

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

Date: 24 February 2021
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 4 March 2021
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:
www.shropshire.gov.uk/AuditCommittee4March2021

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 meetings held on the 10 December 2020 and 11 February 2021 (Pages 1 - 10)

The Minutes of the meetings held on the 10 December 2020 and 11 February 2021 are attached for confirmation.
Contact Michelle Dulson (01743) 257719

4 Public Questions

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 1.30pm on Tuesday 2 March 2021.

5 Members Questions

To receive any questions of which Members of the Council have given notice. The deadline for notification for this meeting is 1.30pm on Tuesday 2 March 2021.

6 First line assurance: Pensions Payroll interfacing update (Pages 11 - 14)

The report of the Head of Workforce and Organisation Development is attached.
Contact: Sam Williams (01743) 252817

7 Second line assurance: Strategic Risks update (Pages 15 - 20)

The report of the Risk and Insurance Manager is attached.
Contact: Angela Beechey (01743) 252073

8 Governance Assurance: Draft Audit Committee annual work plan and future training requirements (Pages 21 - 48)

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

9 Third line assurance: Report of the Audit Review of Risk Management (Pages 49 - 52)

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

10 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2020/21 (Pages 53 - 70)

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

11 Third Line Assurance: Draft Annual Internal Audit risk based plan 2021/22 (Pages 71 - 82)

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

12 Third line assurance: External Audit, Audit progress report and sector update (Pages 83 - 100)

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

13 Third line assurance: External Audit, Annual Audit Letter 2019/20 (Pages 101 - 118)

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

14 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 24 June 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 Exempt minutes of the previous meeting held on 10 December 2021 (Pages 119 - 124)

The Exempt Minutes of the meeting held on the 10 December 2020 are attached for confirmation.
Contact Michelle Dulson (01743) 257719.

17 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 125 - 128)

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



Committee and Date

Audit Committee
4 March 2021

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 10 DECEMBER 2020 1.30 - 4.58 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Peter Adams (Chairman)

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

128 Apologies for Absence / Notification of Substitutes

128.1 An apology was received from Councillor Ioan Jones.

129 Disclosable Pecuniary Interests

129.1 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.

130 Minutes of the previous meeting held on the 29 October 2020

130.1 RESOLVED:

That the minutes of the meeting of the Audit Committee held on 29 October 2020 be approved and signed by the Chairman as a correct record.

131 Public Questions

131.1 No public questions had been received.

132 Members Questions

132.1 No Member questions had been received.

133 Second line assurance: Treasury Strategy Mid-Year Report 2020/21

133.1 The Committee received the report of the Interim Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which provided an economic update for the first six months of 2020/21; including a review of the Treasury Strategy; Annual Investment Strategy, the Council's investment portfolio;

the Council's borrowing strategy; any debt rescheduling undertaken and compliance with Treasury and Prudential limits all for 2020/21

- 133.2 The Interim Executive Director of Resources (Section 151 Officer) informed the Committee that the Treasury team achieved an outturn of 0.62% on the Council's cash balances and had outperformed the benchmark by 0.68%, amounting to £603,800 additional income. He also drew attention to the changes to the PWLB borrowing rates which made them less affordable.
- 133.3 In response to a query, the Interim Executive Director of Resources (Section 151 Officer) confirmed that although the Council did not currently invest in any of the organisations on the FITCH credit ratings list it could do so in the future if it so wished.
- 133.4 A further query was raised in relation to the Council's investments with Thurrock Borough Council following a report published in the CIPFA magazine reporting that Thurrock Borough Council had made changes to its borrowing strategy making it more difficult to secure short term loans due to investment issues. In response, the Interim Executive Director of Resources (Section 151 Officer) explained that there were a number of Local Authorities on the list who tended to have reasonable rates of investment and, as they had government backing, were unable to go bankrupt. However, the individual circumstances of an organisation would be considered before the Council decided whether it wished to invest. The Council's investments in Thurrock Borough Council were made in July 2020 one of which had matured and the other was due to mature in May 2021. A watchful eye was being kept on this investment but no concerns had so far been raised.
- 133.5 **RESOLVED:**
- A. That the position as set out in the report be noted.
 - B. To note that any changes required to the Treasury Strategy including the Annual Investment Strategy or prudential and treasury indicators as a result of decisions made by the Capital Investment Board will be reported to Council for approval.

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

- 134.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which outlined the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and provided an update to Members in response to national and local issues.
- 134.2 The Head of Audit reported that the Strategy had been reviewed and updated to reflect both best practice and to align with the updated Fighting Fraud and Corruption Locally Strategy 2020. She drew attention to the inclusion of a new fourth pillar to Govern and an additional theme to Protect, set out at paragraph 7.10 of the report.

134.3 The Head of Audit explained that the result of the CIPFA Fraud and Corruption Tracker survey would be published in early 2021 and would be shared with the Committee. She also informed the Committee that the results of the latest National Fraud Initiative data matching exercise were awaited and would be reported to a future meeting of the Audit Committee.

134.4 In response to a query, the Head of Audit expanded on the difference between outcomes and activity which had been referred to in paragraph 7.4 of the report.

134.5 RESOLVED:

That the Counter Fraud, Bribery and Anti-Corruption Strategy be endorsed and that the measures undertaken and detailed in the report to manage associated risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption be noted.

135 Governance Assurance: Annual review of Audit Committee Terms of Reference

135.1 The Committee received the report of the Interim Executive Director of Resources (S151 Officer) – copy attached to the signed Minutes – which set out the Audit Committee Terms of Reference, attached at Appendix A. The Interim Executive Director of Resources (S151 Officer) drew attention to the amendments made at paragraphs 38 and 45 which had been updated to reflect constitutional changes allowing the Audit Committee to approve the Final Accounts Pack including the Statement of Accounts.

135.2 Attention was drawn to paragraphs 2 (Membership) and 46 (Powers of the Audit Committee) which appeared to say the same thing and, in order to reduce duplication, it was agreed that the first reference be deleted i.e. paragraph 2.

135.3 In response to a query the Interim Executive Director of Resources (S151 Officer) confirmed that the Constitution allowed for the Committee to refer items to Cabinet and/or Council throughout the year where the Committee felt there was sufficient cause for concern and he agreed to include this in the Terms of Reference.

135.4 RESOLVED:

That the Audit Committee Terms of Reference be endorsed, subject to the above amendments.

136 Governance Assurance: Annual Audit Committee Self-Assessment

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

- 136.2 A brief discussion ensued in relation to questions 19 (Has the Committee obtained feedback on its performance from those interacting with the Committee or relying on its work?) and 23 (Has the Committee evaluated whether and how it is adding value to the organisation?) and whether the Committee were fully or partially compliant. Members considered that approving the Statement of Accounts, which was a major function of Full Council and which had been delegated to the Audit Committee, did indeed add value to the organisation. It was suggested that the Committee were fully compliant in both those areas.
- 136.3 Members felt that its main source of feedback would be around the Annual Report that was considered by Full Council and which was quite a comprehensive report on the work of the Committee and if Council were dissatisfied that would be the place that those concerns would be raised. Members would however be interested in learning from others in terms of good practice if there was anything further that the Committee could be doing to promote that feedback and the same for demonstrating added value. Partial compliance was therefore felt to be a good place to be and did not mean that the Committee were not fulfilling those items but it just demonstrated that the Committee needed to be constantly aware of those two areas in particular to ensure that they were fulfilling their role.
- 136.4 In response, the Interim Executive Director of Resources (S151 Officer) added that the question Members needed to ask themselves as a Committee was whether if an external reviewer agreed that the Committee were compliant with those two items but requested that the Committee provide them with the evidence, eg where is the evidence that you obtained feedback and where is the evidence that the Committee had evaluated that added value. He commented that these were really difficult things to demonstrate and that compliance was considered as partial not because anything was missing other than the evidence behind it.
- 136.5 **RESOLVED:**
- A. That the self-assessment of good practice attached at Appendix A be endorsed.
 - B. That the analysis of training requirements attached at Appendix B be endorsed.
 - C. That the action plan be reviewed and revised to improve areas of weakness.

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

- 137.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes. The Head of Audit confirmed that no changes were being proposed.
- 137.2 In response to a query about whether the Redmond Review would affect the Charter, it was confirmed that any implications following the Redmond Review would be unknown until the recommendations from the review were finalised.
- 137.3 **RESOLVED:**
- That the Internal Audit Charter be endorsed.

138 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2019/20

- 138.1 The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which provided Members with an update of the work undertaken by Internal Audit in the three months since the previous Audit Committee.
- 138.2 The Head of Audit informed the meeting that 62% of the revised plan had been completed and that the team were on target to achieve 90% delivery by year end. She confirmed that there had been a slight adjustment to the planned activity due to Covid-19. Four good, six reasonable, five limited and two unsatisfactory assurance opinions had been issued and the 17 final reports contained 149 recommendations, three of which were fundamental.
- 138.3 The Head of Audit drew attention to the audits that had been completed since the beginning of the year along with the assurance levels awarded to each completed audit area (paragraphs 7.4 and 7.5 respectively). Of the 10 reports that had been issued 59% of the opinions had been good or reasonable, which was a decrease from the previous year (64%) and which was offset by a corresponding increase in limited and unsatisfactory assurances (41% compared to 36% the previous year).
- 138.4 The Head of Audit highlighted the three fundamental recommendations two of which were set out at paragraph 7.12 of the report whilst the remaining one was covered in the exempt part of the meeting. Turning to the Direction of Travel, the Head of Audit informed the Committee that there had been a significant rise in lower level assurances (50% compared to 36% the previous year) which was an early indicator of a weaker control environment across the Council.
- 138.5 In response to a query about the fundamental recommendation made in relation to Telecommunications, Contracts and Procurement, the Head of Audit amplified on how the risks due to the proposed closure of Shirehall would be managed and mitigated. Members requested that an update be provided to a future meeting of the Committee.
- 138.6 In response to a query in relation to the increasing levels of limited and unsatisfactory assurance levels, the Head of Audit explained that the weaker control environment needed to be managed appropriately and consideration made as to what measures could be put in place and also what Members could do as a Committee to support the organisation and have an impact on its direction of travel. She also commented that deadlines/time frames may need to be extended as resources were pulled into responding to the Covid-19 pandemic. She assured the Committee that Directors and Managers were aware of the situation.
- 138.7 **RESOLVED:**
- a) That performance to date against the 2020/21 Audit Plan as set out in the report be noted;
 - b) That the changes made to the 2019/20 Annual Governance Statement be noted.

- c) That the adjustments required to the 2020/21 plan to take account of changing priorities, as set out in Appendix B of the report, be endorsed.

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

- 139.1 The Committee received the report of the External Auditor – copy attached to the signed Minutes – which provided the Audit Committee with a report on progress together with a summary of emerging national issues and developments which may be of relevance to the Council.
- 139.2 The Engagement Lead confirmed that the 2019/20 audit had been completed and that an unqualified opinion had been issued which included an emphasis of matter paragraph in relation to material valuation uncertainties arising due to Covid-19.
- 139.3 Looking at Audit fees, the Engagement Lead reported that the increase in fees due to the impact of Covid-19 would be approximately 15-20% but that this would be discussed with the Interim Executive Director of Resources (Section 151 Officer).
- 139.4 The Engagement Lead drew Members attention to the final Audit Findings Report included on page 6 of the report and he confirmed that the Whole of Government accounts work had now been completed and the Certificate of Audit issued.

139.5 RESOLVED:

That the contents of the report be noted.

140 Third line assurance: External Audit, Certification Summary Report

- 140.1 It was confirmed that the deadline for the Certification Summary Report had been extended to the end of January 2021 so this item had been deferred to a future meeting of the Audit Committee.

141 Date and Time of Next Meeting

- 141.1 Members noted that the next meeting of the Audit Committee would be held on the 4 March 2021 at 1:30pm.

NB. An additional meeting was subsequently arranged to take place on 11 February 2021.

142 Exclusion of Press and Public

142.1 RESOLVED:

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

143 First line assurance: Theatre Severn Progress Update (Exempted by Categories 1, 2 and 3)

143.1 Members received the exempt report of the Assistant Director of Homes and Communities - copy attached to the exempt signed minutes- which gave an update on progress on audit recommendations for Theatre Severn.

143.2 RESOLVED:

That the contents of the report be noted.

144 First line assurance: Leisure Services Progress Update (Exempted by Categories 1, 2 and 3)

144.1 Members received the exempt report of the Assistant Director of Homes and Communities - copy attached to the exempt signed minutes- which gave an update on progress on audit recommendations for Leisure Services.

114.2 RESOLVED:

That the contents of the report be noted.

145 Third line assurance: Highways Term Maintenance and Highways Design Contracts (Exempted by Category 5)

145.1 The Committee received the exempt report of the Head of Audit – copy attached to the exempt signed Minutes – which updated Members with the key findings following reviews of the Highways Term Maintenance Contract and Highways Design Contract and actions that management were taking.

145.2 RESOLVED:

That the contents of the report be noted.

146 First line assurance: Highways Term Maintenance Contract (Exempted by Categories 3,4, and 5)

146.1 The Committee received the exempt report of the Director of Place and Enterprise – copy attached to the exempt signed Minutes – which updated Members with progress following a further audit of the Highways Term Maintenance Contract.

146.2 RESOLVED:

That the contents of the report be noted.

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

147.1 The Committee received the exempt report of the Principal Auditor - copy attached to the exempt signed Minutes - which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

147.2 **RESOLVED**

That the contents of the report be noted.

Signed (Chairman)

Date:



Committee and Date

Audit Committee

4 March 2021

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 11 FEBRUARY 2021

1.30 - 1.57 PM

Responsible Officer: Tim Ward

Email: tim.ward@shropshire.gov.uk Tel: 01743 257713

Present

Councillor Peter Adams (Chairman)

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

148 Apologies for Absence / Notification of Substitutes

148.1 There were no apologies for absence received

149 Disclosable Pecuniary Interests

149.1 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.

150 Public Questions

150.1 No public questions had been received

151 Members Questions

151.1 No Members questions had been received

152 Second line assurance: Treasury Strategy 2021/22

152.1 Members received the report of the Interim Executive Director, Resources (Section 151 Officer), which set out the proposed Treasury Strategy for 2021/22 and the Prudential and Treasury Indicators for the years 2021/22 to 2023/24

152.2 The Interim Executive Director, Resources (Section 151 Officer) reminded Members that the current strategy had been approved at the recent Cabinet meeting and would be considered by Full Council at its meeting on the 25th February.

152.3 The Head of Treasury and Pensions reminded Members that a Treasury Strategy was produced yearly and was updated throughout the year.

152.4 The Head of Treasury and Pensions advised Members that there was an approved borrowing requirement within the capital programme of £118.9 million over the next

3 years and that in addition to this there was an anticipated requirement of £113.6 million for future capital schemes which are currently being prioritised within the capital strategy.

152.5 The Head of Treasury and Pensions reminded Members that there were agreements in place to loan money to Connexus Housing, and Severnside Housing and to the Council wholly owned housing Company Cornovii Homes.

152.6 In response to a question the Head of Treasury and Pensions confirmed that there were no plans to appoint an External Fund Manager at this time but if in the future one was appointed; they would have to comply with the Council's Annual Investment Strategy.

152.7 In response to a question regarding what would be the implications if negative interest rates were introduced by the Bank of England, the Head of Treasury and Pensions commented that he did not expect this to occur and referred members to the interest rate forecasts table within the report, but if it did he felt that the Council would use internal cash balances rather than external borrowing to finance capital expenditure and reduce the interest receivable budget accordingly.

152.8 A Member asked in respect of Prudential Indicator 4 why there was a zero figure for Commercial activities/ non-financial investments in 2023/24. The Head of Treasury and Pensions advised that this was due to the fact that as yet there was nothing approved in the Capital Programme for that year and that this would be updated as and when required.

152.9 **RESOLVED:**

That the Audit Committee endorse the Treasury Strategy 2021/22

153 **Date and Time of Next Meeting**

153.1 Members noted that the next meeting of the Audit Committee would be held on the 4 March 2021 at 1:30pm.

Signed (Chairman)

Date:



Committee and Date

Audit Committee: 4th March 2021

Item

Public

PAYROLL AND PENSIONS INTERFACE UPDATE

Responsible Officer Sam Williams, Head of Workforce & Organisation Development
e-mail: sam.williams@shropshire.gov.uk Tel: 01743 252817

1. Summary

- 1.1. This report provides an update in relation to the Payroll and Pensions interface, as requested by Audit Committee at the meeting on 17th September 2020.
- 1.2. Regular monthly meetings have been taking place between Pensions and Payroll to ensure that reviews are undertaken, and any new issues are resolved. These meetings and review of the previous issues log continue to ensure historic issues are resolved and are subject to continuous improvement/review until the original issue is dealt with.
- 1.3. Some issues remain ongoing due to system constraints dictated by the ERP¹ system, however there are mitigating actions in place to manage these. Measures include the procedure tightened with reminder/alerts to managers to notify payroll of extensions to fixed term contract (FTC) end dates before they lapse and FTC reports issued to the HR Team to liaise with Schools. The Payroll team also check leavers details every month to ensure they are true leavers.
- 1.4. Work is ongoing with the Systems Admin team responsible for the ERP system to address system issues. Fixes have been put in for a number of issues raised previously which will reduce errors. Some issues that were raised previously were issues relating to implementation of the new system and have now been resolved.
- 1.5. An I-Connect² Procedure has been produced, documenting the process and temporary workarounds. Where workarounds are in place for I-connect issues, reviews have been conducted to ensure checks/balances are in place to ensure appropriate temporary solutions are accurate, which are checked

¹ Enterprise Resource Planner - software that provides for the management of Council accounting, purchasing, HR and payroll information.

