

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

Date: 2 December 2020
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 10 December 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:

<https://www.shropshire.gov.uk/auditcommittee10december2020/>

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

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 29 October 2020** (Pages 1 - 6)

The Minutes of the meeting held on the 29 October 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 notification for this meeting is 1.30pm on Tuesday 8 December 2020.

5 **Members Questions**

To receive any questions from Members, notice of which has been given in accordance with Procedure Rule 14. The deadline for notification for this meeting is 1.30pm on Tuesday 8 December 2020.

6 **Second line assurance: Treasury Strategy Mid-Year Report 2020/21** (Pages 7 - 28)

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

Contact: James Walton (01743) 258915

7 **Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative** (Pages 29 - 60)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

8 **Governance Assurance: Annual review of Audit Committee Terms of Reference** (Pages 61 - 70)

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

Contact: James Walton (01743) 258915

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

71 - 94)

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

Contact: James Walton (01743) 258915

10 Third line assurance: Internal Audit Charter (Pages 95 - 112)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski 01743 257739

11 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2019/20 (Pages 113 - 130)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

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

The report of the Engagement Lead is to follow.

Contact: Richard Percival (0121) 232 5434

13 Third line assurance: External Audit, Certification Summary Report

Report of the Engagement Lead is to follow.

Contact: Richard Percival (0121) 232 5434

14 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 4 March 2021 at 1.30 pm.

15 Exclusion of Press and Public

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

16 First line assurance: Theatre Severn Progress Update (Exempted by Categories 1, 2 and 3) (Pages 131 - 162)

The report of the Assistant Director of Homes and Communities is attached.

Contact: Jane Trethewey (01743 254917).

17 First line assurance: Leisure Services Progress Update (Exempted by Categories 1, 2 and 3) (Pages 163 - 178)

The report of the Assistant Director of Homes and Communities is attached.
Contact: Jane Trethewey (01743 254917).

18 Third line assurance: Highways Term Maintenance and Highways Design Contracts (Exempted by Category 5) (Pages 179 - 208)

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

19 First line assurance: Highways Term Maintenance Contract (Exempted by Categories 3,4, and 5) (Pages 209 - 232)

The exempt report of the Director of Place and Enterprise is attached.
Contact: Mark Barrow (01743 258919)

20 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 1, 2, 3 and 7) (Pages 233 - 244)

The report of the Principal Auditor is attached.
Contact: Katie Williams (01743) 257737



<u>Committee and Date</u>
Audit Committee
10 December 2020

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 29 OCTOBER 2020 1.30 - 2.45 PM

Responsible Officer: Michelle Dulson
Email: michelle.dulson@shropshire.gov.uk Tel: 01743 257719

Present

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

In the absence of the Chairman, the Vice-Chairman, Councillor Brian Williams took the Chair.

119 Apologies for Absence / Notification of Substitutes

119.1 An apology was received from Councillor Peter Adams. Councillor Gerald Dakin substituted for Councillor Adams.

120 Disclosable Pecuniary Interests

120.1 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 meeting prior to the commencement of the debate.

121 Minutes of the previous meeting held on the 17 September 2020

121.1 RESOLVED:

That the minutes of the meeting of the Audit Committee held on 17 September 2020 be approved and signed by the Chairman as a correct record.

122 Public Questions

122.1 No public questions had been received.

123 Member Questions

123.1 No Member questions had been received.

124 Third line assurance: External Audit: Redmond Review Briefing

124.1 The Committee received the report of the External Auditor (copy attached to the signed minutes) which updated the Committee in relation to the Redmond Review. The Engagement Lead introduced the report and explained that the Redmond

Review, which had been published in early September, was likely to have a fundamental impact on both the accounts process in the future and on the Audit and how the audit worked.

- 124.2 The Engagement Lead explained the reasons for the review and drew Members' attention to two key issues that had come out of the review, one was that the accounts were too complex and the other was around the Audit process and the audit fees and the need to ensure that the audit market was sustainable and that audit suppliers could deliver the level of audit that the public would expect of them at a fee that would enable them to do that on a sustainable basis.
- 124.3 He then took the Committee through some of the key findings of the review (set out on pages 7 to 12 of the report) along with the recommendations which included the setting up of the Office of Local Audit and Regulation and a removal of PSAA and the FRC from the field, a revised fee structure to ensure that adequate resources could be deployed to all audits in future, and reverting back to the September deadline. Redmond was recommending not only the simplification of the accounts but also the production of an audited accounting summary, that would be more of a public document that would enable a lay person to easily understand the key financial dynamics of the local authority.
- 124.4 The Engagement Lead explained that Grant Thornton's view as a firm very much supported the outcome of the review and very much wanted to help with its implementation. They wanted sustainable arrangements to be put in place so that they could continue with their presence in the public audit market.
- 124.5 In response to a query, the Engagement Lead explained that the first point on page 11 of the report referred to the ability of Audit Committees to effectively consider audit reports. The Director of Finance, Governance and Assurance (Section 151 Officer) was then asked to comment on the last paragraph on page 11 of the report about the need for a greater role for Full Council who had delegated the Audit function to the Audit Committee.
- 124.6 In response, the Director of Finance, Governance and Assurance (Section 151 Officer) felt that the Council as a meeting had a reasonable level of information provided from Audit Committee, which itself had the ability to review the accounts and did go into quite a bit of detail to ensure that the various issues were considered as necessary. He therefore did not agree with the suggestion that there needed to be a greater role, and he deferred to the Engagement Lead to see if there was anything, in relation to his experience in other Local authorities, that would suggest a way forward in terms of either improving that interface or confirming that Shropshire Council was doing what it needed to do already.
- 124.7 In response, the Engagement Lead stated that the Redmond Review looked across the whole of local government. He explained that the responses to the call for views came from a lot of key stakeholders including local authority members and officers and obviously audit suppliers. He confirmed that he agreed that for Shropshire there was a good balance and once the Redmond Review was being implemented and moved forward, new standards would emerge, and it would be for the Council to reflect whether it was meeting those new standards. He explained that some of the feedback received was that the audit process was not always as transparent as it could be to members of the public. However, in the immediate

term there was nothing that he would point to for Shropshire that he thought the Council needed to change.

124.8 Turning to the findings about Audit Committees lacking independent, technically qualified members, it was felt that that was not the case in Shropshire. In response, the Engagement Lead reminded the meeting that members of the Audit Committee did not necessarily have to be Members of the Local Authority and that the appointment of Independent member(s) to an Audit Committee could be a useful way to involve other stakeholders and pull in the expertise of a qualified accountant, for example.

124.9 Members hoped that the appointment of an independent Committee Member would not be a mandatory requirement but that the option would be there if it was felt that it would add value to the process as, it had to be remembered, the responsibility lay with elected Members. It was felt that in Shropshire that independence was visible because as a Committee, they had been prepared to challenge when they've had concerns and the Committee would not hesitate, if they felt it appropriate, to refer any serious issues to Cabinet or Full Council for discussion, indeed, there had been instances in the past where reports from the Audit Committee had gone to Cabinet because the Committee felt there was sufficient concern.

124.10 The Engagement Lead confirmed that the principles of the Redmond Review had been accepted by Government however it would take time for changes to be made as some would require primary legislation so the timescale was unclear at the moment. However, the importance of putting the audit market in a sustainable position had to be a priority as the market could not afford to lose any more suppliers.

124.11 In response to a query, the Engagement Lead reminded the meeting that there were only about 94/96 key audit partners in the country who were able to sign off Accounts, a third of which worked for suppliers that had withdrawn from the market leaving around 65 key audit partners, whose average age was above 50.

124.12 **RESOLVED:** That the contents of the report be noted.

125 **Third line assurance: External Audit: Shropshire County Pension Fund Audit Findings 2019/20**

125.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2020. The Engagement Lead explained that this report was being brought to Audit Committee for completeness as it had already been through the Pensions Committee.

125.2 In summary, he explained that the audit this year had been more challenging due to remote working and more challenge being put into the audit because of the valuation issues around investments and the uncertainties due to Covid. The Engagement Lead confirmed that the audit was complete and was in a position to be signed off once the Council's Audit had been completed.

125.3 It was being proposed that his opinion include an emphasis of matter on the material valuation uncertainties on some investments due to Covid. The

Engagement Lead drew attention to one unadjusted mis-statement, on page 12 of his report, of £14m which was an overstatement of asset valuations due to the timing of the valuation and how the market had moved by year end. This was however below the materiality threshold and represented three quarters of 1% of the value of the assets. Finally, the Engagement Lead thanked the Pension Fund team for their support throughout the audit.

125.4 **RESOLVED:** That the contents of the report be noted.

126 Audited Statement of Accounts 2019/20

- 126.1 The Committee received the report of the Director of Finance, Governance and Assurance (Section 151 Officer) which presented Members with the final audited outturn position for the financial year 2019/20 and detailed any amendments made to the draft Statement of Accounts during the audit process. The Director of Finance, Governance and Assurance (Section 151 Officer) took Members through the covering report and Appendices. He explained that Appendix 3 was the Audit Findings Report which the Engagement Lead would take Members through.
- 126.2 He reported that the draft Audited Statement of Accounts had been seen by the Audit Committee at its meeting on 31 July 2020 and that the revised Statement of Accounts was attached at Appendix 1. This was largely unchanged from the draft but where there had been changes, these were set out in table 1 on page 3 of the covering report. The report then identified what each of the amendments were and included a summary of the reasoning for that change. None of those changes were particularly concerning.
- 126.3 The Director of Finance, Governance and Assurance (Section 151 Officer) then drew attention to the Annual Governance Statement set out in Appendix 2 of the report which was unchanged from the document seen in July. At the end of the meeting, the set of accounts along with the letter of representation would be signed off. The Engagement Lead then took Members through the Audit Findings report and explained where they were in relation to the audit which was substantially complete with a few small areas outstanding.
- 126.4 In relation to the overall status of the audit, the Engagement Lead was proposing to include an emphasis of matter on the valuation of land and buildings. Also, there were a couple of outstanding issues, namely the shopping centre's valuation and the impact of the pension fund valuations in the accounts and how those needed to be reported. These were minor issues of wording only, for which the Director of Finance, Governance and Assurance (Section 151 Officer) had delegated authority to approve. In terms of the Group accounts, these had been done and the Engagement Lead intended to issue his opinion by Friday of the following week.
- 126.5 The External Audit Manager took Members through the Audit Findings report including the financial statements and arrangements for value for money. In relation to the audit, she reported that Covid in particular had had a significant impact however it was felt that remote working had been a success and they had been able to obtain evidence to support the statements although it had taken significantly longer than anticipated, especially where there had been queries. However, they were now in a position to give their opinion within the next week.

- 126.6 The External Audit Manager highlighted those areas that needed to be worked through including information received from an external valuer in relation to the shopping centres, and receipt of relevant assurances in relation to the Pension Fund. She confirmed that levels of materiality had not changed and remained at £8.7m and that no significant issues had been raised in relation to significant risks or to managements' assessment of going concern for the authority. She reported that there were no unadjusted mis statements.
- 126.7 In response to a query, the External Audit Manager confirmed that the complexity of the Council's underlying financial systems highlighted by remote working was not unique to Shropshire. She elaborated on these complexities and explained that the reason the audit took longer was that assurances were needed throughout every step of the process to ensure all information was genuine and had been extracted from the financial ledger.
- 126.8 A query was raised in relation to pages 21-22 of the Statement of Accounts 2019-2020 which referred to an anticipated budgetary pressure of just under £36m and that although Government funding of £17.918m had been received, this left a shortfall still to be funded of £17.8m. However, it had previously been hoped to receive somewhere in the region of £32m from the Government. In order to respond, the Engagement Lead referred to the Value for Money section of his report and explained that as well as the financial statements, they were required, under the Code of Audit Practice, to give a view on the authority's arrangements for achieving value for money and this was done by focussing on particular risks. This year however they had only focussed on one key risk, which was financial sustainability. He explained that in reaching his opinion, two key aspects had been considered, one was the outcome of the 2019/20 financial year and the other was the impact of Covid on financial planning and the impact it was having on the 2021 financial year.
- 126.9 The Engagement Lead confirmed that he was proposing to issue an unqualified value for money conclusion however, he was recommending that the use of non-recurrent measures to balance the annual budget was not sustainable for the authority and that the Council needed to deliver identified savings and to develop further schemes to support its financial position going forward.
- 126.11 The Engagement Lead then discussed the Council's financial strategy. He explained that the Council had originally received around £18m in funding from the Government. Now however it had received something in excess of £20-£22m with a further £5m loss of income money available. However, the Council still faced a significant financial challenge. The funding gap in 2021/22 was anticipated to be £30m plus with a similar gap for 2022/23. Although there was a planned use of reserves, the scope to use these reserves was diminishing. External Audit felt that the Council had responded well to the Covid challenge but they were clear that the Council still faced a major financial challenge in next two years.
- 126.12 The Engagement lead thanked the Finance team for their support and assistance in getting the audit complete which was very much appreciated.
- 126.13 The Director of Finance, Governance and Assurance (Section 151 Officer) emphasised some of the points made by the Engagement Lead in terms of where the Council was in the current year and the overarching unsustainability of the long term budget, the funding mechanism and the delay to the fair funding formula which

had been put back another year. This had led to the Council relying on one-off funding for this and now next year. Also, the spending review later in the year was only going to cover one year rather than the usual three. There was therefore more certainty in the short term around setting the budget for next year, however this removed the ability to plan in the long term.

126.14 It was requested that Members get sight of the final wording once approved by the Director of Finance, Governance and Assurance (Section 151 Officer) and the Vice Chairman.

126.15 RESOLVED:

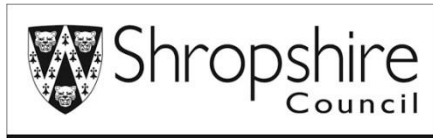
- A. That the 2019/20 Statement of Accounts be approved and that the Vice Chairman of the Audit Committee signs them (in accordance with the requirements of the Accounts and Audit Regulations 2015).
- B. That the Director of Finance, Governance and Assurance (Section 151 Officer) be authorised to make any minor adjustments to the Statement of Accounts prior to publication on the Council's website.
- C. That the Director of Finance, Governance and Assurance (Section 151 Officer) and the Vice Chairman of the Audit Committee sign the letter of representation in relation to the financial statements on behalf of the Council and send to the External Auditor.

