropriate arrangements in place for the prevention and detection of fraud. Suspected or attempted.

#### **Finance, Governance and Assurance: Sales Ledger Periodic Income 2019/20**

- The recommendations made in the previous sales ledger audit in respect of periodic income have been implemented.
- There are policies and procedures in place which ensure compliance with legislation and internal regulations.
- The fees and charges are regularly reviewed and are applied in an accurately and consistently.
- The income due is collected and updated to the general ledger in a timely manner.
- There is a trail from the goods and services provided to the charge made and income received.
- Management information is appropriate and provided in a timely and efficient manner.

#### **Finance, Governance and Assurance: Imprest and Purchasing Card Spot Checks 2019/20**

- Imprest Accounts are operated in accordance with Imprest Procedures and all monies can be accounted for.

#### **Place and Enterprise: Partnerships 2019/20**

- There is a register of all partnership arrangements entered in to in accordance with procedures specified by the Section 151 Officer.
- The approval of Cabinet is obtained before any negotiations are concluded on partnership arrangements.
- Risk management processes are in place to identify and assess all known risks.
- Project appraisal processes are in place to assess the viability of the project in terms of resources, staffing and expertise.
- Council partners agree the roles, responsibilities and accountabilities of each of the partners involved in the project before the project commences.

- There is sound financial management, with clear procedures for determining the financial liabilities of each partner.
- There is a clear operational timescale with a clear exit strategy that allows the partnership to be discontinued or, if exit is not appropriate, a continuation strategy.
- Appropriate information on partnerships is provided to the Section 151 Officer to enable a note to be entered into the statement of accounts.

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

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

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

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

**Table 6: Glossary of terms**

### **Significance**

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

### **Head of Internal Audit Annual Opinion**

The rating, conclusion and/or other description of results provided by the Head of

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

### Governance

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

### Risk

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

### Control

Any action taken by management, the board and other parties to manage risk and increase the likelihood that established objectives and goals will be achieved. Management plans, organises and directs the performance of sufficient actions to provide reasonable assurance that objectives and goals will be achieved.

### Impairment

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

**Table 7: Audit recommendations made in the period from 1st April to 9<sup>th</sup> August 2020**

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	3	114	84	2	203
Finance, Governance and Assurance	3	101	74	2	180
Governance	0	0	0	0	0
Workforce and Transformation	0	13	10	0	23
Legal and Democratic	0	0	0	0	0
Adult Services	4	10	0	0	14
Social Care	4	10	0	0	14
Public Health	0	0	0	0	0
Public Protection	0	0	0	0	0
Place and Enterprise	0	29	28	2	59
Children's Services	0	26	11	0	37
Children's Services: Schools	0	24	11	0	35
Children's Services: Others	0	2	0	0	2
<b>Total for 2020/21 to date</b>					
➤ <b>Numbers</b>	<b>7</b>	<b>179</b>	<b>123</b>	<b>4</b>	<b>313</b>
➤ <b>Percentage</b>	<b>2%</b>	<b>57%</b>	<b>39%</b>	<b>1%</b>	<b>100%</b>

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Percentage 2019/20	1%	59%	39%	1%	100%
Percentage 2018/19	2%	60%	37%	1%	100%
Percentage 2017/18	3%	56%	41%	3%	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 1<sup>st</sup> APRIL 2020 to 9<sup>th</sup> AUGUST 2020

	Original Plan Days	September Revision	Revised Plan Days	9th August 2020 Actual	% Original Plan	% Revised Plan
<b>CHIEF EXECUTIVE</b>						
<b>Governance</b>	<b>14</b>	<b>0</b>	<b>14</b>	<b>5.9</b>	<b>42%</b>	<b>42%</b>
<b>Finance Governance and Assurance</b>						
Finance Transactions	135	-25	110	24.2	18%	22%
Finance and S151 Officer	88	14	102	5.9	7%	6%
Financial Management	83	-5	78	22.8	27%	29%
Procurement and Contract Management	30	0	30	11.3	38%	38%
Revenues and Benefits	59	-8	51	0.0	0%	0%
Risk Management and Insurance	7	-7	0	0.0	0%	0%
Treasury	18	1	19	8.4	47%	44%
	<b>420</b>	<b>-30</b>	<b>390</b>	<b>72.6</b>	<b>17%</b>	<b>19%</b>
<b>Workforce and Development</b>						
Human Resources	161	-104	57	28.6	18%	50%
Information Governance	8	-8	0	0.0	0%	0%
ICT	168	-51	117	24.4	15%	21%
Occupational Health and Safety	11	-8	3	2.4	22%	80%
Customer Services	13	-13	0	0.0	0%	0%
	<b>361</b>	<b>-184</b>	<b>177</b>	<b>55.4</b>	<b>15%</b>	<b>31%</b>
<b>Legal and Democratic</b>						
Code of Conduct - Gifts and Hospitality	6	-6	0		0%	0%
GDPR / DPA / Freedom of Information	10		10	9.1	91%	91%
Members Allowances	10	-10	0		0%	0%
	<b>26</b>	<b>-16</b>	<b>10</b>	<b>9.1</b>	<b>35%</b>	<b>91%</b>
<b>CHIEF EXECUTIVE</b>	<b>821</b>	<b>-230</b>	<b>591</b>	<b>143.0</b>	<b>17%</b>	<b>24%</b>
<b>ADULT SERVICES</b>						
<b>Social Care Operations</b>						
Long Term Support	117	-66	51	8.3	7%	16%
Assistive Services	5	5	10	9.5	190%	95%
	<b>122</b>	<b>-61</b>	<b>61</b>	<b>17.8</b>	<b>15%</b>	<b>29%</b>
<b>Social Care Efficiency and Improvement</b>						