² I-Connect – the Pensions system that receives data in a specific format from the ERP.

and reconciled to data in the ERP. This will provide an audit trail for the actions taken that can be used for separate, and later, independent verification and compliance checks.

- 1.6. A new version of the main I-Connect report, to accommodate the corporate accounting period rather than payroll period, to pick up re-works and reduce adjustments needed to balance has been created and will be fully tested before implementation from April 2021.
- 1.7. Knowledge transfer of I-Connect processes to additional members of the Payroll team is taking place to ensure a better understanding and knowledge base is held within the team and will be concluded by 31st March 2021.

2. Decision

- 2.1. Audit Committee are asked to note the progress that has been achieved to reduce errors and ensure that correct information is transferred from the payroll system to pension records via I-Connect.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 A failure to resolve the issues could lead to incorrect employee data continuing to be extracted and interfaced in the pensions system, which will result in incorrect employee pension records and an incorrect Annual Benefit Statement. However, this 'incorrect employee data' is limited to extraction for the I-Connect system, rather than leading to under or over payments in the payroll system.
- 3.2 An Annual Benefit Statement which was known not to be correct would not be sent out. The materiality (i.e. the number of incorrect statements) would need to be established and depending in the size of this a breach would need to be reported to the Regulator who would investigate the matter and call the fund into account. This would be a statutory breach because Local Government Pension Scheme (LGPS) regulations require the fund to issue statements prior to the deadline.
- 3.3 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. There are no financial implications associated with this report. Additional work associated with the Payroll and Pensions interface is managed within existing resources.

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 adaption. Therefore, no effect.

6. Conclusion

- 6.1. Work continues to be undertaken between Payroll, Pensions and Systems Admin to overcome the issues in incorrect information being transferred from the ERP to I-Connect. Regular meetings take place to undertake reviews and mitigating actions are in place to reduce errors.
- 6.2. With the mitigations described above in place, management can provide assurance to Audit Committee that the process can be relied upon, with acceptance that removal of workarounds and human intervention is the planned aim. The timescale for removal of these workarounds with automation of the system is on schedule for 31st July 2021. Internal Audit will then be able to review and provide independent assurance thereafter.

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

<p>Internal Audit Performance September 2020 - Report 3 113.6; item d</p>

<p>Cabinet Member (Portfolio Holder)</p>

<p>David Minnery</p>

<p>Local Member</p>

<p>Appendices</p>

<p>N/A</p>

This page is intentionally left blank



<u>Committee and Date</u>	<u>Item</u>	<u>Paper</u>
Audit Committee – 4 th March 2021		

STRATEGIC RISK REPORT FEBRUARY 2021

Responsible Officer Angela Beechey

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

Tel: (01743)
252073

Fax: (01743)
252858

1. Summary

- 1.1 This report sets out the current strategic risk exposure following the December 2020 quarterly review.

2. Recommendations

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

REPORT

3. Current Strategic Risk Exposure

- 3.1 The management of strategic risk is a key process which underpins the successful achievement of our priorities and outcomes. Strategic risks are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.
- 3.2 Our strategic risks are reviewed on a quarterly basis ensuring that the level of risk exposure is monitored regularly in our rapidly changing environment.
- 3.3 The review on this occasion was achieved through the annual strategic risk workshop with Directors and the Chief Executive where each of the risks was discussed in detail. The strategic risk profiles were then updated to reflect the discussions and the additional control owners were then tasked with updating their actions.
- 3.4 The Risk Profile & Action Plans for managing our strategic risks are completed and fully embedded. These detail the direction of travel for each strategic risk over the year and clearly articulate the current controls in place and the additional controls required to mitigate and manage our strategic risk exposure effectively. Any slippage on outstanding actions is also identified and challenged.
- 3.5 The Risk Profile & Action Plan also includes target scores for each strategic risk to be achieved by the end of the current financial year. This year has been challenging with all efforts concentrating on the response to Covid-19, therefore it is anticipated that the majority of the target scores will not be achieved this year.

3.6 As at the December 2020 review there were 17 strategic risks on the strategic risk register and these are each managed by specific Directors. These are detailed below together with the direction of travel following the review:

Risk	Risk Owner	L	I	Status	Travel
Ability to fund Adult Services.	Tanya Miles	5	5	25	=
Ability to fund Children's Services.	Karen Bradshaw	5	5	25	=
Sustainable Budget	James Walton	4	5	20	=
Future funding levels	James Walton	4	5	20	=
Mental health & wellbeing of Staff	James Walton	4	4	16	↓
Commercial Strategy	Mark Barrow	4	4	16	=
The effects of climate change.	Mark Barrow	4	4	16	=
Failure to safeguard vulnerable children.	Karen Bradshaw	4	4	16	=
Economic Growth Strategy	Mark Barrow	4	4	16	=
The impact of Covid-19	Andy Begley	4	4	16	↓
Economic Impact of Brexit	Mark Barrow	4	4	16	=
Governance	James Walton	4	3	12	=
Reputation	James Walton	2	4	8	↓
Strategic Vision and Strategy	Andy Begley	2	4	8	=
Failure to safeguard adults with care and support needs.	Tanya Miles	2	3	6	=
Failure to adhere to legislation in relation to DOLS	Tanya Miles	2	3	6	=
Cyber and ICT infrastructure reliance (new risk definition)	James Walton	TBA	TBA	TBA	New Risk

High Risks
Medium Risks
Low Risks

3.7 There were several changes to the risk scores during the review and these are detailed below.

3.7.1 **Failure to manage and mitigate the mental health and wellbeing of staff** - This risk was redefined to reflect the risk more appropriately. The original risk definition was 'Increases in work related stress impacts the ability to deliver Council outcomes.' Following a discussion at the workshop, subsequent discussions with Sam Williams from HR, and based on the feel of the organisation the risk was scored 4x4=16 and remained a high risk.

3.7.2 **Reputation** - During the review there was agreement that the manner in which Shropshire Council has responded to the Covid-19 epidemic has been excellent and this has been supported by a continual presence on the radio and relationships have improved with the local media as a result. Complaints have reduced and compliments increased as a result of the proactive response from the Council. The risk was therefore reduced to a medium risk $2 \times 4 = 8$ from a high $4 \times 4 = 16$ risk, recognising the impact should we lose the positive reputation we have worked to achieve. The appointment of a new communications manager will also benefit this risk.

3.7.3 **The Impact of Covid-19** - This risk saw the likelihood score decrease from a 5 to a 4. The risk remains a high risk at 4×4 but it was considered that the council had responded well to the impact of Covid-19 with processes and procedures in place to respond to the risks. However, it was noted that for some services the pressure is still increasing on both resources and the ability to be able to deliver statutory services due to the continued response to Covid-19 and protecting the community and businesses.

3.8 The workshop with Directors led to some good discussion and it was agreed that one risk should be archived and several should be redefined and new risk profiles created. These are detailed below.

3.8.1 **Inadequate retention and recruitment of experienced and qualified staff results in insufficient capacity and experience to sustain Council's service provision** - There was an awareness that this was more of an operational risk, with small pockets of the organisation having difficulties recruiting. It was also recognised that with changes in the way staff work going forward i.e. home working – the staffing market widens as people no longer need to necessarily live in close proximity to the county. It was therefore agreed that this risk should be archived and dealt with under operational risks but could be reinstated if it becomes more of a council wide strategic concern.

3.8.2 **Cyber and ICT Infrastructure Reliance (Digital Transformation Programme Redefined risk)** - The original risk related to the DTP programme but as the three key systems within the DTP have been installed and are working satisfactorily, it was considered that the key risk now is that of cyber-attack and the reliance of the council on the ICT infrastructure. With staff now working from home primarily the reliance on ICT has become paramount and the failure of the ICT or a cyber-attack would be a huge strategic risk to the authority. The importance of data breaches linked to ICT security is also a key risk. It was agreed that this risk would be redefined and a new risk profile created. This work is underway.

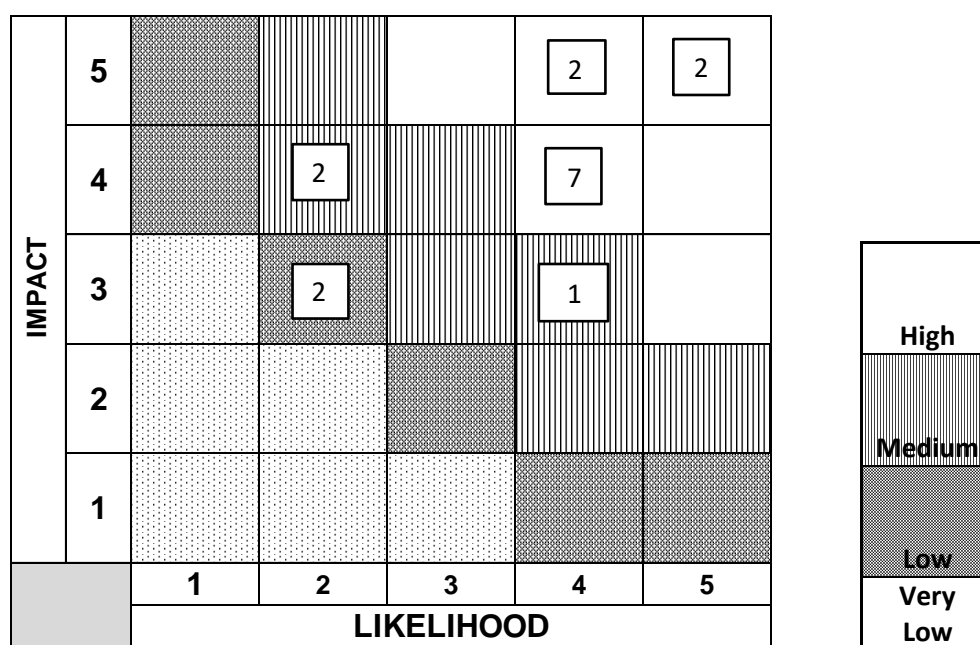
3.8.3 **Governance** - The move to people working primarily from home has changed the risk landscape around governance and data security. The underlying control framework and culture needs to be revisited as does the strategic risk surrounding this. It was agreed that this risk should be redefined and a new

risk profile created. This work is underway and the original score has been retained whilst this work is developed.

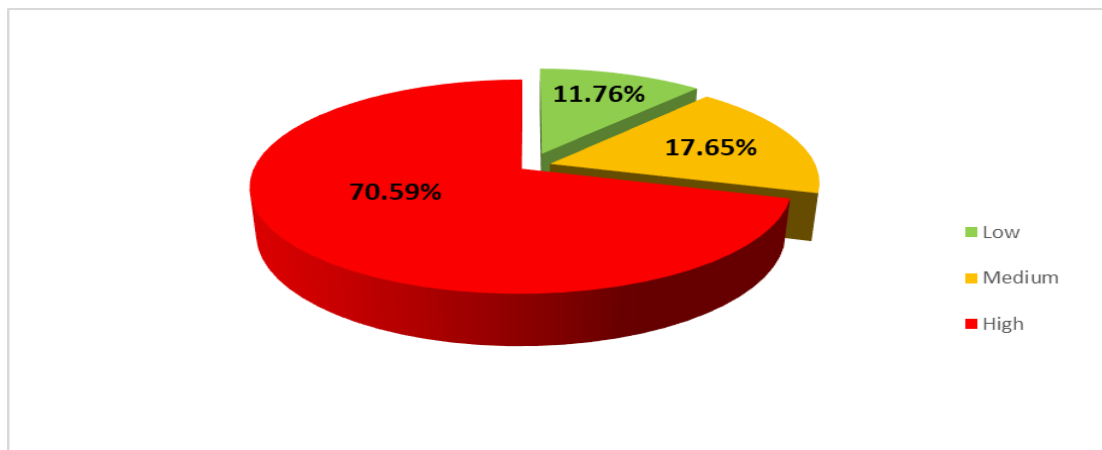
3.8.4 Failure to clearly articulate the strategic vision and strategy for the Council results in inability to deliver outcomes. With the fast-moving pace of change within the authority due to Covid-19 and other developments, it was recognised that the risks around the strategic vision and strategy for the council required some detailed work from Directors. It was agreed that this piece of work would be undertaken by Directors together with consideration of the ownership of the strategic risks. The score and the risk definition have therefore not been altered pending the review by Directors.

3.8.5 Sustainable Budget Risk and Future Funding Risk - It was agreed that these two risks required further work to reflect the changing economic picture and how this reflects the current financial position and the sustainability of this going forward. The scores have remained the same whilst the review is underway.

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



3.10 Our overall current risk exposure following the latest review is demonstrated below. This shows that the strategic risk exposure above our tolerance level (i.e. high and medium risks) is currently just over 88%. The unscored cyber risk has been included as a high risk for the purposes of the risk exposure.



3.11 The next review is due in March 2020. As with the operational and project risks, we are looking to move the strategic risks on to SharePoint during the next review. This will allow risk owners and those officers with additional controls to have real time access to the risk profiles. This will mean they can be updated between the regular updates and reporting can be done from Sharepoint.

4. Assurance

4.1 Due to the work pressures on managers and the fact that several of the risks are to be redefined, we have not undertaken an assurance review on this occasion.

5. Emerging Risks

Two emerging risks were identified during this review, both regarding Covid-19. One related to the ongoing pressures for staff and their welfare and the second was in relation to the risk of a new variant and the additional pressures this would bring.

5. Monitoring

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

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

Annual Governance Statement

Opportunity Risk Management Strategy

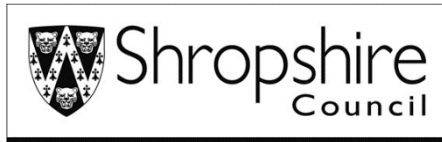
Cabinet Member

David Minnery, Portfolio Holder Resources & Support

Local Member

N/A

Appendices



Committee and Date

Audit Committee

4th March 2021

1:30 pm

Item

Public

REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2021/22

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

Tel: 01743 257739

1. Summary

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

Following elections early training focus will be around the role of Audit Committee and bringing new members up to speed on the Committee's demands of them. The Redmond review of 2020 has recommended a move back to September for the closure of accounts, legislation is awaited and the dates in this report reflect the refreshed timetable but allow for provisional Audit Committees if the legislation is late.

2. Recommendations

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

- a) The Audit Committee work plan for 2021/22, **Appendix A**;
- b) A learning and development plan for Members of the committee taking in to account information in **Appendices A and B**.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 By identifying the key topics to be considered at the Audit Committee meetings and receiving appropriate learning and development sessions in

respect of their roles and responsibilities, Audit Committee Members can undertake their duties effectively and deliver them to a high standard, thereby adding to:

- the robustness of the risk management framework;
- the adequacy of the internal control environment and
- the integrity of the financial reporting and annual governance of the Council.

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

4. Financial Implications

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

5 Climate Change Appraisal

5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation nor climate change adaption. Therefore, no effect.

6 Background

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

Work Plan

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

6.3 There are no proposed changes to the regular reports for which member approval is sought. However, it is worth noting that there are two provisional Audit Committee dates arranged for 2021/22. They are;

- July; following the Redmond Review it is considered sensible to move audit completion of the Council's Statement of Accounts from July to the 30th September. In doing this the main reports can be taken in draft to the June Committee and as finals to the September Committee. This will be subject to the appropriate changes in legislation and therefore as a contingency a date for a July Committee is provisionally arranged.
- October; with the impact of COVID remaining unknown and the need last year for a later Committee meeting to receive the final accounts papers, a provisional date has been agreed as a contingency.

Both these dates can be cancelled nearer the time if not required and are identified with blue font in the attached **Appendix B**.