127 Date and Time of Next Meeting

127.1 Members noted that the next meeting of the Audit Committee would be held on the 10 December 2020 at 1:30pm.

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 10 December 2020	
Cabinet 14 December 2020	
Council 17 December 2020	
	<u>Public</u>

TREASURY STRATEGY 2020/21 – MID YEAR REVIEW

Responsible Officer James Walton

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

Tel: (01743) 258915

1. Summary

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

- An economic update for the first six months of 2020/21
- A review of the Treasury Strategy 2020/21 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2020/21
- A review of the Council's borrowing strategy for 2020/21
- A review of any debt rescheduling undertaken
- A review of compliance with Treasury and Prudential limits for 2020/21

1.2 The key points to note are:-

- The internal treasury team achieved a return of 0.62% on the Council's cash balances outperforming the benchmark by 0.68%. This amounts to additional income of £603,800 for the first six months of the year which is included within the Council's projected outturn position.
- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy.
- On 11 March 2020, the Government partially reversed the additional 1% margin over gilts it set in October 2019, to all PWLB rates for certain types of borrowing e.g. Infrastructure projects.
- The Government announced that there would be a consultation with local authorities on possibly further amending these margins. The consultation ended 31 July. The Council submitted its response in line with this deadline and is awaiting a response of the outcome from Government later this year.

2. Recommendations

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

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

- 4.1 The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in the year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 4.2 The six month performance is above benchmark and has delivered additional income of £603,800 which will be reflected in the Period 6 Revenue Monitor.
- 4.3 The Council currently has £162m held in investments as detailed in Appendix A and borrowing of £304m at fixed interest rates.

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 operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 6.2 The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can

meet its capital spending operations. This management of longer-term cash may involve arranging long or short term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

- 6.3 The Council defines its treasury management activities as “the management of the authority’s borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks”. The report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 6.4 In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -
- a high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - an overview of how the associated risk is managed
 - the implications for future financial sustainability

A report setting out the Council’s Capital Strategy was taken to full Council in February 2020.

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

7. Economic update

- 7.1 UK Economy – As expected, the Bank of England’s Monetary Policy Committee kept Bank Rate unchanged on 6th August. It also kept unchanged the level of quantitative easing at £745bn. Its forecasts were optimistic in terms of three areas:
- The fall in GDP in the first half of 2020 was revised from -28% to -23% (subsequently revised to -21.8%). This is still one of the largest falls in output of any developed nation. However, it is only to be expected as the UK economy is heavily skewed towards consumer-facing services – an area which was particularly vulnerable to being damaged by lockdown.
 - The peak in the unemployment rate was revised down from 9% in Q2 to 7.5% by Q4 2020.
 - It forecast that there would be excess demand in the economy by Q3 2022 causing CPI inflation to rise above the 2% target in Q3 2022. Nevertheless, even if the MPC were to leave policy unchanged, inflation was still projected to be above 2% in 2023.
- 7.2 The MPC also decided against any idea of using negative interest rates, at least in the next six months or so. The MPC suggested that while negative rates can work in some circumstances, it would be less effective as a tool to stimulate the economy at this time when banks are worried about future loan losses. It also has other instruments available, including QE and the use of forward guidance.
- 7.3 The MPC expected the £300bn of quantitative easing purchases announced between its March and June meetings to continue until the turn of the year. This implies that the pace of purchases will slow further to about £4bn a week, down from £14bn a week at the height of the crisis and £7bn more recently.

- 7.4 In conclusion, this would indicate that the Bank now expected the economy to recover better than expected. However, the MPC acknowledged that the medium-term projections were a less informative guide than usual and the minutes had multiple references to downside risks, which were judged to persist both in the short and medium term. One has only to look at the way in which second waves of the virus are now impacting many countries including the UK, to see the dangers. However, rather than a national lockdown, as in March, any spikes in virus infections are now likely to be dealt with by localised measures and this should limit the amount of economic damage caused.
- 7.5 In addition, Brexit uncertainties ahead of the year-end deadline are likely to be a drag on recovery. The wind down of the initial generous furlough scheme through to the end of October is another development that could cause the Bank of England (BoE) to review the need for more support for the economy later in the year. Admittedly, the Chancellor announced in late September a second six-month package from 1 November of government support for jobs whereby it will pay up to 22% of the costs of retaining an employee working a minimum of one third of their normal hours. There was further help for the self-employed, freelancers and the hospitality industry. However, this is a much less generous scheme than the furlough package and will inevitably mean there will be further job losses from the 11% of the workforce still on furlough in mid-September. However, the furlough scheme has been revisited and the decision has been made to extend it until the end of March 2021.
- 7.6 Overall, the pace of recovery is not expected to be in the form of a rapid V shape, but a more elongated and prolonged one after a sharp recovery in June through to August which left the economy 11.7% smaller than in February. The last three months of 2020 are now likely to show no growth as consumers will probably remain cautious in spending and uncertainty over the outcome of the UK/EU trade negotiations concluding at the end of the year will also be a headwind. If the Bank felt it did need to provide further support to recovery, then it is likely that the tool of choice would be more QE.
- 7.7 There will be some painful longer-term adjustments as e.g. office space and travel by planes, trains and buses may not recover to their previous level of use for several years, or possibly ever. There is also likely to be a reversal of globalisation as this crisis has shown up how vulnerable long-distance supply chains are. On the other hand, digital services are one area that has already seen huge growth.
- 7.8 One key addition to the BoE forward guidance was a new phrase in the policy statement, namely that it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% target sustainably. That seems designed to say, in effect, that even if inflation rises to 2% in a couple of years' time, do not expect any action from the MPC to raise Bank Rate – until they can clearly see that level of inflation is going to be persistently above target if it takes no action to raise Bank Rate.
- 7.9 In the US, the incoming sets of data during the first week of August were almost universally stronger than expected. With the number of new daily coronavirus infections beginning to abate, recovery from its contraction this year of 10.2% should continue over the coming months and employment growth should also pick up again. However, growth will be dampened by continuing outbreaks of the virus in some states leading to fresh localised restrictions. At its end of August meeting, the Fed revised its inflation target from 2% to maintaining an average of 2% over an unspecified time period i.e. following periods when inflation has been running persistently below 2%, appropriate monetary policy will likely aim to achieve inflation

moderately above 2% for some time. This change is aimed to provide more stimulus for economic growth and higher levels of employment. It is to be noted that inflation has actually been under-shooting the 2% target significantly for most of the last decade so financial markets took note that higher levels of inflation are likely to be in the pipeline; long-term bond yields duly rose after the meeting.

- 7.10 The Fed also called on Congress to end its political disagreement over providing more support for the unemployed as there is a limit to what monetary policy can do compared to more directed central government fiscal policy. The Federal Open Market Committee’s updated economic and rate projections in mid-September showed that officials expect to leave the fed funds rate at near-zero until at least end-2023 and probably for another year or two beyond that. There is now some expectation that where the Fed has led in changing its inflation target, other major central banks will follow. The increase in tension over the last year between the US and China is likely to lead to a lack of momentum in progressing the initial positive moves to agree a phase one trade deal.
- 7.11 The Eurozone economy was recovering well towards the end of Q2 after a sharp drop in GDP, (e.g. France 18.9%, Italy 17.6%). However, the second wave of the virus affecting some countries could cause a significant slowdown in the pace of recovery, especially in countries more dependent on tourism. The fiscal support package, eventually agreed by the EU after prolonged disagreement between various countries, is unlikely to provide significant support and quickly enough to make an appreciable difference in weaker countries. The ECB has been struggling to get inflation up to its 2% target and it is therefore expected that it will have to provide more monetary policy support through more quantitative easing purchases of bonds in the absence of sufficient fiscal support.
- 7.12 In China, after a concerted effort to get on top of the virus outbreak in Q1, economic recovery was strong in Q2 and has enabled it to recover all of the contraction in Q1. However, this was achieved by major central government funding of yet more infrastructure spending. After years of growth having been focused on this same area, any further spending in this area is likely to lead to increasingly weaker economic returns. This could, therefore, lead to a further misallocation of resources which will weigh on growth in future years.

8. Economic Forecast

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

Link Group Interest Rate View 11.8.20		Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Bank Rate View		0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10
3 month average earnings		0.05	0.05	0.05	0.05	0.05	-	-	-	-	-
6 month average earnings		0.10	0.10	0.10	0.10	0.10	-	-	-	-	-
12 month average earnings		0.15	0.15	0.15	0.15	0.15	-	-	-	-	-
5yr PWLB Rate		1.90	2.00	2.00	2.00	2.00	2.00	2.10	2.10	2.10	2.10
10yr PWLB Rate		2.10	2.10	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.30
25yr PWLB Rate		2.50	2.50	2.50	2.60	2.60	2.60	2.70	2.70	2.70	2.70
50yr PWLB Rate		2.30	2.30	2.30	2.40	2.40	2.40	2.50	2.50	2.50	2.50

- 8.2. The coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it left Bank Rate unchanged at its last meeting on 6th August, although some forecasters had suggested that a cut into negative territory could happen. However, the Governor of the Bank of England has made it clear that he currently thinks that such a move would do more damage than good and that more quantitative easing is the favoured tool if further action becomes necessary. As shown in the forecast table above, no increase in Bank Rate is expected within the forecast horizon ending on 31st March 2023 as economic recovery is expected to be only gradual and, therefore, prolonged.
- 8.3. Link's central assumption is that there will be some form of agreement on a reasonable form of Brexit trade deal but the coronavirus outbreak could affect the timing of reaching a deal.
- 8.4. The overall balance of risks to economic growth in the UK is probably relatively even but is subject to major uncertainty due to the virus. There is relatively little UK domestic risk of increases or decreases in Bank Rate and significant changes in shorter term PWLB rates. The Bank of England has effectively ruled out the use of negative interest rates in the near term and increases in Bank Rate are likely to be some years away given the underlying economic expectations. However, it is always possible that safe haven flows, due to unexpected domestic developments and those in other major economies, could impact gilt yields, (and so PWLB rates), in the UK.
- 8.5. Long term PWLB rates are expected to rise to 2.4% in September 2021 before increasing to reach 2.5% by June 2022.

9. Treasury Strategy update

- 9.1 The Treasury Management Strategy (TMS) for 2020/21 was approved by Full Council on 27 February 2020. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved. The details in this report update the position in the light of the updated economic position.

10. Annual Investment Strategy

- 10.1 The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As shown by forecasts in section 8.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% bank rate.
- 10.2 The continuing potential for a re-emergence of a Eurozone sovereign debt crisis, and its impact on banks, plus the ongoing issues surrounding the global pandemic, prompts a low risk and short-term strategy. Given this risk environment and the fact that increases in Bank Rate are likely to be gradual and unlikely to return to the levels seen in previous decades, investment returns are likely to remain low.
- 10.3 The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay

information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

- 10.3 In the first six months of 2020/21 the internal treasury team outperformed its benchmark by 0.68%. The investment return was 0.62% compared to the benchmark of -0.06%. This amounts to additional income of £603,800 during the first six months which is included within the Council’s projected outturn position.
- 10.4 A full list of investments held as at 30 September 2020, compared to Link’s counterparty list, and changes to Fitch, Moody’s and Standard & Poor’s credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2020/21 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.
- 10.5 As illustrated in the economic background section above, investment rates available in the market have decreased significantly due to the bank rate decrease to 0.10% in March 2020. The average level of funds available for investment purposes in the first six months of 2020/21 was £180 million.
- 10.6 The Council’s interest receivable/payable budgets are currently projecting a surplus of £2.5 million as reported in the monthly revenue monitoring reports due to no long-term borrowing being undertaken, changes to the Minimum Revenue Provision (MRP) calculation previously approved by Council and investment returns achieved being higher than anticipated.

11. Borrowing

- 11.1 It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. Council’s approved Prudential Indicators (affordability limits) are outlined in the TMS. A list of the approved limits is shown in **Appendix B**. The schedule at **Appendix C** details the Prudential Borrowing approved and utilised to date.
- 11.2 Officers can confirm that the Prudential Indicators were not breached during the first six months of 2020/21 and have not been previously breached.
- 11.3 No new external borrowing has currently been undertaken to date in 2020/21, although discussions are currently being held at the Capital Investment Board where outline business cases are being considered. The schemes being considered are already within the current authorised borrowing limits in place. In the event the authorised borrowing limits need to be amended, this will be reported to Council for approval. The table below illustrates the low and high points across different maturity bands for borrowing rates for the first six months of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	1.70%	1.67%	1.91%	2.40%	2.13%
Date	18/09/2020	30/07/2020	31/07/2020	18/06/2020	24/04/2020
High	1.94%	1.99%	2.19%	2.80%	2.65%
Date	08/04/2020	08/04/2020	08/04/2020	28/08/2020	28/08/2020
Average	1.80%	1.80%	2.04%	2.54%	2.33%

- 11.4 HM Treasury imposed two changes of margins over gilt yields for PWLB rates in 2019-20 without any prior warning. The first took place on 9th October 2019, adding an additional 1% margin over gilts to all PWLB rates. That increase was then at least partially reversed for some forms of borrowing on 11th March 2020, but not for mainstream General Fund capital schemes, at the same time as the Government announced in the Budget a programme of increased infrastructure expenditure.
- 11.5 Government also announced that there would be a consultation with local authorities on possibly further amending these margins; this was to end on 4th June, but that date was subsequently put back to 31st July. The Council responded prior to the deadline and is awaiting a response from the Government. It is not clear as to whether HM Treasury will allow local authorities to borrow money from the PWLB to purchase commercial property if the aim is solely to generate an income stream (assets for yield).
- 12. Debt Rescheduling**
- 12.1 Debt rescheduling opportunities have been limited in the current economic climate and consequent structure of interest rates. During the first six months of the year no debt rescheduling was undertaken.

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

Council, 27 February 2020, Treasury Strategy 2020/21

Council, 27 February 2020, Capital Strategy 20/21 – 24/25

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

Cabinet Member:

David Minnery, Portfolio Holder for Finance

Local Member

N/A

Appendices

A. Investment Report as at 30th September 2020

B. Prudential Limits

C. Prudential Borrowing Schedule



Shropshire Council

Monthly Investment Analysis Review

September 2020

Monthly Economic Summary

General Economy

The UK Flash (i.e. provisional) Manufacturing PMI fell to 54.3 in September from August's final release of 55.2, as both output and new business growth slowed from August's recent peak. Similarly, the Flash Services PMI eased to 55.1 in September from 58.8 in August, signifying the slowest growth in the sector for three months. In turn, these releases led to the Flash Composite PMI (which incorporates both sectors), falling to 55.7 in September from 59.1 in August. Meanwhile, the construction PMI, which is released one month behind the others, fell to 54.6 in August from 58.1 in July, as a lack of new contracts to replace completed contracts acted as a brake on the speed of expansion. In spite of the recent reduction in activity levels, all sectors remained comfortably in "expansion" territory – i.e. a reading in excess of 50 – as the economy continued to recover.