	Original Plan Days	September Revision	Revised Plan Days	9th August 2020 Actual	% Original Plan	% Revised Plan
Developmental Support	12	-12	0	0.0	0%	0%
<b>Public Health</b>	<b>29</b>	<b>-27</b>	<b>2</b>	<b>0.0</b>	<b>0%</b>	<b>0%</b>
<b>Public Protection</b>						
Environmental Protection and Prevention- Public Protection	15	-15	0	0.0	0%	0%
Community Safety	8	-6	2	0.1	1%	5%
	<b>23</b>	<b>-21</b>	<b>2</b>	<b>0.1</b>	<b>0%</b>	<b>5%</b>
<b>Bereavement</b>	<b>8</b>	<b>-8</b>	<b>0</b>	<b>0.0</b>	<b>0%</b>	<b>0%</b>
<b>ADULT SERVICES</b>	<b>194</b>	<b>-129</b>	<b>65</b>	<b>17.9</b>	<b>9%</b>	<b>28%</b>
<b>PLACE AND ENTERPRISE</b>						
<b>Business, Enterprise and Commercial Services</b>						
Commercial Services	8	-3	5	2.5	31%	50%
Housing Services	10	-10	0	0.0	0%	0%
Shire Services	15	-15	0	0.0	0%	0%
Strategic Asset Services	13	-10	3	0.5	4%	17%
	<b>46</b>	<b>-38</b>	<b>8</b>	<b>3.0</b>	<b>7%</b>	<b>38%</b>
<b>Economic Development</b>						
Business Growth and Investment	19	-19	0	0.0	0%	0%
Development Management	8	0	8	2.8	35%	35%
Planning and Corporate Policy	8	7	15	8.8	110%	59%
Project Development	15	-15	0	0.0	0%	0%
	<b>50</b>	<b>-27</b>	<b>23</b>	<b>11.6</b>	<b>23%</b>	<b>50%</b>
<b>Infrastructure and Communities</b>						
Highways	95	-21	74	37.0	39%	50%
Library Services	6	-6	0	0.0	0%	0%
Public Transport	12	0	12	3.1	26%	26%
	<b>113</b>	<b>-27</b>	<b>86</b>	<b>40.1</b>	<b>35%</b>	<b>47%</b>
<b>Culture and Heritage</b>						
Theatre Severn and OMH	8	-6	2	2.1	26%	105%
Leisure Services	0	1	1	1.1	0%	110%
Visitor Economy	4	-4	0	0.0	0%	0%
	<b>12</b>	<b>-9</b>	<b>3</b>	<b>3.2</b>	<b>27%</b>	<b>107%</b>
<b>PLACE AND ENTERPRISE</b>	<b>221</b>	<b>-101</b>	<b>120</b>	<b>57.9</b>	<b>26%</b>	<b>48%</b>

	Original Plan Days	September Revision	Revised Plan Days	9th August 2020 Actual	% Original Plan	% Revised Plan
<b>CHILDREN'S SERVICES</b>						
<b>Safeguarding</b>						
Assessment and Looked After Children	15	-15	0	0.0	0%	0%
Children's Placement Services and Joint Adoption	49	-40	9	1.9	4%	21%
Safeguarding	20	-4	16	2.7	14%	17%
	<b>84</b>	<b>-59</b>	<b>25</b>	<b>4.6</b>	<b>5%</b>	<b>18%</b>
<b>Learning and Skills</b>						
Business Support	31	-24	7	2.5	8%	36%
Education Improvements	7	0	7	1.7	24%	24%
Primary/Special Schools	116	-95	21	0.5	0%	2%
Secondary Schools	10	-5	5	0.0	0%	0%
	<b>164</b>	<b>-124</b>	<b>40</b>	<b>4.7</b>	<b>3%</b>	<b>12%</b>
<b>CHILDREN'S SERVICES</b>	<b>248</b>	<b>-183</b>	<b>65</b>	<b>9.3</b>	<b>4%</b>	<b>14%</b>
<b>Total Shropshire Council Planned Work</b>	<b>1,484</b>	<b>-643</b>	<b>841</b>	<b>228.1</b>	<b>15%</b>	<b>27%</b>
<b>CONTINGENCIES</b>						
Advisory Contingency	60	-34	26	7.8	13%	30%
Fraud Contingency	200	-75	125	34.8	17%	28%
Unplanned Audit Contingency	50	-50	0	0.0	0%	0%
Other non-audit Chargeable Work	272	652	924	477.1	175%	52%
<b>CONTINGENCIES</b>	<b>582</b>	<b>493</b>	<b>1,075</b>	<b>519.7</b>	<b>89%</b>	<b>48%</b>
<b>Total for Shropshire</b>	<b>2,066</b>	<b>-150</b>	<b>1,916</b>	<b>747.8</b>	<b>36%</b>	<b>39%</b>
<b>EXTERNAL CLIENTS</b>	<b>171</b>	<b>70</b>	<b>241</b>	<b>28.7</b>	<b>17%</b>	<b>12%</b>
<b>Total Chargeable</b>	<b>2,237</b>	<b>-80</b>	<b>2,157</b>	<b>776.5</b>	<b>35%</b>	<b>36%</b>

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