Learning and Development

- 6.4 CIPFA identify a key characteristic of an effective Audit Committee as having a membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. There is a range of knowledge and experience that audit committee members can bring to the committee which will enable it to perform effectively. No one committee member is expected to be an expert in all areas. There are however some core areas of knowledge which committee members need to acquire in addition to the need for regular briefings and training.
- 6.5 Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2020/21 Members have received three half day sessions covering several topics in detail; i.e.
- Virtual meetings - attendance at Committee's and training sessions on line
 - Capital Strategy and Programme
 - Consideration of the year end reports and the impact of COVID19;
 - CIPFA what should Audit Committee look at
 - Draft Annual Governance Statement (AGS)
 - Draft opinion
 - Draft Annual Assurance report to Council
 - Impact of COVID19 on the governance and internal control environment;
 - Response to COVID Business Continuity and Emergency Planning
 - Managing our staff during COVID
 - Impact on Finance and associated processes as a result of COVID
 - Impact on the Internal Audit focus
 - Continuing impact of COVID19 on governance and the internal control environment

Learning and documentation was also shared on:

- Financing of local authorities; NAO¹ Guide for audit and risk committees on financial reporting and management during COVID-19
- NAO Value for money approach
- Redmond Review and its implications
- The role of members in supporting the Head of Audit's annual opinion
- Lessons learnt from Northamptonshire's commissioned team
- CIPFA Better Governance Forum updates covering
 - Reviewing the Audit Plan

¹ National Audit Office

- Self-assessment and Improving Effectiveness
- Developing an Effective Annual Governance Statement
- Focus on Local Audit
- COVID-19 Pandemic – Key Issues for the Audit Committee
- Regular Briefing on New Developments

- 6.6 It is proposed that training is again provided in three half day sessions over the next twelve months. Sessions are planned for the 17th June, the 9th September 2021 and the 17th February 2022. In addition to this, following the Elections, there will be general training provided to all new members on the role of the Audit Committee and associated activities.
- 6.7 **Appendix B** identifies training topics for Audit Committee Members to consider. Topics are identified as core areas of knowledge that all Audit Committee Members should seek to acquire plus specialisms that can add value to the committee. Members may also want to hear from key officers of the Council where new or changing activities and risks are emerging and can request this as part of their training. It is proposed that initial training sessions consider the core areas of knowledge given that there may be new members following local elections.
- 6.8 Whilst members are asked to endorse the initial sessions for learning and development, this will not prevent any additional items being added during the year or changes being made if these are felt to be of value.

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

Previous training session records

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

Accounts and Audit Regulations 2015

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

Local Member n/a

Appendices

Appendix A – Audit Committee Work Plan 2021/22 and Summary

Appendix B – Audit Committee Members development topics
--

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business 24 June 2021		
1. Internal Audit: Annual Report.	<p>Head of Audit's overall opinion on the Council's internal control environment.</p> <p>Performance against the revised internal audit plan.</p> <p>Provides a review of the effectiveness of the systems of internal control.</p>	<p>To consider the Head of Audit's annual report, specifically:</p> <p>a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.</p> <p>b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.</p>
2. Section 151 Officer: Statement of Accounts.	<p>Ensure that the narrative report to the accounts help the public understand the Council's financial management of public funds.</p> <p>Consider the outcome of the External Audit and the appropriateness of management responses.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need</p>

Appendix A: Audit Committee Work Plan – 2021/22

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

Appendix A: Audit Committee Work Plan – 2021/22

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

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.	functions and financial reporting arrangements. To report to Council where the Audit Committee have added value, improved or promoted the control environment and performance in relation to the Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.
6. Section 151 Officer: Financial Outturn report.	<p>Provides the financial outturn of the Council's revenue budget for the year and therefore considers the effect that any over/underspend has on the Council's balances.</p> <p>Provides details of the potential risks affecting the balances and financial health of the Council.</p> <p>Provides the financial outturn of the Council's capital budget for the year and therefore considers the impact that slippage within the programme will have on the financing of the capital programme in the future, including any future revenue implications.</p>	<p>To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p> <p>To consider the Council's arrangements for securing value for money and review assurances and assessments on the effectiveness of these arrangements.</p>

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
7. Head of Workforce and Organisational Development: Annual Whistleblowing report.	Assurance that as part of the Counter Fraud, Bribery and Anti-Corruption Strategy the Whistleblowing policy contributes to our zero tolerance of fraud, bribery and corruption.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
8. External Audit: Fee Letter.	To provide a clear indication as to the External Auditor's fees for the year.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
9. External Audit: Audit progress report and sector update.	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •several challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
10. Internal Audit: Fraud, investigations and RIPA update.	Provide assurances and an update on current fraud and investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	activity under the Regulation of Investigatory Powers Act (RIPA).	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
11. External Audit: Pension Fund Audit Plan (information).	Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans for the Pension Fund.	To consider specific reports as agreed with the External Auditor and other inspection agencies.
12. Executive Director of Place and Enterprise – Highways update	Evidence that the service area is improving the control environment in respect of Highways Maintenance activity.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
Core business: 16 September 2021		
13. External Audit: Audit Findings report Shropshire Council	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements. Ensure any issues / risks identified are being effectively managed.	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.
14. Final Statement of Accounts	Approve the final audited outturn position for the financial year and details of any amendments	To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>made to the Draft Statement of Accounts during the audit process.</p> <p>Where a meeting is held before the 31st July, to agree that the Interim Executive Director of Resources (s151 Officer) be authorised to make any minor adjustments to the Statement of Accounts prior to the 31st July.</p> <p>Agree that the Interim Executive Director of Resources (s151 Officer) and the 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.</p>	<p>have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.</p>
<p>15. Risk and Insurance Manager: Risk Annual report incorporating strategic risks.</p>	<p>To understand the current strategic risk exposure together with recent modifications and planned changes to strategic risk management within the Council.</p> <p>Gain assurance that the Council is effectively managing its key risks – has good risk management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.</p>	<p>To monitor the effective development and operation of risk management in the Council.</p>

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
16. Section 151 Officer; Annual Treasury report.	Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
17. Internal Audit: Performance report and revised Annual Audit Plan.	<p>Understand the level of assurances being given because of audit work and their impact on the Council's governance, risk and control environment.</p> <p>Ensure management action is taken to improve controls / manage risks identified.</p> <p>Encouraging ownership of the internal control framework by appropriate managers.</p> <p>Confirm appropriate progress being made on the delivery of the audit plan and performance targets.</p>	<p>To consider reports from the Head of Audit on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include updates on the work of Internal Audit including key findings, issues of concern and action in hand as a result of Internal Audit work.</p> <p>To consider summaries of specific internal audit reports as requested.</p>

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>Understand any resourcing issues because of changes to the plan.</p>	<p>To receive reports outlining the action taken where the Head of Audit has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.</p> <p>To approve significant interim changes to the risk based internal audit plan and resource requirements.</p>
<p>18. External Audit: Audit progress report and sector update.</p>	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
19. External Audit: Annual Audit Letter.	Provides assurances on the key findings arising from the work that External Audit have carried out at the Council.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
20. Internal Audit: Fraud, special investigations and RIPA update.	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
21. External Audit: Audit Findings report Shropshire County Pension Fund (information).	Seek assurance over the adequacy of the External Audit opinion on the financial statements and the Council's value for money arrangements. Ensure any issues / risks identified are being effectively managed.	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.
Core business: 9 December 2021		
22. Internal Audit: Annual review of Audit Committee Terms of Reference.	Ensures the Audit Committees continues to benefit the Council by continuing to provide an effective service assessed against current best practice.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
23. Internal Audit: Annual review of Internal Audit Charter.	Assurance that effective corporate governance arrangements are maintained in the Council, part of which is evidenced by a current Internal Audit Charter.	To approve the Internal Audit Charter.
24. Internal Audit: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities; including an update on the National Fraud Initiative (NFI).	<p>Confirm that the Council's counter fraud activity is targeted and effective.</p> <p>Ensure that appropriate progress is being made on the delivery of the Counter Fraud plan.</p> <p>Ensure that lessons have been learnt – understand fraud risks facing the Council and actions being taken to reduce the risk</p> <p>Provides confirmation that the Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed in line with best practice and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the strategy's continuing and important role in the corporate governance and internal control framework.</p>	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

Appendix A: Audit Committee Work Plan – 2021/22

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

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
26. Section 151 Officer: Treasury Strategy Mid-Year report.	Provide assurance on the treasury activities for Shropshire Council, including the investment performance of the internal Treasury team.	<p>To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity.</p> <p>To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management.</p>
27. Section 151 Officer: Annual Audit Committee self-assessment.	Confirmation that the Audit Committee is working effectively and where any further improvements are identified to improve its overall effectiveness, there are plans to implement these.	To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
28. External Audit: Audit progress report and sector update.	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p>	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<ul style="list-style-type: none"> •a summary of emerging national issues and developments that may be relevant to the Council; and •a number of challenge questions in respect of these emerging issues which the Committee may wish to consider. 	
29. External Audit: Certification Summary report.	Seek assurances that claims and returns have been managed appropriately and that there are no significant errors that would result in loss of funding.	To consider the External Auditor's annual letter, relevant reports, and the report to those charged with governance.
30. Internal Audit: Fraud, special investigations and RIPA update.	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
Other assurance		
31. None planned.		
Core business: 22 February 2022		

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
32. Risk and Insurance Manager: Strategic Risks update.	<p>Assurances that the management of strategic risks which is a key process that underpins the successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement.</p> <p>Provide information to confirm to the Audit Committee that they are receiving assurances on the key risk areas within the Council and how these are being managed through the internal controls and governance processes.</p>	To monitor the effective development and operation of risk management in the Council.
33. Section 151 Officer: Treasury Strategy.	Provides assurances that the Council's Treasury Management practice complies with CIPFA's Code of Practice on Treasury Management, the Council's Treasury Policy Statement, Treasury Management Practices and the Prudential Code for Capital Finance and together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and reduce any potential for financial loss.	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.
34. Internal Audit: Report of the audit review of Risk Management.	Provides independent assurance on the overall control environment for the Risk Management system that the Council is effectively managing its key risks – has good risk management systems /	To monitor the effective development and operation of risk management in the Council.

Appendix A: Audit Committee Work Plan – 2021/22

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

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		To approve significant interim changes to the risk based internal audit plan and resource requirements.
36. Internal Audit: Draft Annual Internal Audit risk based plan.	<p>That the Internal Audit Plan focuses on the key risks facing the Council and is adequate to support the Head of Audit opinion.</p> <p>Confirm that the plan achieves a balance between setting out the planned work for the year and retaining flexibility to changing risks and priorities during the year.</p> <p>Ensure that the Internal Audit Resource has sufficiently capacity and capability to deliver the plan.</p> <p>Seek an understanding of what assurances Internal Audit will be providing the Committee to help it discharge its terms of reference.</p> <p>Gain assurance that the Council has effective arrangements in place to fight fraud locally and that counter fraud resources are targeted to the Council's key fraud risks.</p>	<p>To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.</p> <p>To make appropriate enquiries of both management and the Head of Audit to determine if there are any inappropriate scope or resource limitations.</p>

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
37. Internal Audit: Draft Audit Committee annual work plan and future training requirements.	Assurance that the agreed plan of work for the year ahead will deliver against the terms of reference of the Audit Committee and that Members will receive appropriate learning and development in order to deliver their responsibilities effectively.	To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
38. Internal Audit: Fraud, special investigations and RIPA update.	Provide assurances and an update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.	To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
39. External Audit: Annual Plan.	Evidence that the External Auditor understands the Council's business, risk, challenges and opportunities it is facing. Explanation of its audit approach and the scope of its plans.	To comment on the scope and depth of external audit work and to ensure it gives value for money.
40. External Audit: Informing the risk assessment.	As part of External Audit's risk assessment procedures, they obtain an understanding of management processes and the Audit Committee's oversight of the following areas: <ul style="list-style-type: none"> • Fraud • Laws and regulations • Going concern • Related party transactions 	To comment on the scope and depth of external audit work and to ensure it gives value for money.

Appendix A: Audit Committee Work Plan – 2021/22

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<ul style="list-style-type: none"> Accounting estimates <p>This report includes a series of questions on each of these areas and the response we have received from the Council's management for Audit Committee to consider whether the responses are consistent with the its understanding and whether there are any further comments it wishes to make.</p>	
<p>41. External Audit: Audit progress report and sector update.</p>	<p>Seek assurance over progress and delivery of the external audit plan and that any risks to successful production of the financial statements and audit are being managed.</p> <p>The paper also includes:</p> <ul style="list-style-type: none"> a summary of emerging national issues and developments that may be relevant to the Council; and several challenge questions in respect of these emerging issues which the Committee may wish to consider. 	<p>To consider specific reports as agreed with the External Auditor and other inspection agencies.</p> <p>To comment on the scope and depth of external audit work and to ensure it gives value for money.</p>
<p>Other assurance</p>		
<p>42. None planned</p>		

APPENDIX A

Audit Committee Work Plan 2021/22 Summary

Audit Committee Work Plan 2021/22	17 ² June 2021	24 June 2021	30 July 2021	9 Sept 2021	16 Sept 2021	28 Oct 2021	9 Dec 2021	17 Feb 2022	22 Feb 2022	Report originator
<u>Provisional Committees</u>										
<u>Audit Findings Report Shropshire Council as part of faster closedown processes</u>			<u>N/A</u>		✓	<u>N/A</u>				<u>External Audit</u>
<u>Final approval - Statement of Accounts</u>			<u>N/A</u>		✓	<u>N/A</u>				<u>Section 151 Officer</u>
Training Sessions	✓			✓				✓		
Regular Committees										
Internal Audit Annual Report		✓								Internal Audit
Statement of Accounts - draft		✓								Section 151 Officer
Annual Governance Statement (AGS) and review of the effectiveness of the Council's internal controls and Shropshire Council's Code of Corporate Governance.		✓								Section 151 Officer
Annual review of Internal Audit: Quality Assurance and Improvement Programme (QAIP)		✓								Section 151 Officer
Annual Assurance Report of Audit Committee to Council		✓								Internal Audit
Financial Outturn Report		✓								Section 151 Officer
Annual Whistleblowing report		✓								Head of Workforce and

² From 2:30 – others from 1:30

Audit Committee Work Plan 2021/22	17 ² June 2021	24 June 2021	30 July 2021	9 Sept 2021	16 Sept 2021	28 Oct 2021	9 Dec 2021	17 Feb 2022	22 Feb 2022	Report originator
										Organisational Development
Audit Fee Letter		✓								External Audit
Audit Progress Report and Sector Update		✓			✓		✓		✓	External Audit
Fraud, special investigations and RIPA Updates (part 2)		✓			✓		✓		✓	Internal Audit
Pension Fund Audit Plan (information)		✓								External Audit
Risk Annual Report incorporating Strategic Risks					✓					Risk and Insurance Manager
Strategic Risks update									✓	Risk and Insurance Manager
Annual Treasury Report					✓					Section 151 Officer
Performance Report and revised Annual Audit Plan					✓		✓		✓	Internal Audit
Audit Findings: Shropshire County Pension Fund (Information)					✓					External Audit
Annual review of Audit Committee Terms of Reference							✓			Internal Audit
Annual review of Internal Audit Charter							✓			Internal Audit
Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities; including an update on the National Fraud Initiative (NFI)							✓			Internal Audit
Treasury Strategy Mid-Year Report							✓			Section 151 Officer
Annual Audit Committee Self-Assessment							✓			Section 151 Officer

Audit Committee Work Plan 2021/22	17 ² June 2021	24 June 2021	30 July 2021	9 Sept 2021	16 Sept 2021	28 Oct 2021	9 Dec 2021	17 Feb 2022	22 Feb 2022	Report originator
Annual Audit Letter					✓					External Audit
Treasury Strategy									✓	Section 151 Officer
Report of the Audit Review of Risk Management									✓	Internal Audit
Draft Annual Internal Audit Risk Based Plan									✓	Internal Audit
Draft Audit Committee annual work plan and future training requirements									✓	Internal Audit
Audit Plan									✓	External Audit
Certification Summary Report							✓			External Audit
Informing the risk assessment									✓	External Audit

Key to table

Committee dates - fixed

Committee dates – provisional (left as a contingency if legislation is not passed in time to move closing of accounts back to September).

Training dates

Appendix B

Audit Committee Members development topics

Core areas of knowledge

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

Specialist knowledge that adds value to the Audit Committee

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

Core skills

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

This page is intentionally left blank



Committee and Date

Audit Committee 4th

March 2021

1:30 pm

Item

Public

INTERNAL AUDIT RISK MANAGEMENT REPORT 2020/21

Responsible Officer Katie Williams

e-mail: katie.williams@shropshire.gov.uk

Tel: 01743 257737

1. Summary

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

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

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

4. Financial Implications

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

5. 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 adaption. Therefore, no effect.