The final reading of second quarter GDP confirmed that the UK contracted by 19.8% q/q and 21.5% y/y, which were both marginally lower than preliminary estimates (of 20.4% and 21.7% respectively). However, more timely monthly GDP data for July confirmed that the economy grew by 6.6% m/m compared to June, registering its third consecutive month of growth since April's 20.4% m/m contraction. During this time the UK economy has grown by 18.6%, although it remains 11.7% smaller than in February, prior to the outbreak of the pandemic. Elsewhere, data showed that imports rose 7.5% m/m in July, outpacing a 3.5% rise in exports, causing the UK's trade surplus to narrow to £1.1 billion from a downwardly revised £3.9 billion in June.

Although the economy grew during July, the unemployment rate rose to 4.1% in the three months to July from 3.9% in the three months to June, as the number of people in work fell by 12,000. Since this data related to the period before the furlough scheme started to be unwound in August however, arguably of greater significance was the fact that the number of people claiming unemployment benefits rose by 73,700 in August, little changed from July's 69,900 rise – perhaps suggesting that the overwhelming majority of the estimated 3 million workers that have come off furlough since June have, to date, gone back to their jobs rather than into unemployment or inactivity. This may, in turn, explain July's upturn in average earnings (including bonuses), which contracted just 1% y/y in the three months to July compared to a 1.2% y/y fall in the three months to June - as many of those workers would have gone from receiving 80% of their salaries on the furlough to 100% upon returning to work.

UK inflation, as measured by the Consumer Price Index, fell to just 0.2% y/y in August compared to 1% in July, but was slightly higher than market expectations of a flat reading. This was the lowest reading since December 2015, driven largely by big price falls from restaurants and cafes due to the Eat Out to Help Out Scheme which was live throughout the month. This scheme had also had a positive impact on service sector activity in August and its conclusion can account for the last part of the fall in the PMI in September. As a result, consumer prices fell by 0.4% m/m in August, recording their biggest drop since January 2019. Similarly, the core inflation rate – which strips out the more volatile components like energy, food and alcoholic beverages – fell to 0.9% y/y in August, down from 1.8% in July, recording its lowest reading since June 2015. With inflation so far below target, it was no surprise to see the Monetary Policy Committee leave monetary policy unchanged during its September meeting - although the market did note that the Committee had been briefed on how a negative Bank Rate might be implemented effectively. As detailed in our forecast below, Link Group continues to expect Bank Rate to remain at 0.1%.

Buoyed partly by the impact of the Eat Out to Help Out scheme, retail sales rose by 0.8% m/m in August, slightly outperforming

market expectations of a 0.7% rise. Retail sales are now 4% higher than their pre-pandemic level in February and up 2.8% y/y. The GfK Consumer Confidence Index, meanwhile, rose to -25 in September from -27 in August, but remains considerably lower than the -7 reading in February, prior to the pandemic. Reflecting the impact of public health measures and government policies to support the economy during the coronavirus pandemic, the UK reported a record public sector current budget deficit (excluding public sector banks) of £32.0 billion in August, compared July's £13.6 billion deficit. August's deficit compares to a deficit of just £3.1 billion a year earlier. Excluding public sector-owned banks, borrowing was a record £35.9 billion, roughly seven times more than in August 2019.

In the US, the economy added another 1.4 million jobs in August, which was slightly below both market expectations and the downwardly revised 1.7 million jobs added in July. Nevertheless, the unemployment rate fell further as a result, to 8.4% from July's 10.2% rate, and below market expectations of 9.8% rate. With prices (as measured by the Fed's preferred core Personal Consumption Expenditure deflator) having fallen by 0.8% in Q2, it was no surprise to see the Federal Reserve maintain their current monetary policy stance during September's meeting. In so doing however, they also noted that the Federal Funds Rate target range is expected to remain between 0-0.25% until labour market conditions are consistent with their assessment of maximum employment and that inflation is above 2% and on track to moderately exceed it for some time.

In Europe, the final estimate for GDP confirmed that the Eurozone economy shrank by 11.8% q/q in Q2, compared to a 3.6% contraction in the previous quarter, and slightly lower than initial estimates of a 12.1% contraction. While better than the initial estimates, two consecutive periods of contraction meant that the bloc's economy was now in recession. In addition, this figure meant that, for the second quarter in a row, the bloc has suffered its steepest ever contraction. With the final estimate of Eurozone inflation showing that prices fell by 0.2% y/y in August, the ECB decided again to leave both policy rates and its coronavirus stimulus programme unchanged during its September meeting.

Housing

Both the Halifax and Nationwide house price indices rose during August, by 1.6% m/m and 2% m/m respectively. As such, prices are now 5.2% and 3.7% higher than a year ago respectively, their recent gains partly driven by the stamp duty holiday announced by the Chancellor earlier this year.

Currency

The prospect of a no deal Brexit undermined Sterling this month, which fell against both the Dollar and the Euro.

September	Start	End	High	Low
GBP/USD	\$1.1241	\$1.1025	\$1.1241	\$1.0805
GBP/EUR	€ 1.34	€ 1.29	€ 1.34	€ 1.27

Forecast

Both Link Group and Capital Economics have maintained their interest rate forecasts amid the coronavirus outbreak. Bank Rate is forecast to remain unchanged at 0.1% throughout 2020 and 2021.

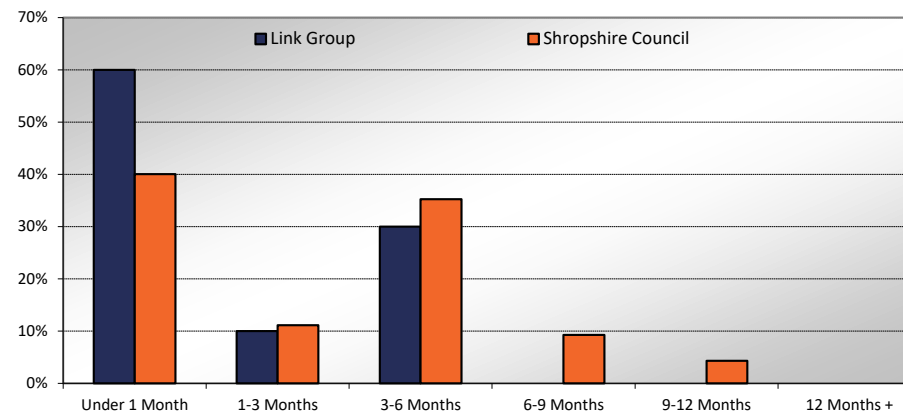
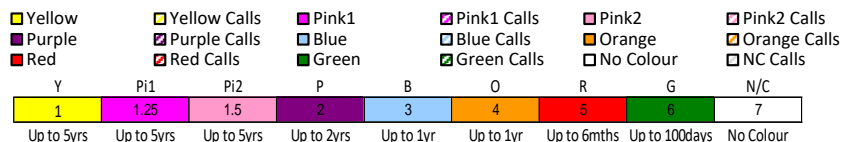
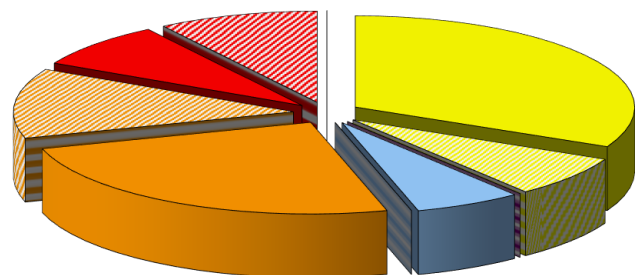
Bank Rate	Now	Dec-20	Mar-21	Jun-21	Sep-21	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23
Link Group	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%
Capital Economics	0.10%	0.10%	0.10%	0.10%	0.10%	0.10%	-	-	-	-	-

Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest Long Term Rating	Historic Risk of Default
MMF Aberdeen Standard Investments	11,800,000	0.09%		MMF	AAA	0.000%
Handelsbanken Plc	20,000,000	0.25%		Call	AA-	0.000%
Thurrock Borough Council	5,000,000	0.41%	01/07/2020	01/10/2020	AA-	0.000%
Lloyds Bank Plc (RFB)	5,000,000	0.10%	13/07/2020	13/10/2020	A+	0.002%
Plymouth City Council	5,000,000	0.97%	14/02/2020	14/10/2020	AA-	0.001%
Slough Borough Council	5,000,000	0.85%	20/04/2020	20/10/2020	AA-	0.001%
South Somerset District Council	5,000,000	0.85%	20/04/2020	20/10/2020	AA-	0.001%
Nationwide Building Society	3,000,000	0.17%	01/07/2020	30/10/2020	A	0.004%
Lloyds Bank Plc (RFB)	5,000,000	0.10%	10/07/2020	30/10/2020	A+	0.004%
Plymouth City Council	5,000,000	0.33%	26/06/2020	20/11/2020	AA-	0.003%
National Westminster Bank Plc (RFB)	5,000,000	0.14%	08/07/2020	20/11/2020	A	0.007%
North Tyneside Metropolitan Borough Council	3,000,000	0.95%	25/11/2019	23/11/2020	AA-	0.004%
Suffolk County Council	5,000,000	0.40%	09/06/2020	09/12/2020	AA-	0.005%
Santander UK Plc	15,000,000	0.45%		Call95	A	0.014%
Lloyds Bank Plc (RFB)	3,000,000	0.15%	24/07/2020	25/01/2021	A+	0.017%
HSBC UK Bank Plc (RFB)	20,000,000	0.17%	25/09/2020	29/01/2021	A+	0.017%
Surrey Heath Borough Council	4,000,000	0.18%	17/08/2020	17/02/2021	AA-	0.009%
National Westminster Bank Plc (RFB)	5,000,000	0.12%	05/08/2020	19/02/2021	A	0.021%
Barclays Bank Plc (NRFB)	10,000,000	0.26%	01/09/2020	01/03/2021	A	0.022%
Thurrock Borough Council	5,000,000	0.70%	10/07/2020	10/05/2021	AA-	0.015%
Kingston Upon Hull City Council	5,000,000	0.30%	20/08/2020	20/05/2021	AA-	0.015%
Woking Borough Council	5,000,000	0.70%	17/06/2020	09/06/2021	AA-	0.017%
Lloyds Bank Plc (RFB)	2,000,000	0.30%	07/07/2020	06/07/2021	A+	0.040%
Lloyds Bank Plc (RFB)	5,000,000	0.30%	24/07/2020	23/07/2021	A+	0.043%
Total Investments	£161,800,000	0.34%				0.010%

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **2.93**

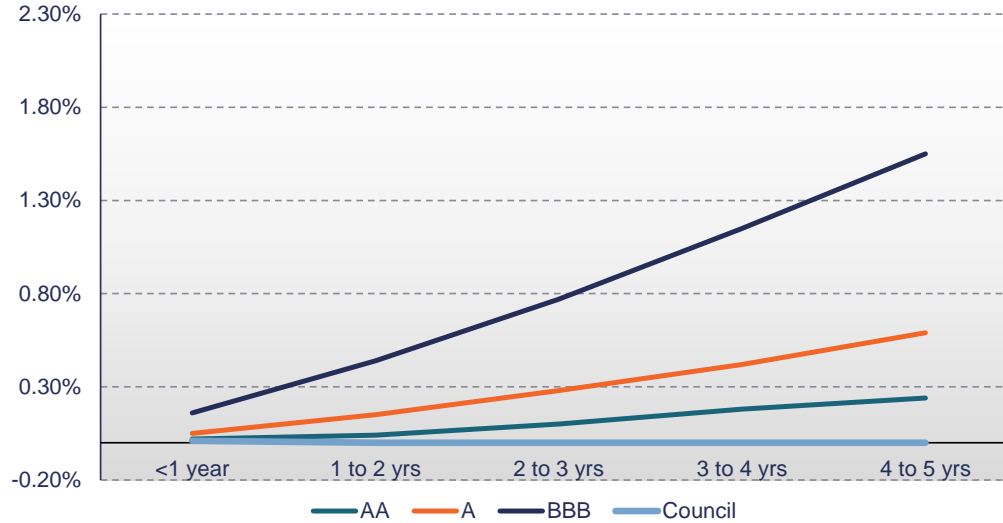
WARoR = Weighted Average Rate of Return
WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	39.43%	£63,800,000	18.50%	£11,800,000	7.29%	0.50%	80	183	99	224
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	6.18%	£10,000,000	0.00%	£0	0.00%	0.13%	97	167	97	167
Orange	37.08%	£60,000,000	33.33%	£20,000,000	12.36%	0.20%	84	111	126	166
Red	17.31%	£28,000,000	53.57%	£15,000,000	9.27%	0.35%	108	129	124	167
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£161,800,000	28.92%	£46,800,000	28.92%	0.34%	87	146	111	192

Shropshire Council

Investment Risk and Rating Exposure

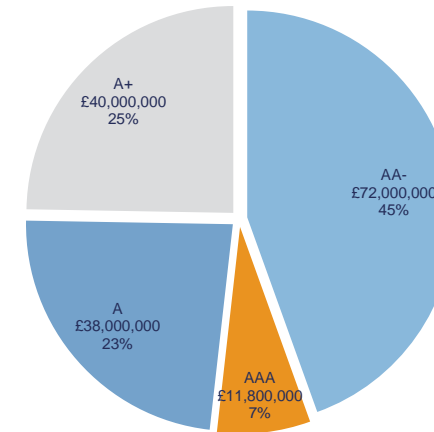
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.10%	0.18%	0.24%
A	0.05%	0.15%	0.28%	0.42%	0.59%
BBB	0.16%	0.44%	0.77%	1.15%	1.55%
Council	0.010%	0.000%	0.000%	0.000%	0.000%

Rating Exposure



Historic Risk of Default

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

Chart Relative Risk

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

Rating Exposures

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

Shropshire Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
15/09/2020	1772	Cooperatieve Rabobank U.A.	Netherlands	The Long Term and Short Term ratings were downgraded to 'A+' from 'AA'- and 'F1' from 'F1+' respectively. At the same time, the Negative Watch on the Long Term, Short Term and Viability ratings were removed. The Long Term Rating was placed on Negative Outlook.
15/09/2020	1773	ABN AMRO Bank N.V.	Netherlands	The Long Term Rating was downgraded to 'A' from 'A+'.
16/09/2020	1774	ING Bank N.V.	Netherlands	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1775	Svenska Handelsbanken AB	Sweden	The Long Term and Viability Rating were removed from Negative Watch. At the same time, the Long Term Rating was placed on Negative Outlook.
18/09/2020	1776	Skandinaviska Enskilda Banken AB	Sweden	The Long Term, Short Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
18/09/2020	1777	Nordea Bank Abp	Finland	The Long Term, Short Term and Viability ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	DBS Bank Ltd.	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	United Overseas Bank Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.
28/09/2020	1779	Oversea-Chinese Banking Corporation Ltd	Singapore	The Long Term and Viability Ratings were removed from Negative Watch. At the same time, the bank's Long Term Rating was placed on Negative Outlook.