6. Background

- 6.1 As part of the Public Sector Internal Audit Standards (PSIAS 2120), Internal Audit is required to evaluate the effectiveness, and contribute to the improvement, of the risk management process. Information gathered during audit reviews provides an understanding of the Council's risk management processes and their effectiveness. Internal Audit evaluates the Council's risks relating to governance, operations and information systems. It does this in respect of:
- the achievement of the strategic objectives,
 - reliability and integrity of financial and operational information,
 - efficiency and effectiveness of operations and programmes,
 - safeguarding of assets and,
 - compliance with laws, regulations, policies, procedures and contracts.
- 6.2 To support the PSIAS, the Audit Committee's Terms of Reference include a requirement to review annually the adequacy of the Council's Risk Management arrangements. The last such review was undertaken in February 2020.
- 6.3 Due to the COVID19 pandemic there have been significant revisions to the annual audit plan, as a result Risk Management was completed as a self-assessment control questionnaire. This approach was taken when considering the previous good assurance rating and with management confirmation that there had been no changes to staff, nor significant changes to the processes since the previous audit.
- 6.4 The self-assessment questionnaire was completed by the Risk and Business Continuity Team Leader and the answers reviewed by a Principal Auditor.

Internal Audit Risk Management Report – Executive Summary

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

Control Objective: Conclusion and Summary of Findings

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

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	Risks arising from business strategies and activities are identified and prioritised and management and the board have determined the level of risk acceptable to the organisation.	<p>This control objective is achieved.</p> <p>There are robust procedures in place for the identification and assessment of current and emerging strategic and operational risks. The Opportunity Risk Management Strategy (ORMS) is in place and a framework, and appropriate structure, embeds this within the Council.</p> <p>The Risk and Business Continuity Team Leader continues to be involved in projects, though as a result of storms, floods and COVID19 pandemic this undertaking has been a lighter touch concentrating on following up on the management of project risks.</p> <p>All operational risks are now recorded within SharePoint and therefore face to face training has not been necessary as people are familiar with how to navigate SharePoint. A PowerPoint presentation has been circulated to all operational risk owners guiding them through the process of updating, archiving or adding new risks directly into the system.</p>
2.	Risk mitigation activities are designed to reduce, or otherwise manage, risk at levels determined to be acceptable to management and the board.	<p>This control objective is achieved.</p> <p>Risks are considered by management and controls are in place for all risks. Strategic risks are reviewed quarterly and reported to Directors and Informal Cabinet. Operational Risks are reported to Heads of Service and Directors on a bi-annual basis with an overarching report provided to Directors. The reporting arrangements are in line with the Operational Risk Management Strategy.</p>
3.	Ongoing monitoring activities are conducted to periodically reassess risk and the effectiveness of controls to manage risk.	<p>This control objective is achieved.</p> <p>Appropriate processes to ensure compliance with the requirements of the 2015 Insurance Act in respect of the Council's duty of fair presentation of risk have been put in place.</p> <p>The operational risk review confirmed that bi-annual reviews were in place in line with the Operational Risk Management Strategy.</p> <p>Project risks are being migrated into SharePoint and will be maintained in the same way that operational risks are.</p> <p>There has been a delay in migrating strategic risks to SharePoint as staff have needed to respond to flooding and the COVID19 pandemic.</p>

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
4.	The board and management receive periodic reports of the results of the risk management process.	<p>This control objective is achieved.</p> <p>Reports in respect of strategic risks are considered quarterly by informal Cabinet and Directors.</p> <p>In addition to this the Audit Committee receive a strategic risk update on a six-monthly basis.</p> <p>Risk Management training is provided to Audit Committee Members on a more regular basis. Updates have been provided in 2020/21 detailing the response to the pandemic.</p>

- 6.8 The self-assessment review did not identify any control weaknesses and no recommendations have been raised as a result of the review undertaken.

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

Risk Internal Audit Review

Cabinet Member (Portfolio Holder)

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

Local Member: N/A

Appendices - None



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
4 th March 2021	
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 two months since the previous Audit Committee. 79% percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in line with previous delivery records, however, due to the continuing impact of COVID there has been a significant adjustment to the planned audit activity. The team is on target to achieve 90% delivery by the year end.

One good, three reasonable, two limited and one unsatisfactory assurance opinions have been issued. The seven final reports contained 44 recommendations, one of which was fundamental.

This report proposes significant revisions in the coverage of planned activity for Shropshire Council with a minor change in resources from the 2,159 days as reported in December 2020 to 2,197 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. The work completed by Auditors in response to the pandemic will be used to help inform the year end audit opinion alongside audits completed by the Team. At this stage it is not envisaged that the scope of the audit work will be constrained given that the main risk areas to the council in responding to the pandemic are known to the Auditors and the Council's response to these also recognised.

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 recommendation brought to Members' attention.

- c) The adjustments required to the 2020/21 plan to take account of changing priorities set out in **Appendix B** and the ongoing response by the Council and the Auditors, as set out in this report to the pandemic risks.

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. Where the service is providing support to the COVID response, funding through appropriate grants is being sought.

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 adaption. 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, since then the world has been responding to a global pandemic and significant adjustments to the plan have been approved in September and December 2020. This report provides an update on progress made against the plan as at the 31st January 2021 and the work delivered in continuing to respond to the pandemic, whilst looking to provide the appropriate assurance to the Council.
- 6.3 The impact of the COVID pandemic continues to affect planned audit activity. Following a further national lockdown announced in January 2021 additional adjustments have been required to the planned audit activity. To date just under six full time equivalents have responded flexibly to the changing risk environment of the Council and provided support to pandemic activities, this represents approximately half of the team. In doing this there is a level of assurance provided by their activities as set out later in this report.
- 6.4 In some areas the Head of Audit will be relying on assurances from audit reviews conducted in 2019/20. In a year without COVID audits previously conducted resulting in a lower level of assurance or fundamental and significant recommendations would be revisited but given the competing pressures, in certain service areas, this is not proposed. It is acknowledged that services are focused on delivering a response to COVID initiatives and improving the systems in place has momentarily been placed on hold. This includes some key fundamental financial systems. Instead of full audits, managers have been asked to consider a self-assessment to identify where there has been no change to the environment; a deterioration or an improvement in controls. Whilst audit assurance levels will remain unchanged until adequate sampling and testing is conducted, the information from the self-assessments will be used to inform a direction of travel and the year-end opinion. The outcomes from the self-assessments will be reviewed by a Lead Auditor.
- 6.5 Members are aware through both reports to their Audit Committee and training sessions where Internal Audit resources have been deployed to support service areas responding to the pandemic. In doing this, assurance can be taken from the knowledge gained in working within these areas and whilst not independently tested, professional judgement is applied in these unprecedented times and able to reflect on several governance, internal control and risk management issues. Some of the details of which are summarised below:

Governance

Vice Chair of the Business Continuity Group and support to Business Continuity Team. This has provided a level of confidence in:

- Strategic planning, kept up to date with the Council's response to the pandemic, flooding, closure of Shirehall and other emergency incidents and the associated governance processes
- Links with partners, volunteers and the community in delivering COVID initiatives
- Directors decision making, evidence of timely escalation of issues that need addressing
- Inclusion of all service areas in delivering services and responding to the pandemic
- Regular meetings with the s151 Officer and Monitoring Officer to understand responses in the current climate
- Health and safety issues considered and addressed for the work force and wider public
- Formal virtual meetings established for Member committees

Resources Directorate

- Live reporting on absences, staff resources, capacity, redeployment and secondment processes
- Corporate responses to health guidance
- Communications across the Council internally and externally
- Self-assessments from leads on key financial systems
- Provision of data analytics to improve the quality of system data
- Reconciliation of leave data on payroll systems to manager returns to inform and improve the process
- Advice on projects delivering rapid responses to business needs
- Personal Protection Equipment (PPE) time spent on providing advice on procurement and issuing processes
- Evaluation of and advice around IT infrastructure projects established for supporting home working

Adult Services

- Advice and guidance around the direct payments policy
- Information and observations as part of situation report (SITREP) attendees at Directors meetings on the responsiveness to and management of the Public Health pressures
- Public Protection Cell, support to businesses in complying with the varying COVID restrictions and requirements, helping licencing and enforcement focus resources on an intelligence led basis.

Children Services

- Troubled families grant ensuring support is targeted at preventative multi agency work
- Work in schools has been delayed due to the pressures they are under. Assurance is provided through a review of schools' financial value standard assessments to be supported by self-assessments completed at the end of March. The service also relies on previous Ofsted inspection and control statements reported by the Executive Director.
- A self-assessment on adoption support processes is providing a level of management confidence and Auditors have advised the Together for Children joint partnership on audit arrangements.

Place and Enterprise

- Leisure centres, libraries and other cultural facilities have had disrupted opening hours; processes have been engaged and overseen to manage the risks and activities required around this, redeployment and furloughing of staff
- Several audits have been completed in this area; Highways; WSP; Bridges and North West Relief Road (NWWR).
- COVID required a response from the Council to help support homelessness and this was seen and demonstrated through the Business Continuity group
- Grants to businesses facing difficulties required validation of financial and business checks prior to payment and ongoing counter fraud data matching through the NFI¹ is currently underway. 205 days have been spent to date on these in Audit, this is increased by time in Finance and Economic Growth

6.6 From the areas covered above, Members can be assured that the Auditors have been involved in areas of key organisational risk. Where Auditors have been involved in the delivery of initiatives to support the Council's response to COVID, the team is large enough to ensure that they are not involved in audits of those areas in future.

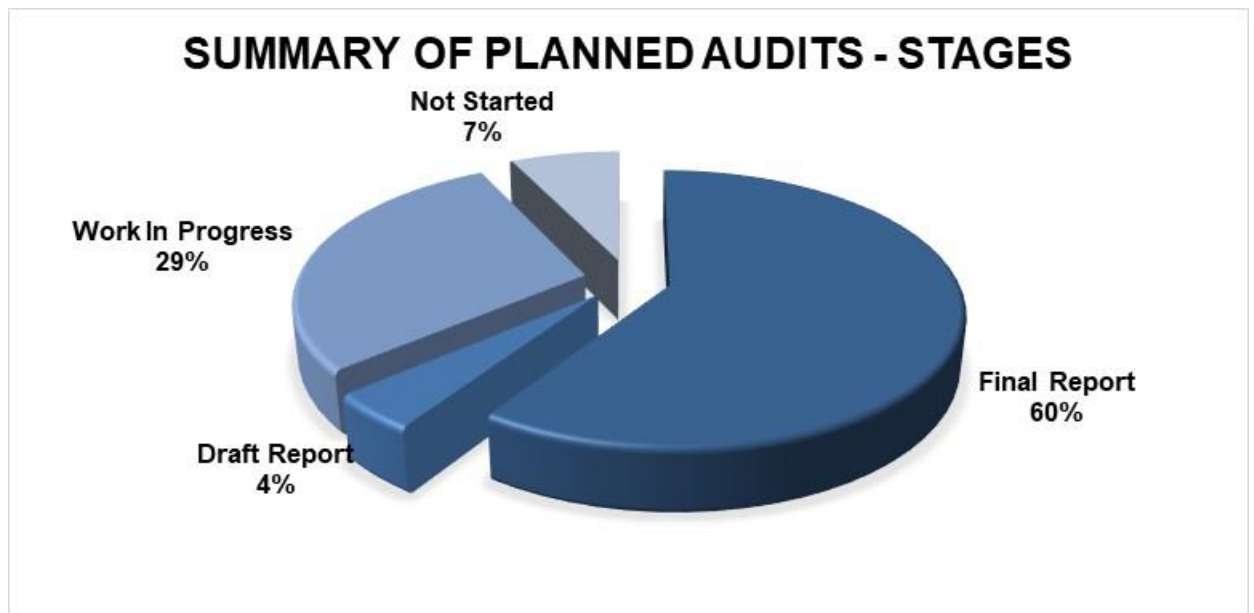
6.7 The Audit team continue to work from home with no impact on service delivery.

7 Performance against the plan 2020/21

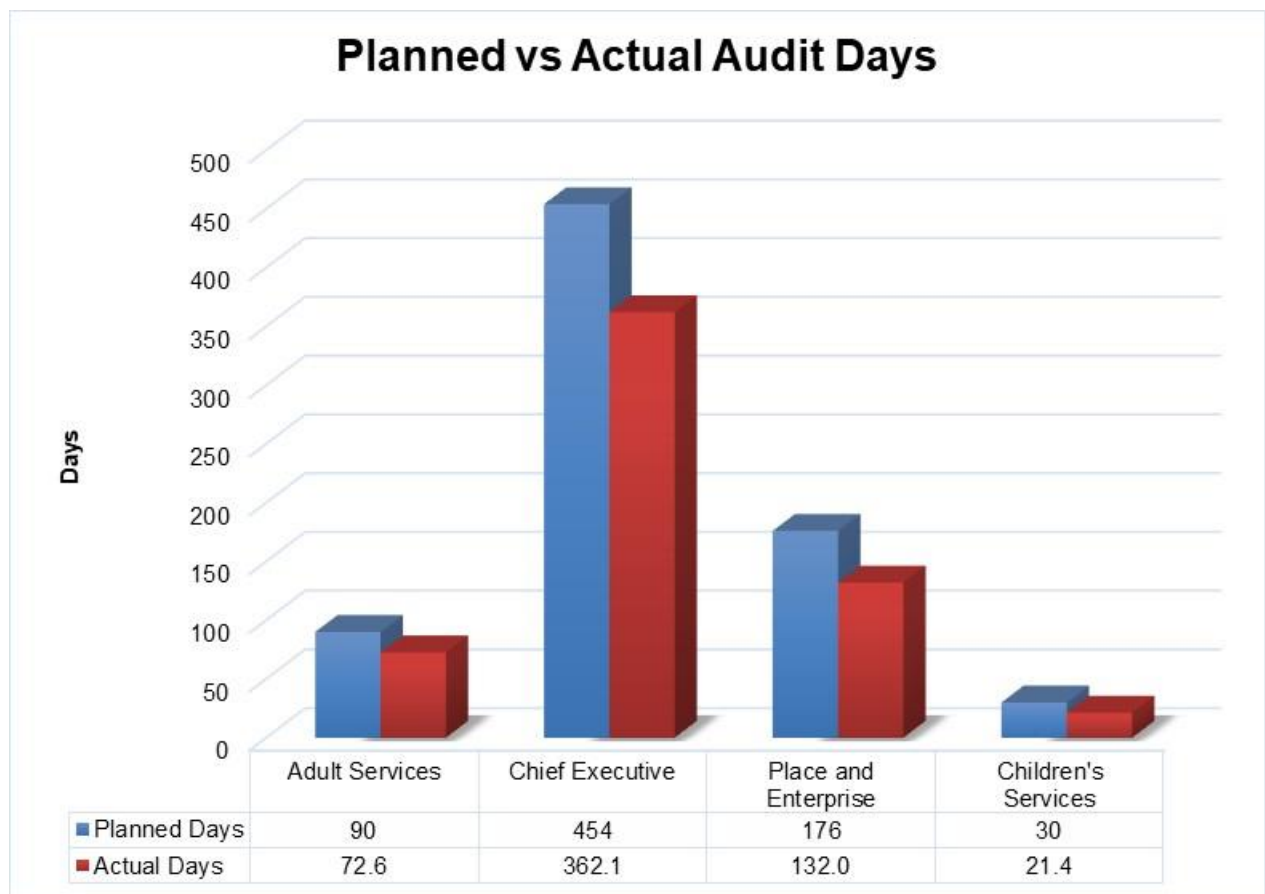
7.1 Revisions to the 2020/21 planned audit activity provide for a total of 2,197 days. There have been minimal changes to resources, however, the planned audit activity has been significantly adjusted to reflect changes in risks. Performance to date is in line with previous delivery records at 79% (79% 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 COVID on grant applications; regulatory cell activity and business continuity.