Shropshire Council

Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
03/09/2020	1771	Wells Fargo Bank, NA	United States	The Outlook on the Long Term Rating was changed to Negative from Stable.
21/092020	1778	West Bromwich Building Society	United Kingdom	The Outlook on the Long Term Rating was changed to Negative from Stable.

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
				No rating changes to report.

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

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Appendix B

Prudential Indicators – Quarter 2 2020/21

Prudential Indicator	2020/21 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	390*	393	390		
HRA CFR	95	95	95		
Gross borrowing	304	304	304		
Investments	110	164	162		
Net borrowing	194	140	142		
Authorised limit for external debt	531	304	304		
Operational boundary for external debt	438	304	304		
Limit of fixed interest rates (borrowing)	531	304	304		
HRA debt Limit	96**	0	0		
Limit of variable interest rates (borrowing)	266	0	0		
Internal Team Principal sums invested > 364 days	50	0	0		
Maturity structure of borrowing limits	%	%	%	%	%
Under 12 months	15	0	0		
12 months to 2 years	15	4	4		
2 years to 5 years	45	2	2		
5 years to 10 years	75	4	4		
10 years to 20 years	100	36	36		
20 years to 30 years	100	25	25		
30 years to 40 years	100	13	13		
40 years to 50 years	100	7	7		
50 years and above	100	9	9		

* Based on period 3 Capital Monitoring report including Shrewsbury Shopping Centres. **removed following Budget announcement Oct 2018

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Capital Financing Summary

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 2008/09 £	Applied Outturn 2009/10 £	Applied Outturn 2010/11 £	Applied Outturn 2011/12 £	Applied Outturn 2012/13 £	Applied Outturn 2013/14 £	Applied Outturn 2014/15 £	Applied Outturn 2015/16 £	Applied Outturn 2016/17 £	Applied Outturn 2017/18 £	Applied Outturn 2018/19 £	Applied Outturn 2019/20 £	Budgeted 2020/21 £	Budgeted 2021/22 £	Budgeted 2022/23 £	First year MRP Charged	Asset Life	Final year MRP Charged			
Monkmoor Campus	24/02/06	3,580,000																							
Capital Receipts Shortfall -Cashflow	24/02/06	5,000,000																							
Applied:																									
Monkmoor Campus			3,000,000		0																	2007/08	25	2031/32	
William Brooks					0																		2011/12	25	2035/36
Tem Valley					2,000,000																		2010/11	35	2044/45
		8,580,000	3,000,000	0	2,000,000	0	0	3,580,000	0	0	0	0	0	0	0.00	0	0	0	0	0					
Highways	24/02/06	2,000,000	2,000,000																						
Accommodation Changes	24/02/06	650,000	410,200	39,800																					
Accommodation Changes - Saving	31/03/07	(200,000)																							
		450,000	410,200	39,800	0	0	0	0	0	0	0	0	0	0	0.00	0	0	0	0	0					
The Ptarmigan Building	05/11/09	3,744,000				3,744,000																			
The Mount McKinley Building	05/11/09	2,782,000				2,782,000																			
The Mount McKinley Building	05/11/09	0																							
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/10	187,600				187,600									0.00										
Carbon Efficiency Schemes/Self Financing	25/02/10	1,512,442					115,656	1,312,810	83,976																
Transformation schemes		92,635						92,635																	
Renewables - Biomass - Self Financing	14/09/11	92,996						82,408	98,258	(87,670)															
Solar PV Council Buildings - Self Financing	11/05/11	56,342						1,283,959	124,584	(1,352,202)															
Depot Redevelopment - Self Financing	23/02/12	0																							
Oswestry Leisure Centre Equipment - Self Financing	04/04/12	124,521						124,521																	
Leisure Services - Self Financing	01/08/12	711,197							711,197																
Mardol House Acquisition	26/02/15	4,160,000									4,160,000														
Mardol House Adaptation and Refit	26/02/15	3,340,000									167,640.84	3,172,358.86													
Oswestry Leisure Centre Equipment - Self Financing	01/08/12	290,274											274,239			16,035									
Car Parking Strategy Implementation		590,021													588,497.06	1,524	0								
JPUT - Investment in Units re Shrewsbury Shopping Centres		77,563,255												52,204,603	(208,569.18)	2,791,967	5,291,576	9,414,289	8,069,390						
JPUT - SSC No 1 Ltd		527,319												527,319											
Children's Residential Care		2,000,000														1,381,539	618,461								
Hitchchurch Medical Practice (Pauls Moss Development)	26/07/18	3,778,000																3,778,000							
Oswestry Castleview - Site Acquisition	19/12/19	3,256,241														3,256,241									
DVSA Site Acquisition		1,200,000																1,200,000							
Former Morrisons Site, Oswestry	19/09/19	3,364,805															3,364,805								
Commercial Investment Fund	Fin Strat 19/20	60,380,954																40,380,954	20,000,000						
The Tannery Development - Student Block		8,020,000													3,677,843.83	3,456,019	886,137								
Previous NSDC Borrowing		955,595		821,138	134,457																				
		189,760,196	5,410,200	39,800	2,821,138	6,848,057	3,695,656	2,896,333	1,018,015	(1,439,872)	4,327,641	3,172,359	0	53,006,161	4,057,772	10,903,325	10,160,979	54,773,243	28,069,390						
									0	0	0	0	0	0	0.00	(1)	(1)								
£80m investment fund		80,000,000																							

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

4. Financial Implications

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

5 Climate Change Appraisal

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

6. Background

- 6.1 The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy, Anti Money Laundering (AML) procedures and guidance, all supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.
- 6.2 The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in November 2020. In reviewing the Strategy, the updated 2020 Fighting Fraud and Corruption Locally has been considered and the Council's approach aligned to this. All proposed changes are identified in the Strategy in bold italic, underlined font
- 6.3 The Strategy can be located on the Council's website alongside Speaking up about Wrongdoing policies for both staff and the public and Anti Money Laundering (AML) procedures and guidance. A review of these has identified minor changes which have been reflected in the Strategy and supporting policies, procedures and guidance.

7. Issues

Counter Fraud, Bribery and Anti-Corruption Strategy

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

- Having clear and consistent sanctions where fraud or corruption is proven;
- Having clear policies on redressing losses.
- Focuses on outcomes and not merely activity.

National Picture

CIFAS Fraudscape 2020

7.6 CIFAs is a fraud prevention service in the United Kingdom. It is a not-for-profit membership association representing organisations from across the public, private and voluntary sectors. In their 2020 fraudscape document, they report a 13% increase of fraudulent conduct in 2019, compared to the previous year.

High risk areas of fraud include:

- Identity fraud fuelled not only by more advanced technological techniques such as vishing¹, phishing² and smishing³, but also from the way we store personal information and the risk of data breaches.
- Data theft on line and
- Insider threat which showed a 13% increase on last year with the main cases involving dishonest actions by staff, such as cash theft from an employer or customer and employment application fraud, such as false qualifications and references.

7.7 The CIFAs report concluded that many of the key issues that face the UK's fraud prevention community are tied together by technology and the internet.

The Fighting Fraud and Corruption Locally (FFCL); A Strategy for the 2020s

7.8 The Fighting Fraud and Corruption Locally Strategy (FFCL) 2020 is England's counter fraud and corruption strategy for local government. It continues to be the definitive guide for council leaders, chief executives, finance directors, and all those with governance responsibilities. It is aimed at local authorities who undertake work in the counter fraud area. The Companion contains good practice and a checklist for local authorities to use as part of making sure they have the right processes and resources in place. The Council's Counter Fraud, Bribery and Anti-Corruption Strategy continues to be aligned to this checklist.

7.9 Following review against the revised FFCL Strategy improvements were made to the Council's Counter Fraud, Bribery and Anti-Corruption Strategy. These improvements build on the principles already adopted and in place.

¹ The fraudulent practice of making phone calls or leaving voice messages purporting to be from reputable companies in order to induce individuals to reveal personal information, such as bank details and credit card numbers

² The fraudulent practice of sending emails purporting to be from reputable companies in order to induce individuals to reveal personal information, such as passwords and credit card numbers.

³ Smishing is a portmanteau of "SMS" (short message services, better known as texting) and "phishing." When cybercriminals "phish," they send fraudulent emails that seek to trick the recipient into opening a malware-laden attachment or clicking on a malicious link. Smishing simply uses text messages instead of email.

7.10 The Strategy now includes a fourth pillar to Govern, setting out that the Council has executive support over controls and processes and robust arrangements to ensure counter fraud, bribery and anti-corruption measures are embedded throughout. Overall an additional theme to Protect is introduced that the Council and our residents will be protected. We will do this by protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community. Council responsibilities will also cover protecting public funds, from fraud and cyber-crime and from future frauds.

7.11 The 2020 Strategy comes with a refreshed checklist and this will be assessed against and reported on to a future Audit Committee to ensure that the Council continues to protect its assets and further improve its resilience to fraud and corruption. Following the 2016-19 action plan to date the following has been delivered:

Action Plan

Action	Implementation Date and Update
To proactively use the results of previous fraud risk assessments and publicly available information from recognised organisations to direct counter fraud resources in the annual Internal Audit Plan.	Completed and ongoing
To refresh the Council's suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance.	Annually in November Completed and ongoing
To remind all staff and members of their role in sustaining a strong counter fraud, bribery and anti- corruption culture and the appropriate reporting channels where any fraud is suspected.	Annually in November Completed through directorates and management meetings
To undertake an annual Fraud Risk Assessment covering the Council's main areas of exposure to fraud and to use the results to influence the Council's approach moving forward.	Annually in October Completed and ongoing
To update the Council's e-learning module on Fraud Awareness and to promote its uptake by all employees.	Completed and ongoing
To be an active participant in the National Fraud Initiative (NFI) and to investigate robustly suspected cases of fraud identified through NFI and report outcomes to Audit Committee.	Biannually in November Completed and ongoing

Action	Implementation Date and Update
To refresh the Fraud Awareness pages on the web site and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	Completed and ongoing annually in November
Refresh of the Council's Money Laundering Policy, communication of and training on.	Completed and ongoing

CIPFA tracker

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

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

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

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

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

7.14 The Council has participated in this for the 2019/20 year. CIPFA are now collating and analysing the responses and will publish the national report in early 2021, the outcome of which will then be shared with Audit Committee members.

CIPFA's Counter Fraud Assessment Tool

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

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

National Fraud Initiative (NFI)

7.17 The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise. In July 2020 the NFI reported the exercise identified and prevented, £245m fraud and error⁴, £215.8 in England of which:

- Pension fraud and overpayments (£55.5m)
- Fraudulently or wrongly received, council tax single person discount (£43.9m)
- Housing benefit fraud and overpayment (£35m)

7.18 The Council for the next round is currently submitting data for matching and once analysed the NFI will share the results for investigation and reporting to the Audit Committee.

7.19 The final national report in respect the 2018/20 data matching exercise is available on line.

Transparency requirements

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

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

7.21 RIPA continues in force for the purposes of investigatory powers relating to directed surveillance and the use of covert human intelligence sources (CHIS); from April 2019, the Investigatory Powers Act 2016 (IPA) became the primary piece of legislation governing the Council's use of investigatory powers for the lawful acquisition of communications and data about communications. The Investigatory Powers Commission has also created a powerful new Investigatory Powers Commissioner (IPC) to oversee how these powers are used.

7.22 All Council applications to acquire communications data are processed through the National Anti-Fraud Network who act as the Council's Single Point of Contact (SPoC). National Anti-Fraud Network (NAFN) engages with the applicant and the Office for Communications Data Authorisations (OCDA) to obtain

⁴ 1/4/18 to 4/4/20

authorisations on the Council's behalf. A senior manager at service manager level or above within the Council must be made aware of all applications before they are submitted to NAFN for processing.

7.23 The IPCO conducted an inspection at the Council in April 2020, the findings from which appear on the exempt part of this agenda under the regular Committee update.

Whistleblowing Policy

7.24 The Council has a whistleblowing policy for the public and one for its employees. Both policies have been reviewed and updated in respect of key contacts and staff information. There have been no changes proposed to the process of 'blowing the whistle'. An annual reminder is circulated to all employees to raise awareness as to the availability of this policy.

7.25 The Whistleblowing Policy is available to staff via the Intranet pages and is also available to them, along with members and the public, via the web-site; allowing it to be accessed from any computer. This is particularly important as it allows staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy.

Anti-Money Laundering (AML) Procedure

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

Serious Organised Crime Checklist

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

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

- Awareness, Strategy, Guidance and Training
- Risk Management
- Communication and Information/ Intelligence Sharing

- Whistleblowing
- Assurance
- Operational controls for
 - Licensing
 - Planning/ Development management
 - Social Housing
 - Procurement
 - Insider threat

7.29 Directors, Heads of Service and key Procurement Officers have completed and continue to evidence activities against the checklist providing a balanced assessment of the Council's exposure to the risks. In the main, at this high level, risks appear well managed and where improvements can be made, actions have been highlighted as part of an improvement plan.

7.30 The Council's Commissioning and Assurance Board continues to oversee operational management of these actions.

Awareness and training

7.31 Fraud awareness training introduced in 2018 on the Council's eLearning tool, Leap into Learning continues to result in positive feedback from recipients. Questions explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy.