7.2 In total, seven final reports have been issued in the period from 16th November 2020 to 31st January 2021. The following chart shows performance against the approved Internal Audit Plan for 2020/21:

¹ National Fraud Initiative



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

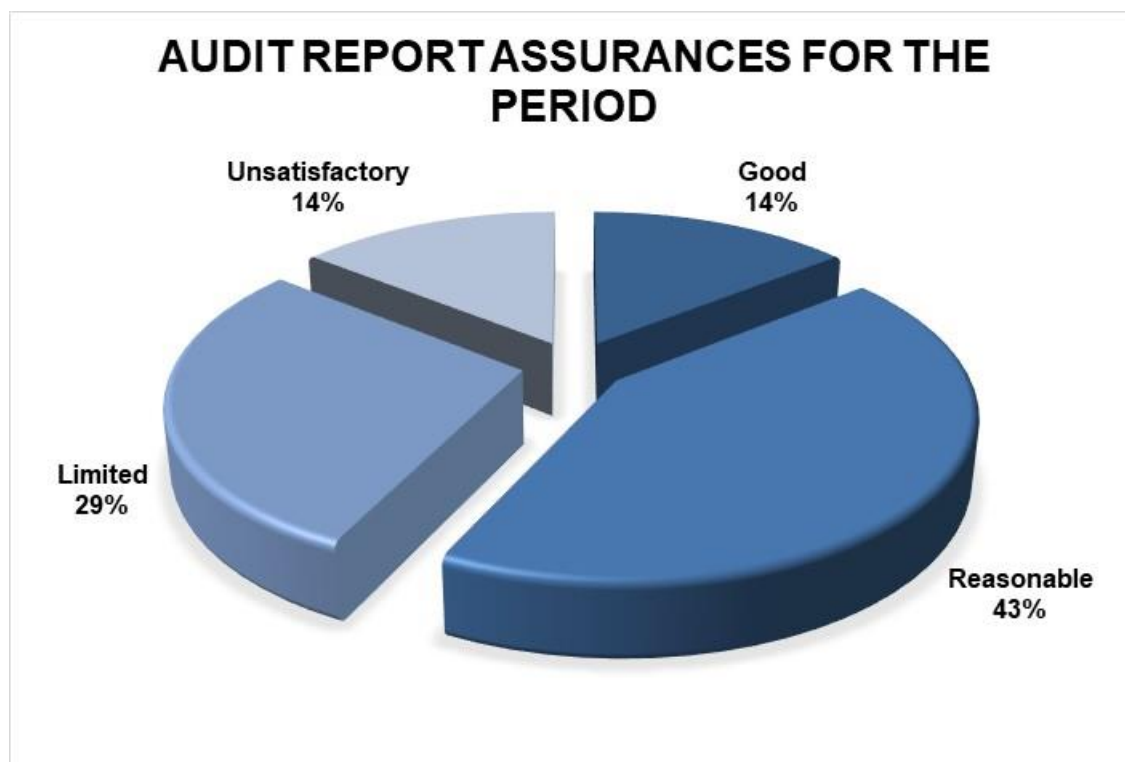


7.4 The following audits have been completed since the beginning of the year:

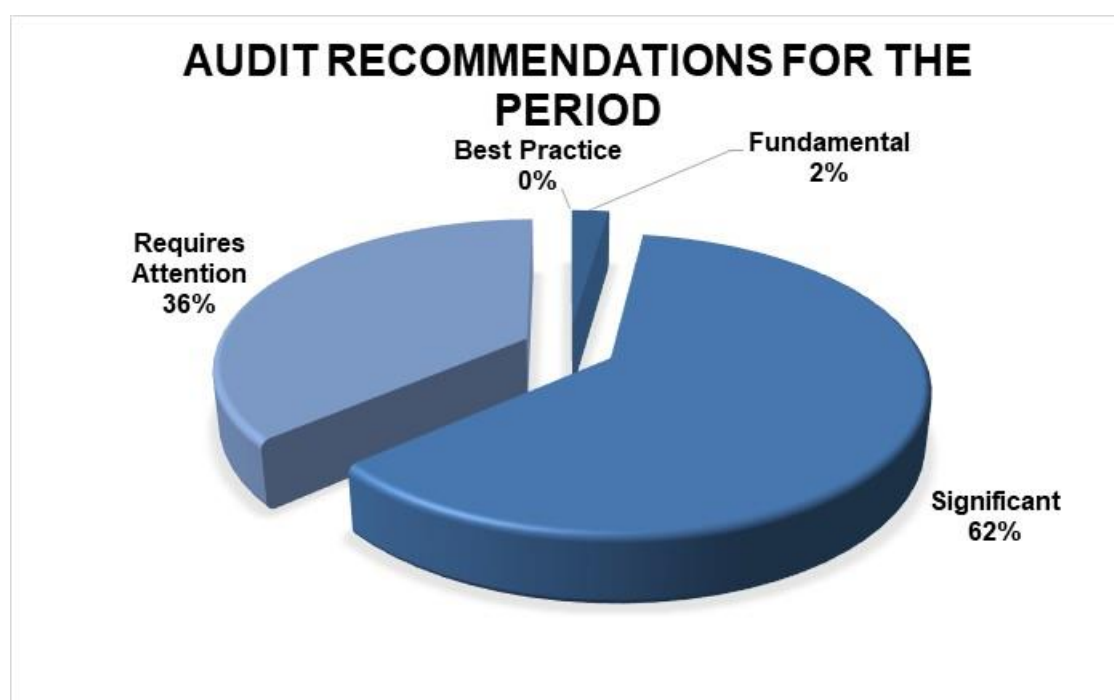
- Adult Social Care Financial Assessments
- Grey Fleet – Enterprise Contract
- Budget Management and Control
- VAT
- Housing Benefits

- Business Continuity, including Back up arrangements and Nutanix
- IT Business Administration

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 31st January 2021, four reports have been issued providing good or reasonable assurances and accounting for 57% 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 43% 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 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 honorary funds and the certification of grant claims. External customer coverage has not been significantly impacted upon by COVID.
- 7.10 A total of 44 recommendations have been made in the seven final audit reports issued in the period 16th November 2020 to 31st January 2021, these are broken down by audit area and appear in **Appendix A, Table 7**.
- 7.11 One fundamental recommendation has been identified which are detailed below:
IT Business Administration
Recommendation - A contract for the provision of ICT hardware i.e. PC's, laptops and mobile devices should be secured in line with the Council's Contract Procedure Rules at the earliest opportunity.
Risk - Non-compliance with the Council's Contract Procedure Rules resulting in a failure to ensure that legal requirements are met and value for money is achieved which could result in a financial and reputational loss to the Council.
Management Response- This is being worked through. It is also hoped the additional capacity in the team will support this. Further, support has been put in place from the projects team to help with procurements.
Agreed Implementation Date – 1st June 2021
- 7.12 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. Recommendations are followed up with Executive Directors in the normal way. Testing the implementation of some fundamental recommendations is through a self-assessment process, as mentioned earlier in this report. It is known that some areas have not had the resources to implement changes to controls identified given their response to COVID activities this year. These will be followed up in the approved way once services are back to business as usual activities.
- 7.13 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**.

- Briefing note sharing learning about cyber resilience in local government from the ransomware attack suffered by Redcar and Cleveland Borough Council in February 2020, including the impact on the public, finances and reputation.
- Support to Regulatory Services following up with businesses having to close under COVID legislation; or operate under different mechanisms; or respond to outbreaks. Providing intelligence on which specialised visits can be made.
- Support to a school not using Business World correctly, identified a need for training and facilitated a solution to access right support and information.
- Providing financial and suitability checks on business grant claimants; reducing the risk or fraudulently, duplicate or claims made in error.
- Secondment of staff to finance to help support business as usual whilst officers respond to the increased financial pressures as the Council responds to COVID.
- Consultancy support on the resolution of a security issue identified on a portal where the passwords do not automatically lock out after a number of failed log on attempts which makes the portal vulnerable to brute force password attacks. Issue has been resolved with the supplier.

Direction of travel

7.14 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	20%	31%	29%	20%	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	1%	50%	47%	2%	100%
2019/20	1%	59%	39%	1%	100%
2018/19	2%	60%	37%	1%	100%
2017/18	3%	56%	41%	0%	100%

7.15 The number of lower level assurances 49%, at this point in the year, is significantly higher than the outturn for 2019/20 of 36%. Reflected in significantly higher numbers of audited areas attracting unsatisfactory assurance (20%) compared to the previous year outturn. The Directorates of Place and Enterprise and Resources² show the most areas for concern. 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 COVID pandemic, needs to be

² YTD shows: Place and Enterprise 4 unsatisfactory / 3 limited / 4 fundamental;
Finance Governance and Assurance 2 unsatisfactory (includes 19/20 systems) / 5 limited / 2 fundamental;
Workforce and Transformation 2 unsatisfactory / 2 limited / 2 fundamental;

managed appropriately. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 16th November 2020 to 31st January 2021.

Performance measures

7.16 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 10th December 2020
 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
 CIPFA Head of Internal Audit Annual Opinion guidance for 2020/21: CIPFA December 2020
 CIPFA Insight Facing up to COVID in the public Sector December 2020

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 16^h November 2020 to 31st January 2021
 Table 2: Final audit report assurance opinions issued in the period 16^h November 2020 to 31st January 2021
 Table 3: Unsatisfactory and limited assurance opinions in the period 16^h November 2020 to 31st January 2021
 Table 4: Audit assurance opinions
 Table 5: Audit recommendation categories
 Table 6: Glossary of terms
 Table 7: Audit recommendations made in the period 16^h November 2020 to 31st January 2021
 Table 8: Recommendation follow up process (risk based)
Appendix B - Audit plan by service 16^h November 2020 to 31st January 2021

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 16th November 2020 to 31st January 2021

	Original Plan	Revised Plan	31 st January 2021 Actual	% of Original Complete	% of Revised Complete
Chief Executive	821	454	362.1	44%	80%
Finance, Governance and Assurance	420	248	194.2	46%	78%
Governance	14	15	9.5	68%	63%
Workforce and Development	361	168	138.9	38%	83%
Legal and Democratic	26	23	19.5	75%	85%
Adult Services	194	90	72.6	37%	81%
Social Care	134	77	71.4	53%	93%
Public Health	29	2	0.0	0%	0%
Public Protection	31	11	1.2	4%	11%
Place and Enterprise	221	176	132	60%	75%
Children's Services	248	30	21.4	9%	71%
Schools	126	1	0.5	0%	50%
Other	122	29	20.9	17%	72%
S151 Planned Audit	1,484	750	588.1	40%	78%
Contingencies and other chargeable work	582	1,209	961.5	165%	80%
Total S151 Audit	2,066	1,959	1,549.6	75%	79%
External Clients	171	238	187.5	110%	79%
Total	2,237	2,197	1,737.1	78%	79%

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 16th November 2020 to 31st January 2021

Service area	Good	Reasonable	Limited	Unsatisfactory	Total
Chief Executive	1	2	1	1	5
Finance, Governance and Assurance	1	1	1	0	3
Governance	0	0	0	0	0
Workforce and Development	0	1	0	1	2
Legal and Democratic	0	0	0	0	0
Adult Services	0	1	0	0	1
Social Care	0	1	0	0	0
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	0	1	0	1
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	1	3	2	1	7
➤ Percentage	14%	43%	29%	14%	100%
Percentage 2020/21 YTD	20%	31%	29%	20%	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 16th November 2020 to 31st January 2021³

Unsatisfactory assurance

Workforce and Development: IT Business Administration (Reasonable 2016/17⁴)

- Policies and procedures are in place to ensure compliance with internal and external requirements.
- A process is place for procuring new IT Services and equipment.
- Appropriate contracts are in place that are subject to continuous monitoring.
- Suitable arrangements are in place for purchasing.
- Suitable arrangements are in place for the receipt of goods and services.

Limited assurance

Finance, Governance and Assurance: VAT (Reasonable / 2018/19)

- The recommendations made and agreed in the previous audit have been implemented.
- There are policies and procedures in place to ensure adherence to VAT regulations.
- The VAT regulations are applied correctly in practice.
- There are appropriate VAT accounting procedures.

Place and Enterprise: Grey Fleet Enterprise Contract ⁵

- There is a contract in place that clearly sets out responsibilities and liabilities of all parties.
- Contract Management Arrangements are in place to ensure performance measures are monitored in accordance with the contract.
- There is regular financial and budget monitoring, and this is reported at the appropriate level.

³ 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.

⁴ Called Business support in 2016/17 however, the objectives and the administrator were the same.

⁵ The Grey Fleet Enterprise contract provides pool vehicles for staff use.

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

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

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

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

Table 6: Glossary of terms**Significance**

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

Head of Internal Audit Annual Opinion

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

Governance

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

Risk

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

Control

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

Impairment

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

Table 7: Audit recommendations made in the period from 16th November 2020 to 31st January 2021

Service area	Number of recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
Chief Executive	0	9	18	1	28
Finance, Governance and Assurance	0	6	11	0	17
Governance	0	0	0	0	0
Workforce and Development	0	3	7	1	11
Legal and Democratic	0	0	0	0	
Adult Services	0	6	5	0	11
Social Care	0	6	5	0	11
Public Health	0	0	0	0	0
Public Protection	0	0	0	0	0
Place and Enterprise	0	1	4	0	5
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	0	16	27	1	44
➤ Percentage	0%	37%	61%	2%	100%
Percentage 2020/21 YTD	1%	50%	47%	2%	100%
Percentage 2019/20	1%	59%	39%	1%	100%
Percentage 2018/19	2%	60%	37%	1%	100%

Service area	Number of recommendations made				
	Best Practice	Requires Attention	Significant	Fundamental	Total
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 16th NOVEMBER 2020 TO 31st JANUARY 2021

	Original Plan Days	Sept. Revision	Nov. Revision	Feb. Revision	Revised Plan Days	31st January 2021 Actual	% Revised Plan Achieved
CHIEF EXECUTIVE							
Governance	14	0	0	1	15	9.5	63%
Finance Governance & Assurance							
Finance Transactions	135	-25	-5	-63	42	32.3	77%
Finance and S151 Officer	88	14	-10	-31	61	39.0	64%
Financial Management	83	-5	0	-15	63	52.6	83%
Procurement and Contract Management	30	0	0	0	30	24.3	81%
Revenues and Benefits	59	-8	0	-20	31	25.0	81%
Risk Management and Insurance	7	-7	0	0	0	0.3	0%
Treasury	18	1	2	0	21	20.7	99%
	420	-30	-13	-129	248	194.2	78%
Workforce and Development							
Human Resources	161	-104	-4	-10	43	31.9	74%
Information Governance	8	-8	0	0	0	0.0	0%
ICT	168	-51	1	4	122	104.6	86%
Occupational Health & Safety	11	-8	0	0	3	2.4	80%
Customer Services	13	-13	0	0	0	0.0	0%
	361	-184	-3	-6	168	138.9	83%
Legal and Democratic	26	-16	3	10	23	19.5	85%
CHIEF EXECUTIVE	821	-230	-13	-124	454	362.1	80%
ADULT SERVICES							
Social Care Operations							
Long Term Support	117	-66	0	16	67	61.7	92%
Assistive Services	5	5	0	0	10	9.7	97%
	122	-61	0	16	77	71.4	93%
Social Care Efficiency and Improvement	12	-12	0	0	0	0.0	0%

	Original Plan Days	Sept. Revision	Nov. Revision	Feb. Revision	Revised Plan Days	31st January 2021 Actual	% Revised Plan Achieved
Public Health	29	-27	0	0	2	0.0	0%
Public Protection							
Environmental Protection and Prevention- Public Protection	15	-15	0	10	10	0.4	4%
Community Safety	8	-6	-1	0	1	0.8	80%
	23	-21	-1	10	11	1.2	11%
Bereavement	8	-8	0	0	0	0.0	0%
ADULT SERVICES	194	-129	-1	26	90	72.6	81%
PLACE AND ENTERPRISE							
Business, Enterprise and Commercial Services							
Commercial Services	8	-3	0	0	5	5.0	100%
Housing Services	10	-10	0	0	0	0.0	0%
Shire Services	15	-15	0	0	0	0.0	0%
Strategic Asset Services	13	-10	0	6	9	4.8	53%
	46	-38	0	6	14	9.8	70%
Economic Development							
Business Growth and Investment	19	-19	8	19	27	1.4	5%
Development Management	8	0	0	0	8	8.4	105%
Planning & Corporate Policy	8	7	0	0	15	12.1	81%
Project Development	15	-15	0	0	0	0.0	0%
	50	-27	8	19	50	21.9	44%
Infrastructure and Communities							
Highways	95	-21	15	7	96	84.2	88%
Library Services	6	-6	0	0	0	0.0	0%
Public Transport	12	0	0	0	12	11.6	97%
	113	-27	15	7	108	95.8	89%
Culture and Heritage							
Theatre Severn and OMH	8	-6	1	0	3	3.4	113%
Leisure Services	0	1	0	0	1	1.1	110%
Visitor Economy	4	-4	0	0	0	0.0	0%
	12	-9	1	0	4	4.5	113%
PLACE AND ENTERPRISE	221	-101	24	32	176	132.0	75%

	Original Plan Days	Sept. Revision	Nov. Revision	Feb. Revision	Revised Plan Days	31st January 2021 Actual	% Revised Plan Achieved
CHILDREN'S SERVICES							
Safeguarding							
Assessment & Looked After Children	15	-15	0	0	0	0.0	0%
Children's Placement Services & Joint Adoption Safeguarding	49	-40	0	-4	5	2.8	56%
	20	-4	0	0	16	11.2	70%
	84	-59	0	-4	21	14.0	67%
Learning and Skills							
Business Support	31	-24	0	-2	5	3.8	76%
Education Improvements	7	0	0	-4	3	3.1	103%
Primary/Special Schools	116	-95	0	-20	1	0.5	50%
Secondary Schools	10	-5	0	-5	0	0.0	0%
	164	-124	0	-31	9	7.4	82%
CHILDREN'S SERVICES	248	-183	0	-35	30	21.4	71%
Total Shropshire Council Planned Work	1,484	-643	10	-101	750	588.1	78%
CONTINGENCIES							
Advisory Contingency	60	-34	0	5	31	28.0	90%
Fraud Contingency	200	-75	0	-40	85	66.8	79%
Unplanned Audit Contingency	50	-50	0	0	0	0.0	0%
Other non audit Chargeable Work	272	652	-5	174	1,093	866.7	79%
CONTINGENCIES	582	493	-5	139	1,209	961.5	80%
Total for Shropshire	2,066	-150	5	38	1,959	1,549.6	79%
EXTERNAL CLIENTS	171	70	-3	0	238	187.5	79%
Total Chargeable	2,237	-80	2	38	2,197	1,737.1	79%

cc



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
4 th March 2021	
1:30 pm	<u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2021/22

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

Tel:

01743 257739

1. Summary

This report provides Members with the proposed risk based Internal Audit Plan for 2021/22. The annual plan will provide coverage across all Council services and deliver internal audit services to a range of external clients. It takes account of issues identified by the clients' risk management frameworks, including the risk appetite levels set by management for the different activities or parts of the organisations audited. The proposed plan considers the requirement to produce an annual internal audit opinion and assurance framework. Some minor adjustments may be needed before the plan is finalised; if significant, these will be agreed by the Section 151 Officer and reported to a future Audit Committee.

Given the response the Council is delivering to the COVID pandemic, the plan is designed to respond to a full Internal Audit resources complement (**Appendix A**) or a reduced one (**Appendix B**) during the first quarter of the new plan, allowing for audit days to be redeployed. This adjustment can be made nearer the time and amendments required after this date will be reported to the Audit Committee through the standard performance reports.

2. Recommendations

The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2021/22 and approve its adoption. Permitting the Head of Audit in liaison with the s151 Officer to adopt the version of the plan, on the 1st April, most appropriate to where the Council is in responding to the Covid pandemic.

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 Under the Audit Committee's terms of reference, reviewing the risk based audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any other work upon which reliance is placed, is an important responsibility. In considering this plan Members should be assured that it is linked to the Council's key risks and provides enough coverage to ensure a reasonable opportunity to identify any weaknesses in the internal control environment. Risks identified as being critical to the Council's operations will be reported and rectified where possible and viable.
- 3.2 Areas to be audited within the plan have been considered using risk register information both operational and strategic.
- 3.3 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change consequences of this proposal.
- 3.4 The Internal Audit Annual Plan satisfies both the Public Sector Internal Audit Standards (PSIAS) and the Accounts and Audit Regulations 2015 part 2. The latter sets out the requirements on all relevant authorities in relation to internal control, including requirements in respect of accounting records, internal audit and review of the system of internal control. Specifically:

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

4. Financial Implications

- 4.1 Costs associated with the proposed plan will be met from within the approved Internal Audit budget. Where activities are being delivered in response to COVID pressures, funding from the Government is being used to offset costs.

5 Climate Change Appraisal

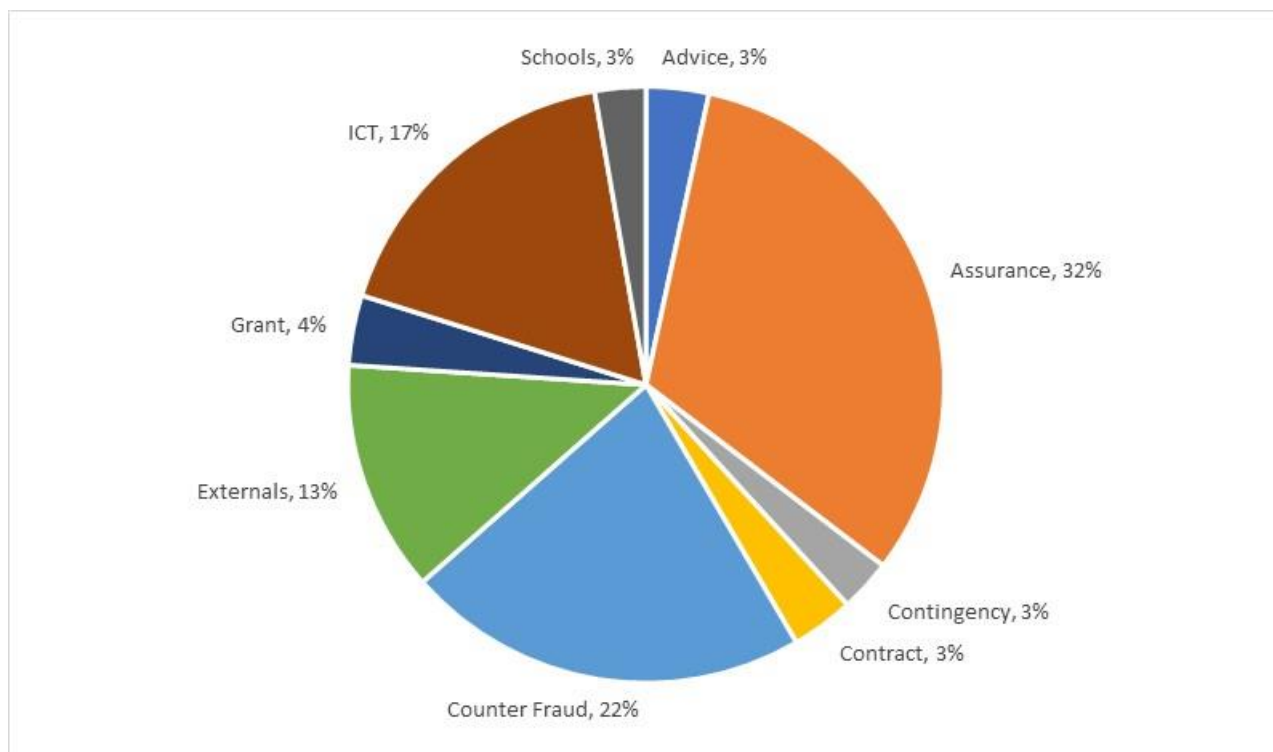
- 5.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation or climate change adaption. Therefore, no effect.

6. Background

- 6.1 The provision of a risk based Internal Audit Plan consistent with the Council's goals is an essential part of ensuring probity and soundness of the Council's internal controls, risk exposure and governance framework. The plan has been devised to ensure that it delivers against the PSIAS and the requirement to produce an annual Head of Internal Audit opinion and assurance framework. In so doing it can be confirmed that the plan covers the following activities:
- Governance processes
 - Ethics
 - Information technology governance

- Risk management and
 - Fraud management.
- 6.2 The 2020/21 Internal Audit year has and continues to be impacted on by the Covid pandemic and the future has more unknowns. Adjustments to the 2020/21 plan have been updated in separate performance reports to Audit Committee Members. In planning for 2021/22, it would be remiss if the impact of COVID was not a consideration in both the approach to agreeing a plan and what the plan will be with so many unknowns.
- 6.3 The audit risk assessment is reviewed annually with the Chief Executive, Executive Directors including the s151 Officer and Heads of Service to ensure that it remains robust and relevant to the needs and risk profile of the Council. The process also recognises that the Council is embarking on a programme of refocus and continuing to seek service improvements using innovative approaches in providing services, all against a background of reducing resources and a transformation into a digitally enabled Council.
- 6.4 When considering the risks affecting audit areas, account has been taken of:
- changes to and the introduction of new services;
 - the refocus programme, refined principles and business plans of the Council;
 - budget pressures and saving commitments;
 - previous audit findings;
 - opening and closure of establishments;
 - comments from the external auditors on scope and coverage to ensure the work of Internal Audit does not duplicate that of the external auditor;
 - Audit Committee terms of reference;
 - increased partnership working or different delivery models for future service delivery;
 - risks identified by the risk management process;
 - school budget deficits and self-assessments;
 - large contracts likely to be undertaken; and
 - assurances from services, internal governance and external parties.
- 6.5 Top risks facing councils include responding to the pandemic and other emergency situations alongside continuing pressures on finances; increasing demand on services; growth and complexity demands on social care functions; retention of staff with enough experience, knowledge and capacity to manage risks and reduce the potential for waste, losses or inefficiencies. Local strategic risks also include: financial resilience when delivering a strategic vision; mental health and wellbeing of staff; loss of reputation and public confidence; failure to deliver both the Commercial and Economic Growth Strategy; challenges maximising income and grants; funding for and safeguarding within adult and children services; the effect of climate change; challenges of cyber security; all of which have been considered when formulating the plan.
- 6.6 The Council continues to respond to the impact of COVID and has a refocus programme underway, all are impacting on a high number of service areas, processes, risks and therefore controls. In addition, because of the changing control environment, areas reviewed continue in part to attract lower assurance levels than previously. Follow up of these is a must do in respect of unsatisfactory audits, with only a proportion of limited assurance audits being revisited within current resources.

- 6.7 **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,545 days for Shropshire Council audit work and 222 days of work for external clients. These days are broken down by type in the chart below.



Resources

- 6.8 The team has just short of 11 full time equivalents and has retained a rich mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. There are currently two trainees completing a variety of qualifications and a third is planned to join mid-September. Whilst this has an impact on the remaining auditors in mentoring, coaching and supervising these staff, it ensures the sustainability of the service looking forward. Skills continue to be developed across the wider team and there is no planned funding for external contractors. If demands require and funds are made available, the framework contract with Staffordshire County Council remains in place to accommodate such events.
- 6.9 The Audit Plan for 2021/22 based on a risk analysis identified approximately 4,192 days to review all high-risk areas. Review areas attracting a lower risk have not been considered in this year's planning process. Resources available after deducting allowances for non-chargeable time (leave, management meetings, administration, etc.); and chargeable time (attendance at corporate officer and member meetings, responding to legislation, s151 officer work requests, training etc.) amount to 1,767 days of which 222 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,545 days.
- 6.10 Given the current uncertainty around the impact of Covid, **Appendix A** provides details of the areas that Audit will review during 2021/22 if all resources can be focused on audit activity. It is expected however, that resources will continue to be diverted to support the wider response to COVID and associated activities. **Appendix B** identifies audits that will be taken from the risk based plan initially to achieve this amounting to 128 days. In

addition, to match the plan to resources, it has been necessary to take out several areas scoring as a high priority risk, details of which also appear at **Appendix C**. **Appendix D** includes areas that are considered De Minimis Audit areas, where risks are low and they are unlikely to be audited whilst current resources remain the same. Managers for any of the areas in **Appendix B to D** may be requested by members to provide any necessary assurances to them. Contingencies for fraud, unplanned audits and advice, if not required in full this year, can be re-allocated and these higher priority reviews brought back into the plan.

6.11 In considering the plan for 2021/22 the key items to note are:

- Included in the plan are several key strategies that have been refreshed and fundamental systems that continue to see significant changes with the introduction of the Enterprise Resource Planning (ERP) system and have dipped in their delivery, further impacted on by the demands on resources from COVID and vacancies of experienced personnel. The Payroll system, which is of a high material value to the Council's operations, continues to be reviewed every year. Plans are in place for a more detailed review this year to follow up on the self-assessment process introduced for 2020/21 to respond to pressures on all parties and to reflect the refocus work to improve the control environment.
- A separate risk based analysis of the IT audit areas has been conducted and assessments of applications, projects, developmental changes, new technology, changes to guidance and follow ups in areas requiring improvements are planned. IT continues to form a significant part of the internal audit plan reflecting the Council's reliance on technology and digital transformation requirements as services are redesigned and the threat of cyber risks expands. This work underpins the Council's principle to make digital the preferred way to work and transact.
- Responding to COVID required the establishment of processes to ensure that various grants and practices were embedded to support various stakeholders. Time is planned to evaluate the controls in place and the lessons learnt across the Council in administering these required activities.
- The counter fraud contingency is reduced to 150 days based on current experience. Following consideration of a business case a dedicated pilot is to be resourced at 200 days. Currently counter fraud controls are spread throughout the Council and there may be benefits from having a dedicated resource. To inform such a decision, a pilot to research and consider a business case for a permanent corporate counter fraud resource is to be conducted. During the year this resource will trial approaches to manage the risk of fraud down and consider the sustainability of such improvements to determine if efficiencies can be identified from a dedicated counter fraud resource going forward and where it should sit.
- Internal Audit will continue to request schools to complete a self-assessment process on a three-year basis. The Headteacher will be asked to share the self-assessment with both the Chair of Finance and Governors and seek their sign off to it. This approach will enable provision of a more rounded assessment of processes to support the s151 Officer's wider assurance of the school environment.

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

In addition, a few follow up school audits are planned where control environments were previously unsatisfactory and cross cutting themed audits are planned, i.e. for payroll, creditors, imprest. to build upon the assurance process.

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

- Procurement, commissioning and contract management continue to be priority areas and, as such, there are planned initiatives in these areas. Work is planned on financial evaluations of companies tendering for work and reviews of governance processes on the client side. In addition, where services are moving to new delivery models, exit reviews will be conducted to ensure that transfers are conducted appropriately and at minimum risk to the Council. A number of these will be met from the unplanned contingency as the specific business areas and timings become known.
- Consultation with the Chief Executive and Executive Directors have identified a few areas where they would like assurances, most of these are high risk and as such included in the plan. Senior managers have fed into the final draft plan and opinions canvassed on review areas.
- The plan provides continual professional development and training for auditors during the year. This helps to retain staff, future proof the skills of team members and build skills in areas where updated knowledge is required for the benefit of the Council, external clients and the auditors. To reflect the number of Auditors new to the Council and in some cases Audit, the plan continues to allow for inclusion of review areas to support professional training courses that based on risk alone would not be covered in the plan.
- Decisions based on current data and intelligence is another of the Council's principles and the increased use of data analytics within Audit will support both testing and focus, as well as providing information on where controls can be improved alongside quality of the systems used. This will build on the work started in 2020/21.
- Resources are allocated to provide internal audit services to external clients: Shropshire Towns and Rural Housing, Shropshire Pension Fund, Shropshire Fire and Rescue Service, West Mercia Energy, Oswestry Town Council and various honorary, voluntary and grant funds. In addition, audit time is allocated to review areas of significant risk which are being considered for transfer to other delivery models.

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

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

Audit universe and resources analysis
 Public Sector Internal Audit Standards
 CIPFA Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition
 Accounts and Audit Regulations
 IIA Internal Audit in Lockdown September 2020

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

Local Member n/a

Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service

Appendix B: Planned audit areas and those that will be removed from annual plan if resources are required for COVID response activities

Appendix C: Audit areas of high priority for which no provision is made in this year's Internal Audit plan and areas requested by managers for which no provision is made.

Appendix D: De Minimis Audit areas where managers will seek and provide any necessary assurance

APPENDIX A**2021/22 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE**

	Days
CHIEF EXECUTIVE	
Governance	36
Total Chief Executive	36
RESOURCES	
Finance, Governance and Assurance	519
HR	61
ICT	171
Information Governance	18
Total Resources	769
ADULT SERVICES	
Social Care Operations	73
Social Care Efficiency and Improvement	22
Bereavement	38
Public Health	19
Public Protection	8
Total Adult Services	160
PLACE AND ENTERPRISE	
Culture and Heritage	44
Business Enterprise and Commercial Services	44
Economic Development	13
Infrastructure and Communities	94
Total Place and Enterprise	195
CHILDREN'S SERVICES	
Safeguarding	60
Learning, Employment and Training	8
Learning and Skills	57
Total Children's Services	125
CONTINGENCIES	
ICT Contingency	20
Advisory Contingency	40
Fraud Contingency	150
Unplanned Audit Contingency	50
Other non-audit chargeable work	233
Total Contingencies	493
Total Shropshire Council	1,778
External Clients	222
Total Audit Plan	2,000