Qualified officers

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

Shropshire Council counter fraud risks and plans

7.33 In terms of *potential* for fraud, the counter fraud risk assessment has been refreshed and shared across all directorates. There is no change to the high-risk area of housing benefits. Cybercrime and grants joins the high risk ones reflecting the value and quantity of business grants being managed and the increased reliance on IT for all stakeholders. Thirteen medium risk areas continue to be identified; the list of risks is:

High

- Housing benefits
- Cybercrime
- Grants (mainly due to COVID business grants)

Medium

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

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

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk. A review of Housing Benefits is currently underway.
- The 2020/21 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits, direct payments continues. The results of which will be worked through to identify any control risks and deal with any potential fraudsters.
- To support the allocation of grants to businesses during the COVID pandemic, increased due diligence has been applied through the NFI database; companies house enquiries and by using Spotlight, a Government initiative to reduce losses from fraud and error.
- To reduce the risk of cybercrime and the impact it would have on all areas of the Council, a full IT risk assessment is conducted and audit reviews planned and completed in these specialist areas. This does not form part of the risk assessment on fraud. A recent Cyber Risk Assessment audit review has reported reasonable assurance. It looked to ensure that appropriate management arrangements were in place to mitigate cyber related risks associated with new ways of working resulting from the Covid19 pandemic.
- Internal Audit resources have been deployed to provide assurance and advice in respect of new initiatives such as; changes to management of

Adult direct payments; business grant allocations and personal protection equipment contracts and allocations;

- The current year audit plan includes several internal audit reviews that have been conducted, or are planned, to help ensure appropriate controls are in place, and are operational, to counter the fraud risks identified from the risk assessment:
 - Income collection
 - Purchase Ledger
 - Counter fraud work and review of policies
 - Medium, Term Financial Strategy
 - Housing Benefits
 - Budget Management
 - Capital management
 - Data analytics
 - Financial Evaluations
 - Payroll
 - National non-domestic rates
 - Cash office
 - Leave records and management
 - School cross cutting reviews
 - IT reviews, i.e. internet; remote servers; encryption; Sharepoint; wireless.
 - Contracts and tendering, e.g. Highways; IT
 - Final Grant claims, e.g. Strengthening Families Grant
 - Personal budgets; Direct payments

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

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, the strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy 2020

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

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

CIPFA Fraud and Corruption Tracker (CFaCT) survey report 2020

National Fraud Initiative (NFI) Report 2020

Home Office Serious and Organised Crime report and checklist 2017

Cifas Fraudscape 2020 Full Digital Report

Audit Committee, 10 December 2020: Annual review of the Counter Fraud, Bribery and Anti-Corruption strategy and activities, including an update on the National Fraud Initiative

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

Local Member n/a

Appendices: Counter Fraud Bribery and Anti-Corruption Strategy



Counter Fraud, Bribery and Anti-Corruption Strategy

POLICY STATEMENT AND STRATEGY

Document Details:

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

Date: November 2020

Review Arrangements: Next Review Date - November 2021

Counter Fraud, Bribery and Anti-Corruption Policy Statement

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

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

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

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

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

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

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

Counter Fraud, Bribery and Anti-Corruption Strategy

1. Introduction

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

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

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

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

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

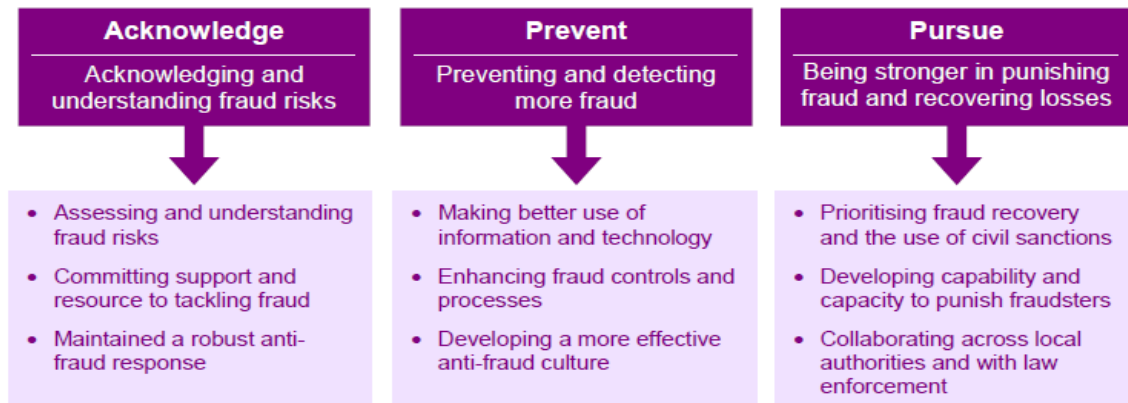
The five key elements of the CIPFA Code are to:

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

Act in response to fraud, bribery and corruption

PURSUE

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



2. Definitions

What is Fraud?

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

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

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

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

What is Bribery?

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

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

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

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

What is Corruption?

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

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

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

What is Theft?

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

3. Scope

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

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

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

4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

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

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

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

Managing the Risk of Fraud and Corruption

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

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

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

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

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

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

6. Fighting Fraud Locally: **Govern - Acknowledge – Prevent – Pursue and Protect**

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

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

PREVENT	Better Use of Information Technology	We will make use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud. We will also use computer assisted audit techniques, search engines and data matching facilities at a local level to investigate suspected frauds. Any such exchange or use of information will be undertaken in accordance with the principles contained in the Data Protection Act 2018. We will play an active part in the National Fraud Initiative (NFI) data matching exercise.
	Fraud Controls and Processes	We will educate managers on their responsibilities for operating effective internal controls within their service areas. We will promote strong management and good governance that provides scrutiny and independent challenge to risks and management controls. Routine Audit reviews will seek to highlight vulnerabilities in the control environment and make recommendations for improvement.

Anti-Fraud Culture	<p>We will promote and develop a strong counter fraud culture, raise awareness, provide a fraud e-learning tool and provide information on all aspects of our counter fraud work.</p> <p>In addition, personal development plans provide employees with specific skills that further support the counter fraud, bribery and anti-corruption culture, i.e. updated financial training, information security training, etc.</p>
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PURSUE	Fraud Recovery	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible. See Appendix 4 for the loss recovery approach.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action.
	Enforcement	We will investigate instances of suspected fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders, or received via the whistleblowing procedure. We will work with internal, external partners and organisations, including law enforcement agencies.

PROTECT

This theme lies across all pillars of this strategy.

We will protect the Council and our residents. We will do this by protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community. Our responsibilities will also cover protecting public funds, protecting the Council from fraud and cyber-crime and also from future frauds.

7. Responsibilities

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

8. Reporting, Advice, Support

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

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

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

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

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

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

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

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

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

9. Investigations

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

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

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

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

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

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

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

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

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

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

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

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

10. Strategy Review

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

APPENDIX 1



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

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

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

TOP TIPS

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

SAFEGUARDS

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

INVESTIGATION

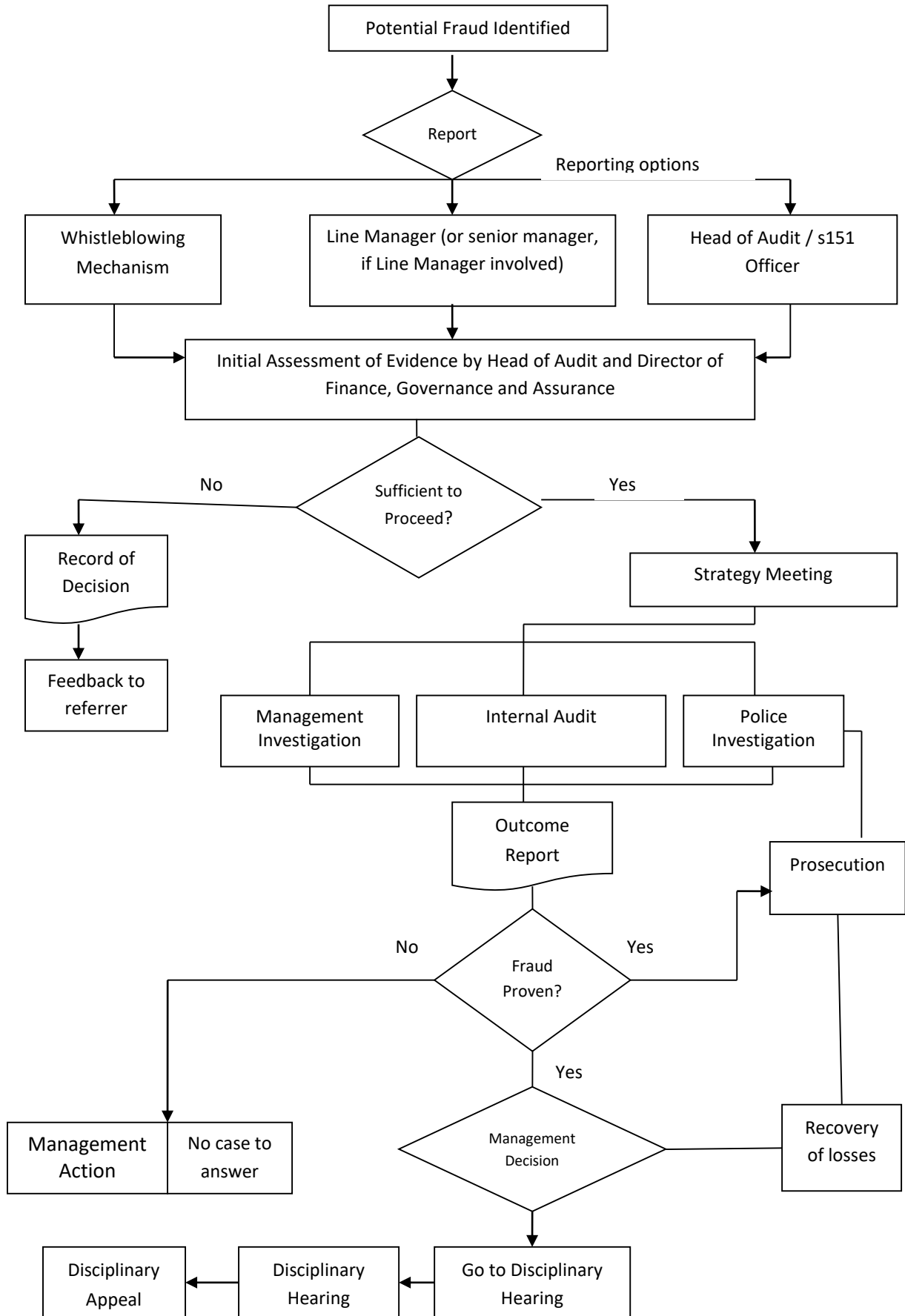
15. All suspected fraud must be referred to the Head of Audit.
16. The Head of Audit will assess the initial information and decide how to proceed. This may include a strategy meeting with the relevant manager where appropriate.

17. Following best practice, Audit will investigate most cases of suspected fraud – management may investigate low level fraud involving an employee after consultation with Audit.

POTENTIAL OUTCOMES

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

Appendix 1 - The Council's typical fraud response plan



APPENDIX 2

NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

SPECIFIC RESPONSIBILITIES

APPENDIX 3

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

Shropshire Council – Loss Recovery Approach

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

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

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

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

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

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

Financial Considerations in relation to reporting fraud to law enforcement authorities

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

- (1) The focus of criminal proceedings is not exclusively upon compensating the victim.
- (2) In proceedings brought by the Crown Prosecution Service, the Council has limited control over the question of whether the Court makes any compensation orders¹.
- (3) There are statutory limits² to the amount of compensation that the Magistrates Courts can order.
- (4) Those convicted of criminal offences may lose their liberty and or their livelihood and thereby are unable to compensate the Council.
- (5) Unlike Civil Courts the Criminal Courts must take account of a defendant's ability to pay before imposing financial penalties.
- (6) Proceeds of Crime Act 2002 proceedings are complex and are restricted to matters dealt with in the Crown Court.

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

² Section 40 (1) Magistrates' Courts Act 1980

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

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

Adopted Strategy

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

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

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

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

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
10 December 2020	
1:30pm	<u>Public</u>

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer James Walton

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

1. Summary

Effective audit committees bring many benefits to an organisation, and to ensure that the Council continues to provide an effective Audit Committee, the Committee's Terms of Reference are considered and approved as appropriate by members on an annual basis. The Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their refreshed: Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition. The Terms of Reference are attached as an **Appendix A**; paragraphs 38 and 45 have been adjusted to reflect Constitutional changes permitting the Audit Committee to approve the Final Accounts Pack including the Statement of Accounts.

2. Recommendations

Members are asked to consider the revised Audit Committee Terms of Reference attached, provide appropriate comment and approve or otherwise the proposed amendments.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

There are no financial implications.

5 Climate Change Appraisal

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

6. Background

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

6.5 It is therefore important that the Terms of Reference are reviewed to ensure that best practice guidance is incorporated.

Issues and Conclusion

6.6 At Council on the 24th September 2020 the Audit Committee was given responsibility for approving the Final Accounts Pack including the Statement of Accounts for the financial year 2019/20 onwards. To accommodate this, detailed changes were proposed and accepted for the Constitution, these are now reflected in the Audit Committee's Terms of Reference, paragraphs 38 and 45. The relevant text is in bold italics and underlined. The adjustment allows approval by this Committee of the Final Accounts Pack given the statutory changes to the Government's timetable for closing Local Authority Accounts. This approach is adopted at several other authorities and is recognised by the External Auditors. Audit Committee Members, at the meeting in February agreed to request this change to the Constitution to enable the responsibility to rest with them.

<p>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition TIS Online CIPFA Audit Committee Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2019 Local Government Act 1972 Accounts and Audit (England) Regulations</p>
<p>Cabinet Member (Portfolio Holder) Peter Nutting (Leader of the Council) and Peter M Adams (Chairman of Audit Committee)</p>
<p>Local Member N/A</p>
<p>Appendices: Audit Committee Terms of Reference</p>

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

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

Meetings

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

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

CORE FUNCTIONS

Governance risk and control

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

Internal Audit

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

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

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

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

External Audit

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

Financial reporting

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

Treasury Management

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

Accountability Arrangements

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

Work plan

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

² Clause 3 Treasury Management Code of Practice

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

Powers of the Audit Committee

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

Audit Committee Competency Framework

- 47. All Members of the Audit Committee should have, or acquire as soon as possible after appointment: -

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

And that the Committee should receive appropriate levels of training.

Reviewed November 2020.



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
10th December 2020	
13:30 pm	<u>Public</u>

AUDIT COMMITTEE SELF-ASSESSMENT OF GOOD PRACTICE

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

1. Summary

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

2. Recommendations

Members are asked to:

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

REPORT

3 Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5 Climate Change Appraisal

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

6. Background

- 6.1 The Chartered Institute of Public Finance and Accountancy, CIPFA, produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2018 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 6.2 Shropshire Council has used this guidance to self-assess the Audit Committee against this recommended practice as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 6.3 The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. Members considered the assessment model in some detail at a training session in October 2017 and an externally facilitated session in March 2018. Annual refreshers are undertaken with Member involvement and reported to this Committee. In preparation for 2020/21, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.

- 6.4 There have been no changes to membership since the previous training skills evaluations were completed and therefore no further updates are sought on these, the next full review will be following the elections in May 2021.
- 6.5 Continued learning from the original training self-assessments is important and the data extracted continues to be used to inform training sessions and identify areas for continued improvement. Information from self-assessments is considered against ongoing requests from committee members in response to current topics.
- 6.6 Training sessions provided since October 2019 have included:
- Treasury Management;
 - Using MSTeams for live events;
 - Capital Strategy and Programme;
 - Audit Committee considerations for year end reports with COVID19 pressures;
 - Response to COVID Business Continuity and Emergency Planning;
 - Managing our staff during COVID;
 - Impact on Finance and associated processes as a result of COVID and the
 - Impact on the Internal Audit focus.
- 6.7 In addition to training sessions the following information has been shared with and between members:
- Coronavirus Bill briefing – changes to legislation for holding meetings;
 - The Accounts and Audit (Coronavirus)(Amendment) Regulations 2020;
 - Guide for audit and risk committees on financial reporting and management during COVID-19 (NAO);
 - Audit Committee updates (CIPFA)-
 - Helping audit committees to be effective;
 - CIPFA Financial Management Code;
 - Redmond review;
 - COVID-19 Pandemic – Key Issues for the Audit Committee.
 - Local authority investment in commercial property (NAO);
 - Financial scrutiny practice guide (CIPFA).
- 6.8 **Appendix B** provides a summary from the two self-assessments, detailed in 6.3 above, showing the areas members have identified for future focus and refresh sessions and where updated training has been provided.
- 6.9 Following the current review of the Audit Committee self-assessment of good practice, a few areas of partial compliance were identified and question 13 was not currently applicable. These are summarised below with the proposed actions to improve for members to consider as components in an action plan looking forward.