Planned audit areas and those that will be removed from annual plan if resources are required for COVID response activities		
<p><i>Coroners and Mortuary Service¹</i></p> <p>Digitisation of Registers</p> <p>Registrars Service</p> <p>Adult Services Management Controls (Safeguarding)</p> <p>Appointeeships/Court of Protection and Deputyships</p> <p>COVID Test and Trace grants</p> <p>Data Security and Protection Toolkit (DSP Toolkit)</p> <p>Review of funding/cross over & supporting processes</p> <p><i>Management & Control of CCTV Operations</i></p> <p>Adult Placements/ care assessments</p> <p>ASC Infection Control Grant</p> <p>CM2000 Electronic Homecare Monitoring - decommissioning</p> <p><i>Individual Service Funds</i></p> <p>Liquid Logic Application (Adults and Children's)</p> <p>Personal Budgets - Deferred Payments</p> <p>Annual Governance Statement (AGS)</p> <p>Corporate Governance</p> <p><i>Corporate Programme and Project Management</i></p> <p>Counter Fraud Work</p> <p>Counter Fraud, Policies and Training</p> <p>Counter Fraud Pilot</p> <p>Finance - Final Grant Claims</p> <p>National Fraud Initiative (NFI)</p> <p>Debt Recovery</p> <p>Income Collection</p> <p>Purchase Ledger P2P</p> <p>Sales Ledger</p> <p><i>Sales Ledger-Periodic Income</i></p> <p>Analytics for Financial Systems (IDEA)</p> <p>Budget Management and Control - Corporate</p> <p>Capital - Management and Monitoring</p> <p>Capital Accounting System</p> <p>General Ledger</p> <p>Unit4 Business World (Enterprise Resource Planning-ERP)</p> <p>Financial Evaluations</p> <p><i>Procurement Arrangements</i></p> <p>Council Tax Collection</p>	<p>National Non-Domestic Rates (NNDR)Northgate -</p> <p>Revenues & Benefits Application</p> <p>Risk Management</p> <p>Holiday Pay HR</p> <p>Payroll Data Analytics (IDEA)</p> <p>Payroll System</p> <p>Resource link- HR Application Review</p> <p>Adobe Sign</p> <p>Application Development Management Arrangements</p> <p>Blueprint - Equitrac</p> <p>Bring Your Own Device (BYOD)</p> <p>Cyber Risk Assessment (COVID)</p> <p>Decommission Shire hall Data Centre Project</p> <p>Digital Mailroom Project</p> <p>Refocus Programme (Assurance)</p> <p>Firewall Management</p> <p>Gladstone - Leisure Centre system</p> <p>ICT Governance Process / Approvals</p> <p>IT Business Administration</p> <p>IT Change Management</p> <p>IT Code of Practice</p> <p>IT Contract Management</p> <p>ITIL</p> <p>Legacy Infrastructure and Systems</p> <p>Microsoft Azure and 365</p> <p>Microsoft Dynamics CRM Application</p> <p>Nulia</p> <p>Patch Management</p> <p>Power Apps</p> <p>Project Management Adequacy of Arrangements</p> <p>Telecommunications - Contracts, Procurement and Monitoring</p> <p>Third Party Contractor Access Controls</p> <p>IT Security Management Review</p> <p>Security Management and Cyber Response</p> <p>Covid PPE procurement and allocation</p> <p>Shropshire Youth - Stepping Stones project</p> <p>Together for Children Partnership</p> <p>Adoption Process including allowances</p>	<p><i>Children's Residential Homes</i></p> <p>Covid Winter grant allocation Strengthening Families Grant</p> <p>Education Management System</p> <p>Schools Self Assessments (Audit Provided)</p> <p>SFVS - Schools Financial Value Statement</p> <p>Brockton CE Primary School (The Edge Schools Federation)</p> <p>Schools Themed Audits</p> <p>Trinity C E Primary School</p> <p>Bishops Castle Community College</p> <p>Leisure Services Contract</p> <p>Much Wenlock Sports Centre - Joint Use</p> <p>Swimming provision project</p> <p>Theatre Severn</p> <p>Acton Scott Working Farm Museum</p> <p>Housing Provision - Development Cornovii</p> <p>Housing Strategy</p> <p>PSG Portal (SFG20)</p> <p>Rent of Council Owned Property</p> <p>Shire hall Refurbishment / Maintenance</p> <p>Smallholdings Estate</p> <p>COVID Business grants - follow up review</p> <p><i>Economic Growth Strategy / Big Plan</i></p> <p><i>Flood Risk Management Arrangements</i></p> <p>CONFIRM-Highways Management System</p> <p>DFT Asset Funding</p> <p>Highways Maintenance - Term Maintenance -Kier</p> <p>Local Transport Plan (LTP)</p> <p>LTP Grant Bus Subsidy</p> <p>Northwest Relief Road</p> <p>Street Scene - Dog Wardens</p> <p><i>WSP Contract</i></p> <p>COVID grants - bus subsidies</p> <p>The Lantern</p> <p>Advisory Contingency (General)</p> <p>Advisory Contingency (IT)</p> <p>Fraud Contingency</p> <p>Unplanned Audit Contingency</p>

¹ *Audit areas that will be removed from annual plan if resources are required for COVID response activities*

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

<p>Registrars Booking System Zipporah Application Client Property - Adults Community Mental Health Team Community Safety Counter Terrorism Prevent Duty Health partnership Governance Mental Health across all service areas Public Health Projects (Include CCG links) School Nursing Service ShropDoc Services Trading Standards Blue Badge Scheme Licensing Contaminated Land Environmental Service Chipside Parking System Application Review Parking - Cash Collection Pest Control Private Water Supplies Assistive Technologies including BOTS Refugee Action Grant SEN Hubs e.g. Kettlemere Centre Counter Fraud Work Housing Tenancy Disability Facility Grants Energy Grants Housing Capital Client Housing Rents Client Side Adult Social Care - Financial Assessments Continuing Health Care Funding DOLS Deprivation of Liberty Safeguards Personal Allowances Personal Budgets / Direct Payments Finance Team- Adults Residential Care - Out County Placements Safeguarding Support Service - Administration & Monitoring Four Rivers Nursing Home</p>	<p>Communications Complaints and Compliments Performance Plus Online Register Central Customer Services Credit Union Client Customer Service Points Design Team ILLY Substance Misuse Application Social Media Vice Versa Pro (Backup for Digital Images) Web Self-Serve CRM Application Agency & Consultancy Staff Diversity Arrangements Human Resources - JD's, PS's and Contracts, Leavers Guidance for PT Workers Human Resources / Workforce Planning Job Evaluation Mobile Working HR Policies Payroll - Self Service Facility Payroll - verification to establishment Recruitment / redeployment arrangements Redundancy Process CR Teachers' Pension Scheme Travel and Subsistence ARIS Bacstel-IP Blueprint Unit Operations BT Contract Monitoring CALM CASPAR Customer First Points Data Centres and Infrastructure Database Access / Admin / Management Edinburgh House Exit EDRM SharePoint Education Technology Services (ETS) e-Forms & search engine Encryption End User Computing - Management Arrangements</p>	<p>Direct Payments Children Domiciliary & Respite Services Foster care Haven Brook Home Leaving Care Section 11 Arrangements Together4Children Partnership Respite Care Multi Agency Teams PAMs Assessments Free School Meals Monitoring of Schools Deficit/Surplus Budgets Nursery Grants 3 to 5 years SIMS - Schools Use & Control Arrangements Decommissioning of Children's centres (five) Education Training Days Education Access Service Out of County Education / Placements Sixth Form Schools Calculation Youth Activities / Community Hubs and Commissioning Adderley CE Primary School (Addmore Federation) Albrighton Primary School Baschurch CE (Aided) Primary School (Harris Gough Federation) Beckbury CE (Controlled) Primary School (Trinity Federation) Belvidere Primary School Bicton CE (Controlled) Primary School Bishop Hooper CE Primary School Bomere Heath CE (Controlled) Primary School (Bomere and XI Towns Federation) Broseley CE Primary School Brown Clee CE Primary School Bryn Offa CE (Controlled) Primary School Buntingsdale Infant School Cheswardine Primary School (Goldstone Federation)</p>	<p>Much Wenlock Primary School Myddle CE Primary School (Harris Gough Federation) Newcastle CE Primary School (Blue Hills Federation) Newtown CE Primary School (Newhampton CE Federation) Norbury Primary School (Shropshire Hills Federation) Norton-in-Hales CE (Voluntary Controlled) Primary School Onny CE (Aided) Primary School and Little Pippins Nursery Class (St Michael's Federation) Our Lady & St Oswald's Catholic Primary, Oswestry Oxon CE Primary School Pontesbury CE Primary School Rushbury CE Primary School Selattyn CE Primary School Sheriffhales Primary School Shifnal Primary School Shrewsbury Cathedral Catholic Primary School (The Blessed Edward Campion Federation) St Andrew's CE (Voluntary Controlled) Primary School, Nesccliffe (Westcliffe Federation) St Andrew's CE Primary School, Shifnal St Giles' CE Primary School St John the Baptist CE Primary School (Bomere & XI Towns Federation) St John's Catholic Primary School, Bridgnorth St Laurence CE Primary School, Ludlow St Lawrence CE Primary School, Church Stretton St Lucia's CE (Controlled) Primary School St Mary's Bluecoat C E Primary School, Bridgnorth (Trinity Federation)</p>	<p>Museums & Audience Development Grant Arrangements Shrewsbury Museums General (including regimental) Commercial Strategy and Plans Budget Management and Control - Shire Services District HQ Facilities Management & Security External Catering Contracts Internal Catering arrangements Primary School Income Collection Saffron Menu Planning (Shire Services) Secondary School Income Collection Shire Services Staff in Schools Asset Management Strategy Corporate Landlord (Estate Management) Covenants Energy Efficiency Energy Provider Project Plans & Deeds- Security Property Maintenance Select Lists Property Sales and Acquisitions Property Services Pump House Security of Council Buildings H&S Sustainability Economic Growth Projects Funding & Programmes Management of Workshops & Industrial Units Building Control Datawright Planning Development Land Charges Partnerships Planning Section 106 Agreements Tree Safety Carbon Emissions (NI 185) & Trading Climate Change Strategy Community Infrastructure Levy Environmental Maintenance Grants Highways Development Control Highways Land Search Highways Maintenance - In house Highways Other Major Contracts Highways Specialist Contracts Highways Transfer of Maintenance Contracts to Town and Parishes</p>
--	--	--	---	---

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

<p>Greenacres Rural Unit Helena Lane Day Centre Penrhyn Contract University CIPFA Financial Mgmt. Self-Assessment Financial Rules Fiscal Technologies AP checker Local Government Pension Pool (LGPS) Local Joint Committee (LJC) Management of Consultants AUDIS - Direct Debit Income System Application Civica Icon Income Management Application Construction Industry Tax Deduction Scheme PCI Compliance Housing & Planning Delivery Grant Recharges - Internal Market e-Procurement Key Supply Contracts Procurement Strategy Social Enterprises Benefit Options Team Comino Document Management System Application Council Tax Collection Housing Benefits Single Person Discount Counter Fraud Business Continuity and Disaster Recovery - non IT Emergency Planning Bank Contract Bankline Cash Offices - Regularity Audits Imprest Administration System Online Bankline Members Allowances Modern.Gov GDPR / DPA / Freedom of Information Monitoring Use of Facilities Case Management IKEN court bundling</p>	<p>Hardware Inventories Home and Flexible Working Arrangements Host Operator Processing System (HOPS) ICT Project Financing and Recharges Internet Controls Internet Security Maytas 5 Personal Budgets / Direct Payments Support Services PFI Purchasing Domiciliary, Residential and Nursing Care: Adults, ALD, Mental Health Social Prescribing Bronze Labs Tribe START Sustainability and Transformation Plan (STP) Transforming Care Partnerships (TCP) Virtual Reality Project Igloo Microsoft Mobile Applications Mobile Device Management - Intune Networks and Connectivity Remote Servers Remote Support SharePoint SNOW IT Asset Management Software Inventories / Licensing Solar Winds Network Monitoring Survey Monkey Telephones - Usage & Income UNIX Virtual Infrastructure - VMWARE Occupational Health Section 17 Payments Children Two for U Education Places for 2 Year Olds Assessments and looked after children CHARMS Adoption Service (IT) Chelmaren Children's Home Children's Safeguarding Policies & Procedures</p>	<p>Chirbury CE (Voluntary Controlled) Primary School (Shropshire Hills Federation) Christ Church C E Primary School, Cressage Church Preen Primary School (The Edge Schools Federation) Claverley CE Primary School Clive C E (Controlled) Primary School (Academy Application) Clunbury C E Primary School (Blue Hills Federation) Cockshutt C E (Controlled) Primary School (Mere's Edge Federation) Corvedale C E Primary School Criftons C E (Controlled) Primary School (Mere's Edge Federation) Crowmoor Primary School Farlow CE Primary School (Farlow / Kinlet Federation) Gobowen Primary School Hadnall C E (Controlled) Primary School Harlescott Junior School (Haughmond Federation) Highley Primary School Hinestock Primary School (Goldstone Federation) Hodnet Primary School Inspire to Learn John Wilkinson Primary School Kinlet CE Primary School (Farlow / Kinlet Federation) Kinnerley CE (Controlled) Primary School (Westcliffe Federation) Long Mountain Primary School Longden C E Primary School Longnor C E Primary School Lydbury North Primary School (St Michael's Federation) Martin Wilson School Meole Brace C E Infant School Minsterley Primary School Morda CE (Voluntary Controlled) Primary School Moreton Say CE (Controlled) Primary School (Addmore Federation)</p>	<p>St Mary's CE (Aided) Primary School, Bucknell (Blue Hills Federation) St Mary's CE (Controlled) Primary, Albrighton St Thomas & St Anne's C E Primary School, Hanwood Stiperstones C E Primary School (Shropshire Hills Federation) Stoke-on-Tern Primary School Sundorne Infant School The Meadows Primary School, Oswestry Trefonen C E (Controlled) Primary School Tuition Medical Behavioural Support Service (TMBSS) Welshampton C E Primary School (Newhampton Federation) West Felton C E (Controlled) Primary School (Westcliffe Federation) Weston Lullingfields CE (Controlled) Primary School (Westcliffe Federation) Weston Rhyn Primary School Whittington C E (Aided) Primary School Wistanstow C E Primary School Woore Primary School Worfield Endowed C E Primary School (Trinity Federation) Woodlands School (Academy Application) Idsall Sports Centre - Joint Use Joint Use Leisure Facilities Meole Brace Golf Course Positive Activities Projects - Youth Service Quarry Swimming Pool Sports Development Theatre Ticketing & Online Booking Application Museum on the Move</p>	<p>Northwest Relief Road Recruitment Section 38 Road Adoption Street Works Tranman Version 8.1.8.4 Ellesmere Library Galaxy - Libraries System Shrewsbury Library Shrewsbury Museum Free Bus Entitlement Process Grey Fleet Passenger Transport Compliance Arrangements Passenger Transport Procurement Arrangements School Planning & Transport Arrangements Special Transport Contract Arrangements TOG (Transport Operations Group) TOMS-ITU Waste - Specialist Disposal Contracts Waste - Veolia Contract</p>
--	--	---	---	---

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

Regulation of Investigatory Powers Act (RIPA) Fair Trading & Education Domestic Abuse Road Safety Environmental Enforcement & Byelaws Animal Health & Welfare Occupational Therapy Supporting People Shropshire Partners in Care (SPIC) Social Care & Health Training Abbots Wood Comforts Fund Albert Road Day Centre Comforts Fund Aquamira Comforts Fund Avalon Comforts Fund Four Rivers Nursing Home Comforts Fund Helena Lane / Friars Walk Day Centre Comforts Fund Wayfarers Comforts Fund Wayfarers Day Opportunities Greenacres Rural Unit Trading Account Ethics Inventories Management Leasing Arrangements VAT NHS Joint Funding Arrangements School Based Procurement Benefits Administration Grant Employee Authentication Service Register of Electors Transparency Agenda Performance Management & PI's Tell Us Once Processes Man-8Man (Permissions Reporting) Mail Room - manual The Gateway Education & Arts Centre Whitchurch Training Centre Chelmaren Comforts Fund Haven Brook Comfort Fund Shropshire Children's Trust School Census Schools Business Support Services Shropshire Music Service	Arts Developments & Grants Roman Road Sports Centre - Joint Use Countryside Access General Parks & Countryside Sites General Severn Valley Park North Shropshire Countryside Rangers Arts Festivals & Events Culture & Leisure Business Development Culture & Leisure Grants Culture & Leisure Marketing and Performance Ludlow Museum & Resource Centre Records Management Recruitment & Management of Volunteers Shropshire Archives Cleaning DSO General Systems Cleaning Equipment Maintenance Shirehall Restaurant Carbon Management Plan Fishing and Sporting Rights Shirehall Lettings SLA's & Invoicing Arrangements SMR - Sites & Monuments Record Technology Forge Application Enterprise and Business Grants ERDF Grant Claims Arcview GIS Application One App Online Planning Portal Application PLUMS - Planning Policy Control Public access mapping server/e-planning Ecology & Biodiversity Historic Environment & Listed Buildings AONB (Areas of Outstanding Natural Beauty) - Craven Arms Broadband Contract / Grant Community Working Land Drainage NRSWA - Road Openings & S278	Albrighton Library Bayston Hill Library Bishops Castle Library Bridgnorth Library Broseley Library Church Stretton Library Cleobury Mortimer Library Craven Arms Library Gobowen Library Highley Library Libraries General Library Fines & Charges Library HQ Library Procurement through WM Consortium Library RFID Self Service Machines Library Stock Management & Control Ludlow Library Market Drayton Library Much Wenlock Library Oswestry Library Pontesbury Library Schools Library service Shifnal Library Wem Library Whitchurch Library Community Transport Initiatives (SCOTI, OCTI etc) Local Bus Network Passenger Transport Efficiency Operations Public Transport - Publicity Surplus Seats Traffic Schemes Bio Digester Waste - Policy & Management Arrangements Waste - Statistics & Administration
--	---	---

Audit Progress Report and Sector Update

Shropshire Council
Year ending 31 March 2021
Page 83
15 March 2021



Contents

Section	Page
Introduction	3
Progress at February 2021	4
Financial Statements Audit 2020-21	5
Housing Benefit Assurance Process (HBAP)	6
Value for Money	7
Revised auditing standard: Auditing Accounting Estimates and Related Disclosures	9
Audit Deliverables	11
Inflo	12
Grant Patterson – CV	15
Sector Update	16

Introduction



Grant Patterson

Engagement Lead

T 0121 232 5296

E grant.b.patterson@uk.gt.com

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

The paper also includes:

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

Page 85



Mary Wren

Engagement Manager

T 0121 232 5254

E mary.wren@uk.gt.com

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

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

Progress at February 2021

Working with you

Changes in the Engagement Team

Richard Percival will be retiring at the end of March and is therefore stepping down as the Council's Engagement Lead (EL). Grant Patterson will be picking up those responsibilities from him. Grant has previously been the Council's EL but sufficient time has elapsed such that he is now able to return under ethical standards. Grant has extensive experience in the sector and looks forward to working with the Council again and forging strong working relationships with management and those charged with governance as the Council continue to navigate challenging times. Grant's CV can be found on page 15.