SAR ¹	Partial compliance	Proposed action
5	Does the audit committee provide support to the authority in meeting	Members continue to consider areas identified for improvement in the Annual Governance Statement against their

¹ SAR = Self-assessment reference

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

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

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

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

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

Cabinet Member (Portfolio Holder)

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

Local Member n/a

Appendices

A Self-assessment of good practice November 2020

B Analysis of training requirements and the effectiveness of the Audit Committee based on the 2017 self-assessments, refreshed annually.

C Self-assessment of good practice November 2020 showing evidence

Appendix A: Self-assessment of Good Practice November 2020

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

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

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

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

Appendix B: Analysis of training requirements based on 2017 self-assessments, refreshed annually.

Training requirements

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

H	High
M	Medium
L	Low

Rank	Skills: Core	Evidence of training since April 2017
H ²	Organisational knowledge	October 2017 ³ June 2020, September 2020
H	Audit Committee role and functions	June 2017, March and October 2018, June and September 2020
H	Governance	June 2017, September 2018, June 2020
H	Internal Audit	June 2017, October 2019
H	Financial management and accounting	June 2017, September 2018, October 2019, June and September 2020
H	External Audit	June 2017
H	Risk Management	June and October 2017, September 2018, November 2019, September 2020
H	Counter-fraud	December 2017, June 2019
H	Values of good governance	June 2017, June 2020
M	Treasury management	June 2017, January 2020
H	Strategic thinking and understanding of materiality	June and September 2020
H	Questioning and constructive challenge	June 2020
H	Focus on improvement	September 2018, June 2020
H	Able to balance practicality against theory	September 2020
H	Clear communication skills and focus on the needs of users	June 2020 ⁴ , June 2020
	Skills: Specialist	
L	Accountancy	October 2019, June 2020, September 2020

² Based on 4/9 completed

³ Contract management

⁴ MSTeams use for virtual meetings

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L	Internal Audit	June 2017
L	Risk Management	June and October 2017, September and November 2018, September 2020
L	Governance and Legal	October 2017 ⁵
M	Service knowledge relevant to the functions of the organisation	October 2019
M	Programme and project management	June 2019, September 2020
L	IT system and IT governance	November 2018, March 2019, June 2019, June 2020
Analysis of the effectiveness of Audit Committee based on 2017 self-assessments		
M ⁶	Promoting the principles of good governance and their application to decision making.	
M	Contributing to the development of an effective control environment.	
M	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	
M	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	
M	Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	
M	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	
M	Supporting the development of robust arrangements for ensuring value for money.	
M	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.	
M	Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	

⁵ Contract management

⁶ Based on 3/9 completion

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

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

1. Improve engagement with Cabinet members – Actioned and ongoing

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

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

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

Training in September 2018 and November 2019, explored this as part of an Audit Committee and Risk Management session. There is evidence that Members continue to invite risk owners to both meetings and training sessions to run through the details.

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

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

Committee reports will be considered by officers and members and where further clarity is required this will be sought and delivered. Training sessions are used to explore issues prior to the formal reporting to committee, examples this year have been in exploring and challenging Internal Audit's role in responding to COVID19.

Appendix C: Self-assessment of Good Practice showing evidence

	Good practice questions	Yes/ No/ Partly	Evidence
	Audit Committee purpose and governance		
1.	Does the authority have a dedicated audit committee?	Yes	Constitution/ actual meetings, details on internet.
2.	Does the audit committee report directly to full council?	Yes	ToR ⁷ paragraph (para) 43/44, reviewed, revised and reapproved at December Audit Committees.
3.	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Yes	ToR from para 10 reviewed, revised and reapproved at December Audit Committees.
4.	Is this role and purpose of the audit committee understood and accepted across the authority?	Yes	Officers and members are aware of this – there can be some confusion over the scrutiny/ audit committee role at times, this is worked on by key members and officers at every opportunity. Officers and Portfolio Holders are invited to Audit Committee to discuss major risks and control issues, examples can be provided from various agendas. Discussions take place between the Chairman, CEO, senior officers and Portfolio Holders as required. Member training is sometimes extended to a wider member audience

⁷ Terms of reference

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

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

	Good practice questions	Yes/ No/ Partly	Evidence
	<ul style="list-style-type: none"> • Risk management 		ToR para 14+
	<ul style="list-style-type: none"> • Value for money or best value 		ToR para 12+
	<ul style="list-style-type: none"> • Counter-fraud and corruption 		ToR para 17+
	<ul style="list-style-type: none"> • Supporting the ethical framework 		<i>ToR para 11+</i>
8.	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	Evaluation is through the: <ul style="list-style-type: none"> • Self-assessment of compliance with this best practice document, reported to December. • Annual report to Committee is written to map back to the terms of reference. • Annual work plan, reported to March Committee, which maps back to the ToR. • Agendas, minutes and reports of Committee support that all core areas are being reviewed.
9.	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	Wider areas are: <ul style="list-style-type: none"> • Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 7.

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

	Good practice questions	Yes/ No/ Partly	Evidence
	decision-making powers that are not in line with its core purpose?		Review of work plans, agendas, reports and minutes demonstrate this, all are available on the Internet.
	Membership and support		
12.	Has an effective audit committee structure and composition of the committee been selected? This should include:	Partly	
	<ul style="list-style-type: none"> Separation from the executive 	Yes	ToR, para 1 Where it has been recognised that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 	Partly	ToR, para 47+ <i>This is demonstrated by self-assessments completed by Members⁸ used to inform the training plans covered in publicly available reports on the Committee's annual work plan (February) and the annual report to Council (June/ July). Members have wide experience and continuity of knowledge, some of which sit on Audit Committee's for other public-sector organisations, members also have private business knowledge, financial, and governance awareness. Where members feel further knowledge or training is required, they can and do raise this, demonstrated through work, training plans and self-assessments.</i> The Audit Committee meets the requirements of political balance and a majority of members are experienced in audit

⁸ Completed 2017, no change in members since this date.

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>matters, with a good mix of knowledge and skills, having served for many years on the committee.</p> <p>Proposed Action: <i>Consider future training requirements and feed into training plans.</i></p>
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	Yes	ToR, para 1
	<ul style="list-style-type: none"> Consideration has been given to the inclusion of at least one independent member (where this is not already a mandatory requirement). 	Yes	<p>There are currently no independent members on the Committee. Appointment would follow good recruitment processes including evaluation of the skills sets required, advertising, clear job specifications and descriptions, selection and awarding processes.</p> <p><i>Consideration has been given to such an appointment and provision is made in the ToR, para 3.</i></p>
13.	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?	N/A	As above.
14.	Does the chair of the committee have appropriate knowledge and skills?	Yes	Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance at Committee and resulting recommendations and minutes, available on public web sites.

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>The Chair also works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks as they develop.</p> <p>The Chair can identify and influence future training requirements for himself and other Committee members.</p>
15.	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Regular training sessions are agreed with the Chair and wider members of the Committee.</p> <p>Demonstrated by:</p> <ul style="list-style-type: none"> • Completion of the skills assessment (completed autumn 2017). • Committee work plan (February/March Committee agenda) • Evidence of training including agendas, supporting training documents etc. available on request. • CIPFA's Better Governance Framework provides members with up to date briefing papers at least twice a year and all members can access the web site which provides weekly updates. Specialist training sessions are also accessible through this subscription.

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> External auditors provide training sessions available to members – demonstrated in their updates to the Committee. <p>Proposed Action: <i>The proposed action at 12 above, will continue to ensure this.</i></p>
16.	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Yes	Training self-assessments have been shared with members autumn 2017 and refreshes of the Audit Committee work plan and self-assessment inform the training plan looking forward.
17.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	Demonstrated by regular attendance at all Committees by these key stakeholders and the professional way the meetings are managed. Interviews with all parties would help to support this conclusion.
18.	Is adequate secretariat and administrative support to the committee provided?	Yes	Regular qualified and experienced secretarial support is provided to all Committee meetings.
	Effectiveness of the committee		The Committee evaluated its effectiveness with members working through and completing a self-assessment to feed into this overall assessment, and following workshops internally and externally facilitated. In addition, completion of the skills and training requirements help support this assessment. In addition, results from the externally

	Good practice questions	Yes/ No/ Partly	Evidence
			facilitated self-assessment were fed back to the Committee at the June 2018 meeting.
19.	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Committee has received verbal feedback from members, officers and external audit, but no formal feedback. The external facilitator in March 2018 did not identify this as an issue. Members have since received sessions on how the Committee feeds into the governance framework for further assurance.
20.	Are meetings effective with a good level of discussion and engagement from all the members?	Yes	Demonstrated in minutes and by attendees at Committee and by clear requests for further information in a few high-risk areas.
21.	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Yes	Demonstrated in agendas, minutes and reports of the Committee. All unsatisfactory and limited audit areas are reported to Committee and members invite officers from such areas to provide management updates on progress against agreed control improvements.
22.	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	Yes	Where there is a need to escalate such issues further the Committee would do this through known member and officer channels. Clarity has been provided and explored at governance training sessions on how this works in practice.
23.	Has the committee evaluated whether and how it is adding value to the organisation?	Partly	Demonstrated by the year-end report sent to Council in September (agreed by Audit Committee in July) which sets out delivery in the following areas:

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> • Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively • Contributing to the development of an effective control environment • Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks • Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence • Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements • Supporting the development of robust arrangements for ensuring value for money

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability <p>In addition, agendas and work is planned and shows clearly where the levels of assurance are coming from, providing opportunity to challenge and ensure a balanced information base is received by members.</p> <p>Proposed Action: <i>Members continue to challenge how they can add value to the Council.</i></p>
24.	Does the committee have an action plan to improve any areas of weakness?	Yes	Results from the externally facilitated self-assessment were fed back to the Committee at the June 2018 meeting. This incorporated an action plan. Appendix B2 incorporates an update against agreed activities where appropriate.
25.	Does the committee publish an annual report to account for its performance and explain its work?	Yes	Annual report to Council appears on June Audit Committee agenda allows members to comment and challenge the Committee's work. This is a public report.



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
10 th December 2020	
1:30 pm	<u>Public</u>

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski
e-mail: Ceri.pilawski@shropshire.gov.uk Tel: 01743 257739

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

There are no direct financial implications from adopting the Charter.

5 Climate Change Appraisal

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

6. Background

- 6.1 The Public Sector Internal Audit Standards (PSIAS) 2017 are mandatory for internal audit in public services, including local government. They reflect and are based upon the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors. In addition, amendments were made to the public-sector requirements and public-sector interpretations which form part of the PSIAS. The Internal Audit Charter continues to reflect the standards.
- 6.2 Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Audit's reporting relationship with the Audit Committee; authorises access to personnel, records, and physical properties relevant to audit work; and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in **Annex B** of the Charter.
- 6.3 The Internal Audit Charter refers to;
- The nature of assurance services provided to the Council.
 - Organisational independence.
 - Individual objectivity.
 - Impairment to independence or objectivity.
 - Proficiency and due professional care.
 - Continuing professional development.
 - Quality assurance and improvement programme – internal and external.
- 6.4 The Charter will communicate the contribution that Internal Audit makes to the Council and includes:
- Internal Audit's mission
 - Purpose, principles and responsibilities.
 - Independence and objectivity.
 - Competencies and standards.
 - Planning.
 - Nature of work.
 - Reporting.
 - Quality assurance.
 - Fraud and corruption.
 - Rights of access.
- 6.5 Final approval of the Internal Audit Charter resides with Shropshire Council's Audit Committee. There are no changes proposed.

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

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

Cabinet Member (Portfolio Holder):

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

Local Member: All

Appendix A: Internal Audit Charter with annexes A and B

Appendix A



INTERNAL AUDIT CHARTER

MISSION STATEMENT

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

INTERNAL AUDIT CHARTER

INTRODUCTION

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

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

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

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

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

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

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

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

Principles

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

Objectives

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

Responsibilities

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

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

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

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

⁸ Assurance opinions and recommendation categories are defined in Annex A

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

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

INDEPENDENCE AND OBJECTIVITY

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

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

COMPETENCIES AND STANDARDS

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

INTERNAL AUDIT PLANNING

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

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

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

NATURE OF WORK

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

Governance

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

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

Risk Management

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

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

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

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

Control

35. The internal audit activity must evaluate the adequacy and effectiveness of controls in responding to risks within the organisation's governance operations and information systems regarding the:

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

INTERNAL AUDIT REPORTING

38. Internal Audit findings are reported in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The Head of Internal Audit sets standards for reporting, review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
 - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
 - state scope, purpose and extent of conclusions;
 - make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
 - acknowledge the action taken or proposed by management; and
 - ensure that appropriate risk based arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not acting.

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

QUALITY ASSURANCE

40. To ensure Internal Audit independence, the audit of any areas managed by the Head of Internal Audit will be carried out by an appropriate auditor and reviewed by an audit senior. The Head of Internal Audit will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer as the Head of Internal Audit's line manager.
41. The Head of Internal Audit will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years, an external assessment of Internal Audit by an appropriate person¹⁰ external to the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any improvement plans will be agreed with and reported to the Audit Committee in the annual report¹¹. Significant deviations will be considered for inclusion in the Annual Governance Statement.

¹⁰ Qualified independent assessor or assessment team

¹¹ For both internal and external reviews

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

FRAUD AND CORRUPTION

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

RIGHTS OF ACCESS

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

Reviewed 29 October 2020

Public Sector Internal Audit Standards

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

Overall Assurance Opinion

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

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

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

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

Audit assurance Opinions for engagements are graded as follows

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

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

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

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

Consultancy Activity

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

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

The nature and scope of the work may include:

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

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

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

Code of Ethics

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

There are four principles in the code of ethics:

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

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

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

Annex B

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

Shropshire and Wrekin Fire and Rescue Authority

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

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council

STaRH

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

West Mercia Energy

Senior Management	Treasurer Managing Director
Board	Joint Committee

Shropshire County Pension Fund

Senior Management	Pension Fund Administrator
Board	Pensions Committee



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
10 th December 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

Telephone: 01743 257739

1 Summary

This report provides members with an update of work undertaken by Internal Audit in the three months since the previous Audit Committee. 62% percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in slightly ahead of previous delivery records, however, due to the continuing impact of COVID there has been a minor adjustment to the planned audit activity. The team is on target to achieve 90% delivery by the year end.

Four good, six reasonable, five limited and two unsatisfactory assurance opinions have been issued. The 17 final reports contained 149 recommendations, three of which were fundamental.

This report proposes minor revisions in the coverage of planned activity for Shropshire Council with a minor change in resources from the 2,157 days as reported in September 2020 to 2,159 days. Changes to the planned activity reflect adjustments in both risks and a reduction in available resources for pure audit work given the continuing 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 and notes the change made to the 2019/20 Annual Governance Statement.
- 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.

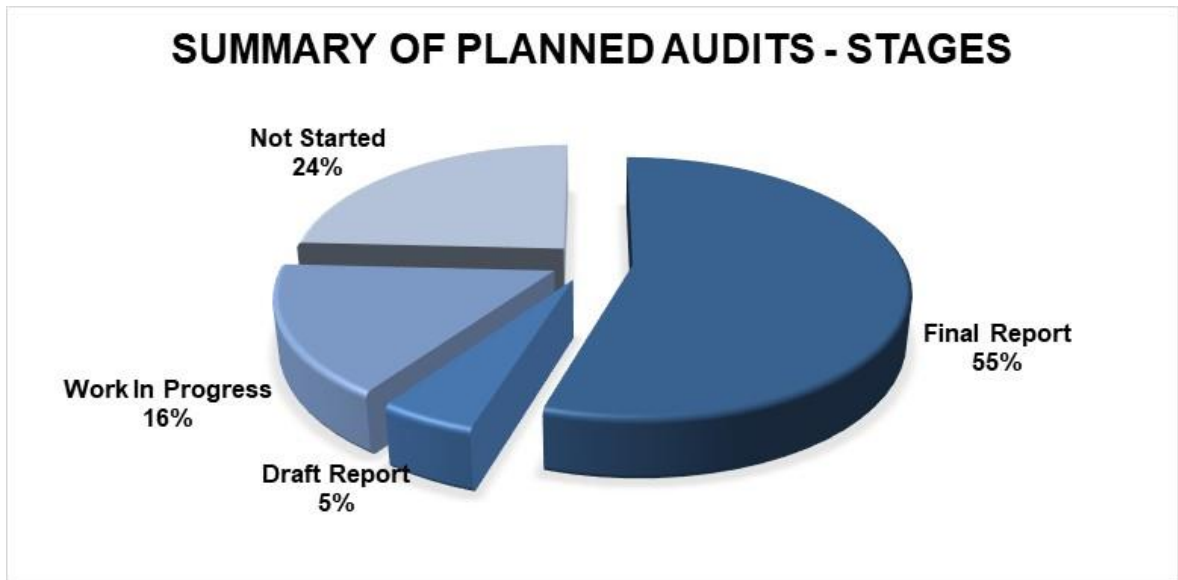
6 Background

- 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.

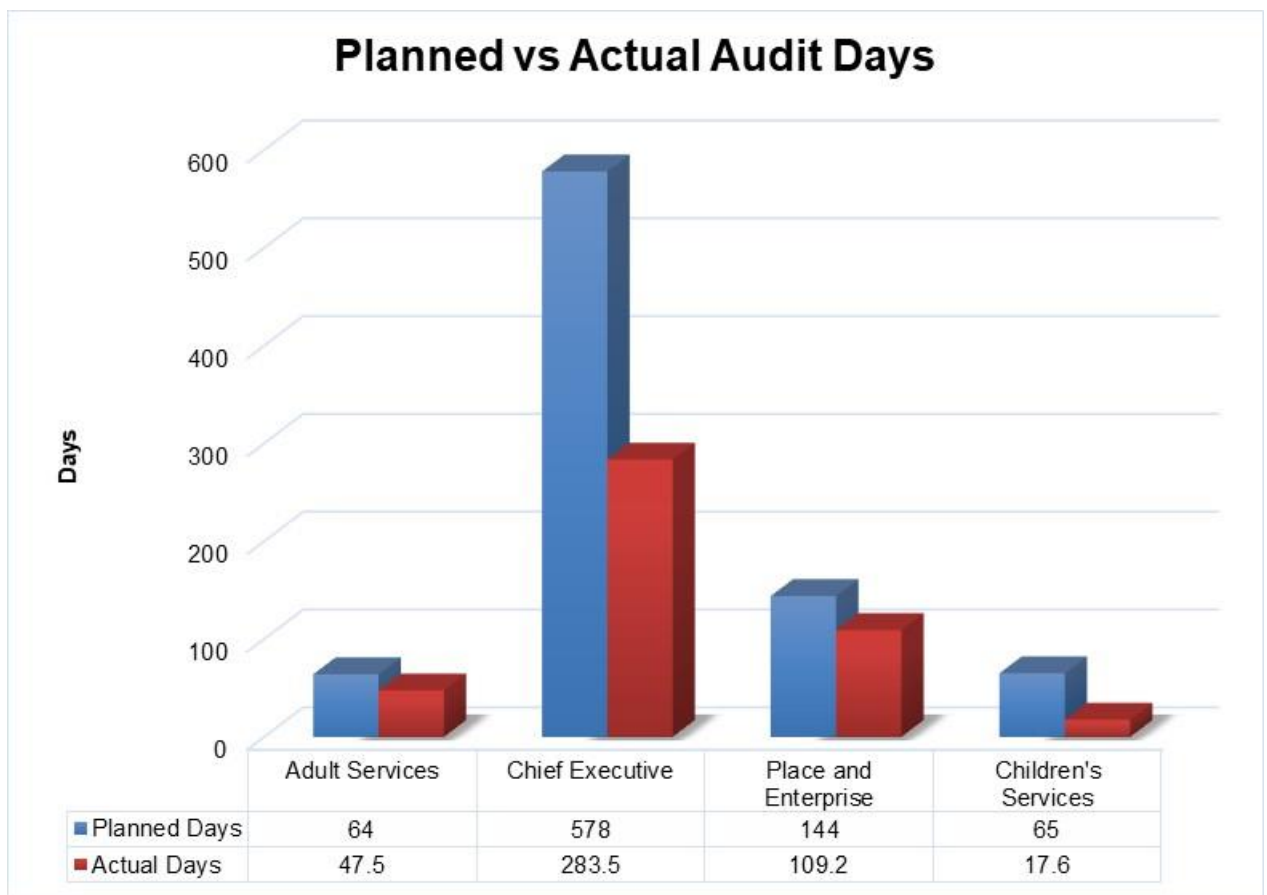
- 6.2 The 2020/21 Internal Audit Plan was presented to, and approved by, members at the 25th February 2020 Audit Committee, with adjustments being approved in September 2020. This report provides an update on progress made against the plan up to 15th November 2020 and includes minor revisions to the plan.
- 6.3 As reported in September, the impact of the COVID pandemic continues to affect planned audit activity. Some planned audit work has commenced but has been exacerbated by a further four-week lockdown in November 2020, delivery of audits in a few areas has not been possible and has been postponed. Auditors have continued to provide corporate support through input into the Business Continuity Group and associated processes; grant administration and more recently, the COVID 19 Regulatory Cell alongside colleagues in Public Protection.
- 6.4 The Head of Audit will report on this, where it impairs on independence or objectivity going forward 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. Currently the impact is low on the Head of Audit's Opinion due to the reduced audit coverage. Given the lower level of coverage in the current climate, where, following conversations with system owners, it is known that control improvements for key systems have not been attained following the diversion of service resources to respond to COVID19, the assurance levels will remain unchanged. Therefore, the Committee will be required to seek and rely on increased assurances from Service Managers, Directors and second lines of assurance where this is available.
- 6.5 The Audit team have continued to work from home utilising the cloud based audit management software to complete their audits remotely. External Clients have also been able to adapt their working practices to enable audits to be completed remotely which has meant that income levels remain unaffected.

7 Performance against the plan 2020/21

- 7.1 Revisions to the 2020/21 planned audit activity provide for a total of 2,159 days. There have been minimal changes to resources, however, the planned audit activity has been adjusted to reflect changes in risks. Performance to date is slightly ahead of previous delivery records at 62% (56% 2019/20), overall the team is on track to deliver a minimum of 90% of the revised annual plan by the year end. There is continued support in the Council's response to COVID19 on grant applications; regulatory cell activity and business continuity.
- 7.2 In total, 17 final reports have been issued in the period from 10th August to 15th November 2020. The following chart shows performance against the approved Internal Audit Plan for 2020/21:



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

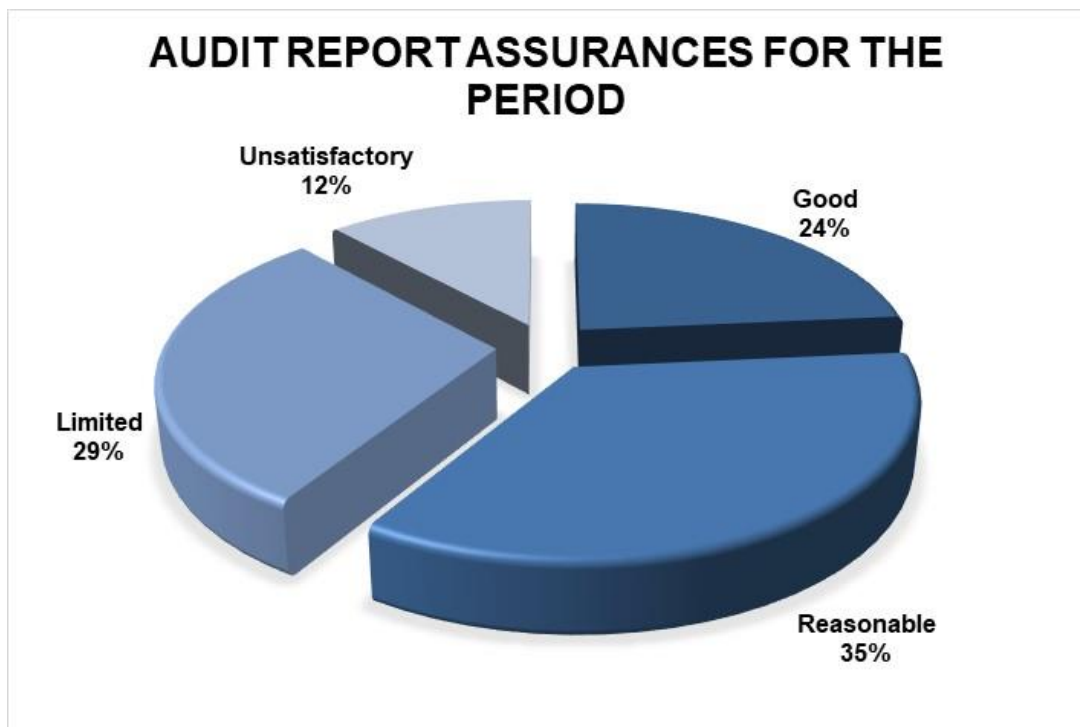


7.4 The following audits have been completed since the beginning of the year:

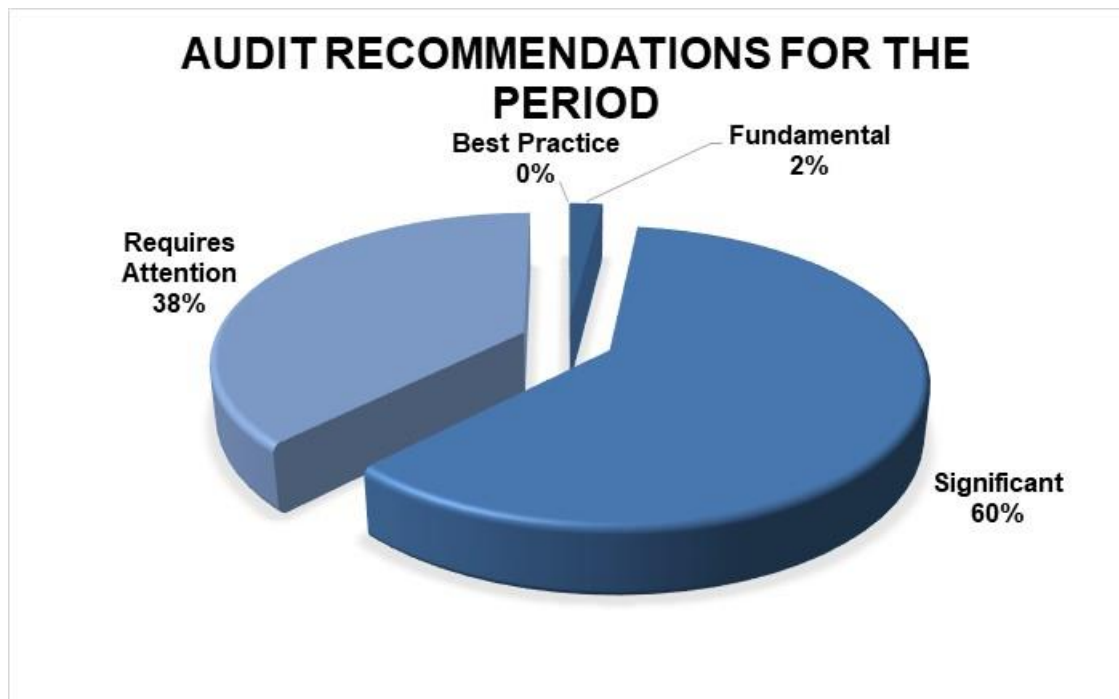
- Assistive Technologies (Broseley Project / Activage)
- Climate Change Strategy
- Commercial Strategy and Plans
- COVID Cyber Risk Assessment
- Digital Mail Room
- Digital Strategy

- Dog Wardens
- General Data Protection Regulations / Freedom of Information
- Highways Design Consultants - Contract
- Highways Maintenance - Bridges
- Highways Maintenance Contract
- IDOX Planning System – IT Application Review
- IT Service Desk Procedures
- Risk Management
- Telecommunications, Contracts and Procurement
- Treasury Management
- Wireless Networking

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



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



- 7.7 Up to the 15th November 2020, ten reports have been issued providing good or reasonable assurances and accounting for 59% of the opinions delivered. This represents a slight 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 41% compared to the previous year outturn of 36%.
- 7.8 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**.
- 7.9 Following completion of the Highways Term Maintenance and Highways Design Contract reviews, details of which are explored in the exempt part of the agenda, given the size of the contract; impact on key Council services and that the control improvements have not impacted greatly on the assurance level for the 2020/21 Internal Audit. Whilst the External Auditor, Grant Thornton, agreed the original wording in the Annual Governance Statement was correct at the time of writing and did not see this as a significant issue for separate reporting in the Statement; he concluded with the accounts still open at the time of Internal Audit completion, that the findings should be reflected in wording of the Annual Governance Statement that accompanies the 2019/20 Statement of Accounts. This has been agreed and signed off by the Chief Executive and the Leader of the Council. For completeness the change made is noted here.

Under Principle D: **DETERMINING THE INTERVENTIONS NECESSARY TO OPTIMISE THE ACHIEVEMENT OF THE INTENDED OUTCOMES.**

Work has been focused improving the control environment in Highways following an unsatisfactory Internal Audit assurance rating for the service. Restructuring, use of

consultants, improved use of technology and a review of processes has been underway but timescales have proved overly ambitious. Following an Internal Audit re-review in 2020/21 an unsatisfactory assurance level has continued regarding the control environment. Management have and will provide interim update reports to Audit Committee demonstrating a positive direction of travel.

- 7.10 Three 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.
- 7.11 A total of 149 recommendations have been made in the 17 final audit reports issued in the period 10th August to 15th November 2020, these are broken down by audit area and appear in **Appendix A, Table 7**.
- 7.12 Three fundamental recommendations have been identified, two of which are detailed below the remaining one is covered in the exempt part of the agenda:

Dog Wardens

Recommendation - A full management review of the Dog Wardens service should be undertaken to ensure that there are appropriate policies and working practices in place to comply with legislation, Council policy and Financial and Contract Rules. This should include a review of the arrangements with the external service provider to ensure that value for money is obtained and an adequate service is provided. (As previously recommended and agreed in 2019/20).

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

Management Response- The standard operating procedures are not yet in place due to staff sickness. Consideration is being given to the way that the service will be delivered in the future. A number of points have already been addressed. A Project Manager has now been appointed to help oversee and manage the development of the operating procedures. This will in turn help rectify the issues identified. The first meeting took place on 26th May 2020, these are scheduled fortnight going forward.

Agreed Implementation Date – 31st December 2020

Telecommunications, Contracts and Procurement

Recommendation - The fixed line and mobile contracts should be prepared and issued for tender as soon as reasonably possible. A full business case should be prepared for the fixed lines contract. In future the process to retender contracts should be started prior to the expiration of the current contract.

Risk - Suppliers have no on-going obligation to provide a service which could lead to withdrawal of services at short notice. This may then result in a new supplier being sort at short notice leading to unsatisfactory terms for the Council and financial loss.

Management Response- Procurement activities for these contracts are underway. As communicated during this audit there are technical reasons why some of the procurement activity has been delayed, these reasons still exist (the main one being the proposed closure of Shirehall in three years). Staffing resources in the ICT department and the Telecoms area in particular have been severely stretched, we are currently attempting to obtain funding for an additional position to alleviate the work burden which

should allow more attention to be given to this area in future. A procurement timeline for these contracts has been developed.

Agreed Implementation Date – January 2021

7.13 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.

7.14 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**.

- Regulatory Cell volunteers; given the ever changing government guidance on which businesses should be operating and under what conditions, Regulatory Services have found themselves under resourced to deliver their statutory responsibilities and the additional pressures that COVID19 has introduced. Auditors interpersonal; professional and evidential based skills are helping to provide additional support daily to businesses on behalf of Regulatory Services.
- Grant administration and counter fraud checks; further grant funds are available to businesses as part of the second national lockdown. With this brings the opportunity for fraudsters to test the system of allocation. Audit resources are directed at verifying payment details and using the supporting systems and processes provided by government bodies to assist in this and maximise the funds going to the right businesses as intended.
- In responding to COVID19 resources have also continued to be redirected to ensuring Business Continuity where appropriate and supporting the corporate response to the pressures.
- Honorary and Voluntary Bodies initiated a project to identity where the Council provides services on a regular basis and the process improvements required to ensure that all the support is collated in one place to celebrate this approach and formalised in transparent arrangements to ensure that any risks are mitigated.
- Auditors have used computer assisted technology, IDEA, to complete data analytics for main financial systems, to help cleanse payroll data and manage leave, especially Christmas leave in the new system. We are looking to imbed this further in audits to improve testing coverage and data quality through whole population testing rather than sample.
- Advice has been provided on the purchase of replacement IT systems, e.g. chip and pin terminals

Direction of travel

7.15 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
2020/21 to date	21%	29%	29%	21%	100%
2019/20	15%	49%	22%	14%	100%
2018/19	26%	41%	27%	6%	100%
2017/18	20%	44%	29%	7%	100%

Comparison of recommendation by categorisation

Categorisation	Best practice	Requires attention	Significant	Fundamental	Total
2020/21 to date	2%	50%	46%	2%	100%
2019/20	1%	59%	39%	1%	100%
2018/19	2%	60%	37%	1%	100%
2017/18	3%	56%	41%	0%	100%

7.16 The number of lower level assurances 50%, at this point in the year, is significantly higher than the outturn for 2019/20 of 36%. The proportion of areas attracting unsatisfactory assurance (21%) 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 and whilst not unexpected with the additional pressures of responding to the COVID19 pandemic, needs to be managed appropriately. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 10th August 2020 to 15th November 2020.

Performance measures

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

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

Internal Audit Performance and Revised Annual Audit Plan 2020/21 – Audit Committee 17th September 2020

Draft Internal Audit Risk Based Plan 2020/21 - Audit Committee 25th 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 10th August 2020 to 15th November 2020

Table 2: Final audit report assurance opinions issued in the period 10th August 2020 to 15th November 2020

Table 3: Unsatisfactory and limited assurance opinions in the period 10th August 2020 to 15th November 2020

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Audit recommendations made in the period 10th August 2020 to 15th November 2020

Table 8: Recommendation follow up process (risk based)

Appendix B - Audit plan by service 10th August 2020 to 15th November 2020

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 10th August to 15th November 2020

	Original Plan	Revised Plan	15th November 2020 Actual	% of Original Complete	% of Revised Complete
Chief Executive	821	578	283.5	35%	49%
Finance, Governance and Assurance	420	377	151.4	36%	40%
Governance	14	14	5.9	42%	42%
Workforce and Development	361	174	112.6	31%	65%
Legal and Democratic	26	13	13.6	52%	105%
Adult Services	194	64	47.5	24%	74%
Social Care	134	61	47.4	39%	78%
Public Health	29	2	0.0	0%	0%
Public Protection	31	1	0.1	0%	10%
Place and Enterprise	221	144	109.2	49%	76%
Children's Services	248	65	17.6	7%	27%
Schools	126	26	0.5	0%	2%
Other	122	39	17.1	14%	44%
S151 Planned Audit	1,484	851	457.8	31%	54%
Contingencies and other chargeable work	582	1070	798	137%	75%
Total S151 Audit	2,066	1,921	1,255.8	61%	65%
External Clients	171	238	93.2	55%	39%
Total	2,237	2,159	1,349	60%	62%

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 10th August to 15th November 2020

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	4	2	3	0	9
Finance, Governance and Assurance	2	0	0	0	2
Governance	0	0	0	0	0
Workforce and Development	2	2	2	0	6
Legal and Democratic	0	0	1	0	1
Adult Services	0	0	1	0	1
Social Care	0	0	1	0	1
Public Health	0	0	0	0	0

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Public Protection	0	0	0	0	0
Place and Enterprise	0	4	1	2	7
Children's Services	0	0	0	0	0
Children's Services: Schools	0	0	0	0	0
Children's Services: Others	0	0	0	0	0
Total for Period					
➤ Numbers	4	6	5	2	17
➤ Percentage	24%	35%	29%	12%	100%
Percentage 2020/21 YTD	21%	29%	29%	21%	100%
Percentage 2019/20	15%	49%	22%	14%	100%
Percentage 2018/19	26%	41%	27%	6%	100%
Percentage 2017/18	20%	44%	29%	7%	100%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 10th August to 15th November 2020¹

Unsatisfactory assurance

Place and Enterprise: Highways Contract (Unsatisfactory 2019/20)

Considered in the exempt part of the agenda

Place and Enterprise: Dog Wardens (Unsatisfactory 2019/20)

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

Limited assurance

Adult Services: Assistive Technologies (Broseley Project / Activage)

- Appropriate project structures are in place to deliver project desired outcomes.
- Appropriate project governance arrangements are in place, to provide management with a suitable framework to make project decisions.
- Project resources are carefully considered to ensure that the project is successfully completed on time and within budget.
- Communication is direct and efficient to allow effective decision making.

Legal and Democratic – General Data Protection Regulations (GDPR) and Freedom of Information (FOI) (Limited 2018/19)

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

- To ensure that the recommendations made in the 2018-19 audit have been implemented as per the original management responses.
- Appropriate organisational measures have been taken to ensure the compliance requirements are met for GDPR (General Data Protection Regulation). Data Protection governance and accountability are clear.
- An information audit has been completed identifying all personal data held, processed and shared.
- Appropriate management arrangements are in place to collate, review and issue responses to FOI requests within the legislative timescales and to the required quality.

Place and Enterprise: Highways Design Contract 2019/20 (Reasonable 2016/17)

Considered in the exempt part of the agenda

Workforce and Development: Telecommunications, Contracts and Procurement

- Formal contract management processes are in place with formally assigned responsibility.
- Appropriate management arrangements are in place to recharge budget managers for usage of fixed line and mobile telephony.

Workforce and Development: Digital Mail Room

- To ensure that the application authentication and authorisation mechanisms are secure.
- To ensure that there are continuity processes are in place to ensure system availability.

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

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

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

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

Table 6: Glossary of terms**Significance**

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

Head of Internal Audit Annual Opinion

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

Governance

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

Risk

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

Control

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

Impairment

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

Table 7: Audit recommendations made in the period from 10th August to 15th November 2020

Service area	Number of recommendations made				
	Best practice	Requires attention	Significant	Fundamental	Total
Chief Executive	0	27	28	1	56
Finance, Governance and Assurance	0	4	4	0	8
Governance	0	0	0	0	0
Workforce and Development	0	16	17	1	34
Legal and Democratic	0	7	7	0	14
Adult Services	0	4	22	0	26
Social Care	0	4	22	0	26
Public Health	0	0	0	0	0
Public Protection	0	0	0	0	0
Place and Enterprise	0	22	34	2	58
Children's Services	0	3	6	0	9
Children's Services: Schools	0	0	0	0	0
Children's Services: Others	0	3	6	0	9
Total for Period					
➤ Numbers	0	56	90	3	149
➤ Percentage	0%	38%	60%	2%	100%
Percentage 2020/21 YTD	2%	50%	46%	2%	100%
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 10th AUGUST TO 15th NOVEMBER 2020

	Original Plan Days	Sept. Revision	Nov. Revision	Revised Plan Days	15th November 2020 Actual	% Revised Plan
CHIEF EXECUTIVE						
Governance	14	0	0	14	5.9	42%
Finance Governance & Assurance						
Finance Transactions	135	-25	-5	105	24.2	23%
Finance and S151 Officer	88	14	-10	92	25.1	27%
Financial Management	83	-5	0	78	46.4	59%
Procurement and Contract Management	30	0	0	30	17.1	57%
Revenues and Benefits	59	-8	0	51	17.9	35%
Risk Management and Insurance	7	-7	0	0	0.3	0%
Treasury	18	1	2	21	20.4	97%
	420	-30	-13	377	151.4	40%
Workforce and Development						
Human Resources	161	-104	-4	53	30.9	58%
Information Governance	8	-8	0	0	0.0	0%
ICT	168	-51	1	118	79.3	67%
Occupational Health & Safety	11	-8	0	3	2.4	80%
Customer Services	13	-13	0	0	0.0	0%
	361	-184	-3	174	112.6	65%
Legal and Democratic	26	-16	3	13	13.6	105%
CHIEF EXECUTIVE	821	-230	-13	578	283.5	49%
ADULT SERVICES						
Social Care Operations						
Long Term Support	117	-66	0	51	37.7	74%
Assistive Services	5	5	0	10	9.7	97%
	122	-61	0	61	47.4	78%
Social Care Efficiency and Improvement						
Developmental Support	12	-12	0	0	0.0	0%
Public Health	29	-27	0	2	0.0	0%

	Original Plan Days	Sept. Revision	Nov. Revision	Revised Plan Days	15th November 2020 Actual	% Revised Plan
Public Protection						
Environmental Protection and Prevention- Public Protection	15	-15	0	0	0.0	0%
Community Safety	8	-6	-1	1	0.1	10%
	23	-21	-1	1	0.1	10%
Bereavement						
	8	-8	0	0	0.0	0%
ADULT SERVICES	194	-129	-1	64	47.5	74%
PLACE AND ENTERPRISE						
Business, Enterprise and Commercial Services						
Commercial Services	8	-3	0	5	5.0	100%
Housing Services	10	-10	0	0	0.0	0%
Shire Services	15	-15	0	0	0.0	0%
Strategic Asset Services	13	-10	0	3	1.4	47%
	46	-38	0	8	6.4	80%
Economic Development						
Business Growth and Investment	19	-19	8	8	0.0	0%
Development Management	8	0	0	8	8.4	105%
Planning & Corporate Policy	8	7	0	15	9.7	65%
Project Development	15	-15	0	0	0.0	0%
	50	-27	8	31	18.1	58%
Infrastructure and Communities						
Highways	95	-21	15	89	69.4	78%
Library Services	6	-6	0	0	0.0	0%
Public Transport	12	0	0	12	10.8	90%
	113	-27	15	101	80.2	79%
Culture and Heritage						
Theatre Severn and OMH	8	-6	1	3	3.4	113%
Leisure Services	0	1	0	1	1.1	110%
Visitor Economy	4	-4	0	0	0.0	0%
	12	-9	1	4	4.5	113%
PLACE AND ENTERPRISE	221	-101	24	144	109.2	76%

	Original Plan Days	Sept. Revision	Nov. Revision	Revised Plan Days	15th November 2020 Actual	% Revised Plan
CHILDREN'S SERVICES						
Safeguarding						
Assessment & Looked After Children	15	-15	0	0	0.0	0%
Children's Placement Services & Joint Adoption	49	-40	0	9	1.9	21%
Safeguarding	20	-4	0	16	9.5	59%
	84	-59	0	25	11.4	46%
Learning and Skills						
Business Support	31	-24	0	7	3.1	44%
Education Improvements	7	0	0	7	2.6	37%
Primary/Special Schools	116	-95	0	21	0.5	2%
Secondary Schools	10	-5	0	5	0.0	0%
	164	-124	0	40	6.2	16%
CHILDREN'S SERVICES	248	-183	0	65	17.6	27%
Total Shropshire Council Planned Work	1,484	-643	10	851	457.8	54%
CONTINGENCIES						
Advisory Contingency	60	-34	0	26	15.2	58%
Fraud Contingency	200	-75	0	125	57.0	46%
Unplanned Audit Contingency	50	-50	0	0	0.0	0%
Other non audit Chargeable Work	272	652	-5	919	725.8	79%
CONTINGENCIES	582	493	-5	1,070	798.0	75%
Total for Shropshire	2,066	-150	5	1,921	1,255.8	65%
EXTERNAL CLIENTS	171	70	-3	238	93.2	39%
Total Chargeable	2,237	-80	2	2,159	1,349.0	62%

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