Meetings

Grant has introductory meetings booked with James Walton in March. We also met with Finance Officers in February as part of audit planning for 2020/21. We continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Events

Our annual chief accountant workshops are taking place over the next few weeks and continue into early March. Delivered virtually this year we still offer break-out areas to provide opportunities for your finance officers to speak to peers across the sector in addition to gaining an understanding of the key changes impacting this year's accounts.

Working Arrangements

We envisage having to continue to work completely remotely for a longer period. Working with the Council we managed this well at the last audit and we will seek to be in regular contact with your finance team in respect of the logistics of these arrangements, recognising that staff and patient welfare during and the pandemic will be your priorities. The use of Inflo will further develop remote working arrangements.

2019/20

Following on from the meeting of the Audit Committee on 10 December 2020 we have now certified completion of the 2019/20 financial statements.

The Annual Audit Letter for 2019/20 is also presented to this Committee.

Certification of claims and returns

We certify the Council's annual Housing Benefit return in accordance with agreed procedures. The certification work for the 2019/20 claim was completed in advance of the 31 January 2021 deadline. Further details are provided on page 6.

Our certification work in relation to the Pooling of Housing Capital receipts and Teachers Pension is nearing completion. We have now received final pieces of evidence to complete our testing.

2020/21

Financial statements

Our formal planning work commenced during February. We have summarised our considerations at this time on page 6. In addition to this we will:

- continue to have regular discussions with management to inform our risk assessment for the 2020/21 financial and value for money audits
- review board papers and latest financial and operational performance reports
- consider any reports from regulators regarding your clinical / operational effectiveness.

Our planning work has started later than last year as a result of the pandemic and we expect to be in a position to be able to issue our audit plan summarising our approach to the significant audit risks next month. Due to the unprecedented circumstances presented by the COVID-19 pandemic, we will be reviewing our establishment of significant risks to ensure these correspond to the arrangements which have been in place in the sector in 2020/21.

We hope to conduct early substantive testing of key areas including all revenue streams, operating expenditure, payroll costs and capital.

We will report any findings from our interim audit in these progress reports received at each meeting of the Audit Committee.

Value for money

We have included a presentation on the new approach within this report. On page 7 we have also summarised this on a page for members of the Audit Committee. We are in the process of requesting information and arranging meetings with key personnel at the Council in order to progress this work.

Inflo

A part of our continued investment to ensure the audit process is as smooth and efficient as possible, we have entered into a partnership with Inflo Software, a purpose build cloud based solution. This has been used across our client base for over 2 years.

Inflo has a number of benefits, one of these being the ability for all staff involved in the audit to work more flexibly. Inflo is available on any device and with access to the Internet can be accessed from any location.

The Council's Finance and IT teams have been involved in the initial set up of the system and audit requests for early work have now been added to the system.

Further detail regarding Inflo can be seen on pages 12-14.

Financial Statements Audit 2020/21

Materiality

The concept of materiality

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

Significant risks

Although we have started our planning work we are not at a stage where we can formally confirm the significant risks that we will be auditing. However, the sections below indicate likely areas that we will expect our work to focus on.

Presumed significant risks

ISA (UK) 240 includes two presumed risks as follows:

- Revenue recognition may be misstated due to the improper recognition of revenue. This is a rebuttable risk if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. We will consider the risk factors set out in ISA240 and the nature of the revenue streams at the Council to determine whether there is a risk of fraud from revenue recognition. We are cognisant that the Council has been in receipt of additional revenue streams this year and we will be documenting the business processes of these and existing streams as part of our planning procedures to help inform our consideration of the revenue recognition risk.
- The risk of management over-ride of controls is present in all entities. The need to achieve a particular financial outturn could potentially place management under undue pressure in terms of how they report performance.

Other potential significant risks at time of writing

Valuation of land and buildings - The Council revalues its land and buildings on a five-yearly basis. To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£1,069 million in the Council's balance sheet as at 31 March 2020) and the sensitivity of this estimate to changes in key assumptions. It is expected that the valuation of land and buildings will continue to be identified as a significant risk.

Valuation of net pension liability - The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£40.891m in the Council's balance sheet as at 31 March 2020) and the sensitivity of the estimate to changes in key assumptions. It is expected that the net pension liability will continue to be identified as a significant risk.

Other expected areas of focus

- We set out on pages 9 and 10 detail pertaining to the new accounting standard on Estimates. This raises the bar in terms of what both we and management are required to do. Therefore while in the past, we have focussed on the valuation of property plant and equipment, as well as the net pension liability, on the grounds that they are large and complex estimates in the accounts, this will occur to an even greater extent in 2020/21. This will also apply to any other material estimates made by management.
- *Practice Note 10: The application of auditing standards for public sector audits* was updated in November 2020. Revisions to PN 10 in respect of going concern are important and mark a significant departure from how this concept has been audited in the public sector in the past. In particular, PN 10 allows auditors to apply a 'continued provision of service approach' to auditing going concern, where appropriate. We are awaiting further NAO guidance but whilst our consideration of material going concern uncertainties will continue we do not anticipate this being a significant risk in 2020/21.

Housing Benefit Assurance Process (HBAP):

Housing Benefit Certification 2019/20

Background

The HBAP Module 1 framework sets out the Department for Work and Pensions' (DWP) requirements for the reporting accountant to provide a report of factual findings on the completion of the housing benefit subsidy assurance process.

Shropshire Council – 2019/20

Due to the nature of the welfare system this is inherently a complex and multifaceted area, and because of the number of errors identified historically in the claim, there is automatically a high level of testing that needs to be undertaken (to see if the errors have been addressed), before taking into account any new issues identified in the current year.

We identified some continuing and new issues from our certification work and, as a result of the errors identified, the claim was qualified, and we reported our findings to the DWP in our Reporting Accountant's Report dated 30th January 2021.

Page 88

Year	Value	Amended?	Amendment	Qualified
2018-19	£59,614,497	Yes	£426	Yes
2019-20	£52,120,813	Yes	£708	Yes

The Council completes the workbooks for us to review and re-perform work on cases on a sample basis. The quality of evidence within the workbooks was good.

CAKE (cumulative audit knowledge and experience) testing

In line with the requirements of HBAP modules we undertook CAKE testing based upon the 2018/19 Qualification Letter. Where the sub-populations are small the Council has completed 100% testing of all cases which then allows the claim form to be amended for actual errors identified. For larger populations a sample of 40 cases are selected at random and results are extrapolated and included in the qualification letter. CAKE testing is focussed on the reason for the case failure, for example, the entry of incorrect earnings into the calculation.

A summary of our testing based on CAKE is given below:

- Non-HRA Rent Rebates – Testing of earnings used in calculation- 1 error identified
- Non-HRA Rent Rebates – Testing of tax credits used in calculation – 1 error identified
- HRA Rent Rebates – Testing of earnings used in calculation – 4 errors identified
- HRA Rent Rebates – Testing of self-employed income used in calculation – 7 errors identified. 100% testing has been completed and cell amendment made to the claim form.
- HRA Rent Rebates – Testing of classification of overpayment – 2 errors identified
- Rent Allowances – Testing of occupational pension used in calculation. – 3 errors identified
- Rent Allowances – Testing of earnings used in calculation – 10 errors identified
- Rent Allowances – Testing of the capital tariff used in calculation – 6 errors identified
- Rent Allowances – Testing of self-employed income used in calculation. – 2 errors identified
- Rent Allowances – Testing of tax credits used in calculation. – 1 error identified

We have re-performed a sample of the Authority's testing and concur with the Authority's results.

Issues identified this year

Similar to prior years, a Reporting Accountant's report was produced, with all content and errors agreed with the Authority prior to submission. We are happy to provide a copy of this letter separately should members wish but, in summary, our findings were as follows:

Initial Testing

Non HRA Rent Rebate

The following errors were noted:

- One case where the incorrect capital amount had been applied to the calculation of benefit. It was possible to identify all cases for testing therefore 100% testing has been completed and the relevant cell amendment made to the claim form.

HRA rent rebate

- No error were identified.

Rent Allowance

- No errors were identified.

We would like to extend our thanks to the benefits team.

Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria, rather than the current 'reporting by exception' approach
- The replacement of the binary (qualified / unqualified) approach to VFM conclusions, with far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code requires auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under three specified reporting criteria. As follows:



Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.



Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)



Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information



Risks of significant VFM weaknesses

As part of our planning work, we will consider whether there are any risks of significant weakness in the body's arrangements for securing economy, efficiency and effectiveness in its use of resources that we need to perform further procedures on. We may need to make recommendations following the completion of our work. The potential different types of recommendations we could make are set out in the table below.

Page 90

Potential types of recommendations

A range of different recommendations could be made following the completion of work on risks of significant weakness, as follows:



Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.



Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.



Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures

In the period December 2018 to January 2020 the Financial Reporting Council issued a number of updated International Auditing Standards (ISAs (UK)) which are effective for audits of financial statements for periods beginning on or after 15 December 2019. ISA (UK) 540 (revised): *Auditing Accounting Estimates and Related Disclosures* includes significant enhancements in respect of the audit risk assessment process for accounting estimates.

Introduction

Under ISA (UK) 540 (Revised December 2018) auditors are required to understand and assess an entity's internal controls over accounting estimates, including:

- The nature and extent of oversight and governance over management's financial reporting process relevant to accounting estimates;
- How management identifies the need for and applies specialised skills or knowledge related to accounting estimates;
- How the entity's risk management process identifies and addresses risks relating to accounting estimates;
- The entity's information system as it relates to accounting estimates;
- The entity's control activities in relation to accounting estimates; and
- How management reviews the outcomes of previous accounting estimates.

As part of this process auditors also need to obtain an understanding of the role of those charged with governance, which is particularly important where the estimates have high estimation uncertainty, or require significant judgement.

Specifically do Audit Committee members:

- Understand the characteristics of the methods and models used to make the accounting estimates and the risks related to them;
- Oversee management's process for making accounting estimates, including the use of models, and the monitoring activities undertaken by management; and
- Evaluate how management made the accounting estimates?

Additional information that will be required for our March 2021 audits

To ensure our compliance with this revised auditing standard, we will be requesting further information from management and those charged with governance during our audit for the year ended 31 March 2021 in all areas summarised above for all material accounting estimates that are included in the financial statements.

Based on our knowledge of the Council we have identified the following material accounting estimates for which this is likely to apply:

- Valuations of land and buildings and investment properties
- Depreciation
- Year end provisions and accruals
- Credit loss and impairment allowances
- Valuation of defined benefit net pension fund liabilities
- Fair value estimates
- Financial guarantees

The Council's Information systems

In respect of the Council's information systems we are required to consider how management identifies the methods, assumptions and source data used for each material accounting estimate and the need for any changes to these. This includes how management selects, or designs, the methods, assumptions and data to be used and applies the methods used in the valuations.

When the models used include increased complexity or subjectivity, as is the case for many valuation models, auditors need to understand and assess the controls in place over the models and the data included therein. Where adequate controls are not in place we may need to report this as a significant control deficiency and this could affect the amount of detailed substantive testing required during the audit.

If management has changed the method for making an accounting estimate we will need to fully understand management's rationale for this change. Any unexpected changes are likely to raise the audit risk profile of this accounting estimate and may result in the need for additional audit procedures.

Revised auditing standard: Auditing Accounting Estimates and Related Disclosures Cont'd

We are aware that the Council uses management experts in deriving some of its more complex estimates, e.g. asset valuations. However, it is important to note that the use of management experts does not diminish the responsibilities of management and those charged with governance to ensure that:

- All accounting estimates and related disclosures included in the financial statements have been prepared in accordance with the requirements of the financial reporting framework, and are materially accurate;
- There are adequate controls in place at the Council (and where applicable its service provider or management expert) over the models, assumptions and source data used in the preparation of accounting estimates.

Page 92.

Estimation uncertainty

Under ISA (UK) 540 (Revised December 2018) we are required to consider the following:

- How management understands the degree of estimation uncertainty related to each accounting estimate; and
- How management address this estimation uncertainty when selecting their point estimate.

For example, how management identified and considered alternative methods, assumptions or source data that would be equally valid under the financial reporting framework, and why these alternatives were rejected in favour of the point estimate used.

The revised standard includes increased emphasis on the importance of the financial statement disclosures. Under ISA (UK) 540 (Revised December 2018), auditors are required to assess whether both the accounting estimates themselves and the related disclosures are reasonable.

Where there is a material uncertainty, that is where there is a significant risk of a material change to the estimated carrying value of an asset or liability within the next year, there needs to be additional disclosures. Note that not all material estimates will have a material uncertainty and it is also possible that an estimate that is not material could have a risk of material uncertainty.

Where there is material estimation uncertainty, we would expect the financial statement disclosures to disclose:

- What the assumptions and uncertainties are;
- How sensitive the assets and liabilities are to those assumptions, and why;
- The expected resolution of the uncertainty and the range of reasonably possible outcomes for the next financial year; and
- An explanation of any changes made to past assumptions if the uncertainty is unresolved.

How can you help

As part of our planning risk assessment procedures we routinely make a number of enquiries of management and those charged with governance, which include general enquiries, fraud risk assessment questions, going concern considerations etc. Responses to these enquires are completed by management and confirmed by those charged with governance at an Audit Committee meeting. For our 2020/21 audit we will be making additional enquires on your accounting estimates in a similar way (which will cover the areas highlighted above). We would appreciate a prompt response to these enquires in due course.

Further information

Further details on the requirements of ISA (UK) 540 (Revised December 2018) can be found in the auditing standard on the Financial Reporting Council's website:

[https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-\(UK\)-540-Revised-December-2018-final.pdf](https://www.frc.org.uk/getattachment/0fa69c03-49ec-49ae-a8c9-cc7a2b65382a/ISA-(UK)-540-Revised-December-2018-final.pdf)

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Fee Letter Outlining the proposed audit fee for 2020-21.	April 2021	Not yet due
Audit Plan We are required to issue a detailed audit plan to the Audit Committee setting out our proposed approach in order to give an opinion on the Council's 2020-21 financial statements and a Conclusion on the Council's Value for Money arrangements.	June 2021	Not yet due
Audit Findings Report The Audit Findings Report will be reported to the Audit Committee.	September 2021	Not yet due
Auditor's Report This is the opinion on your financial statement, annual governance statement and value for money conclusion.	September 2021	Not yet due
Auditor's Annual Report This letter communicates the key issues arising from our work. The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Report (AAR). The AAR will be published at the same time as the Auditor's Report	September 2021	Not yet due

Inflo: Overview



Inflo - Project management

The module within Inflo which is used for the collection of working papers and the administration of audit requests is known as 'request and share'. We use the request and share function across our client base. An example of the key processes involved and screenshots from live Inflo user files are shown below:

1. The audit team set up the key contacts for the project. These will be the individuals who will provide the responses to audit requests along with the audit team contacts

Name	Email	Role	Last Login	Active/Engagement
Thomas Greenall	tom@shropshire.gov.uk	Senior	14/01/2019	Active
Annalee Russell	annalee@shropshire.gov.uk	Senior	14/01/2019	Active
Mark Hume	mark@shropshire.gov.uk	Engagement Leader	14/01/2019	Active
Wayne Allen	wayne@shropshire.gov.uk	Manager	14/01/2019	Active

2. The audit team details the working paper or information required. Once submitted on Inflo a notification email is sent to the nominated client contact to indicate they have a task waiting.

IT environment questions

Due Date: 29 January 2019
 Submitted On: 22 January 2019
 Responsible Engagement Team: Thomas Greenall
 Responsible Client Team: Annalee Russell
 Description: As part of audit procedures we need to understand your overall IT environment. Could you please respond to the attached questions on the IT environment.

3. The client contact responds to the request, uploads relevant supporting information and submits back to the to the audit team.

IT environment questions

Due Date: 29 January 2019
 Submitted On: 22 January 2019
 Responsible Engagement Team: Thomas Greenall
 Responsible Client Team: Annalee Russell
 Description: As part of audit procedures we need to understand your overall IT environment. Could you please respond to the attached questions on the IT environment. You may need to forward this to a relevant contact within your IT department.

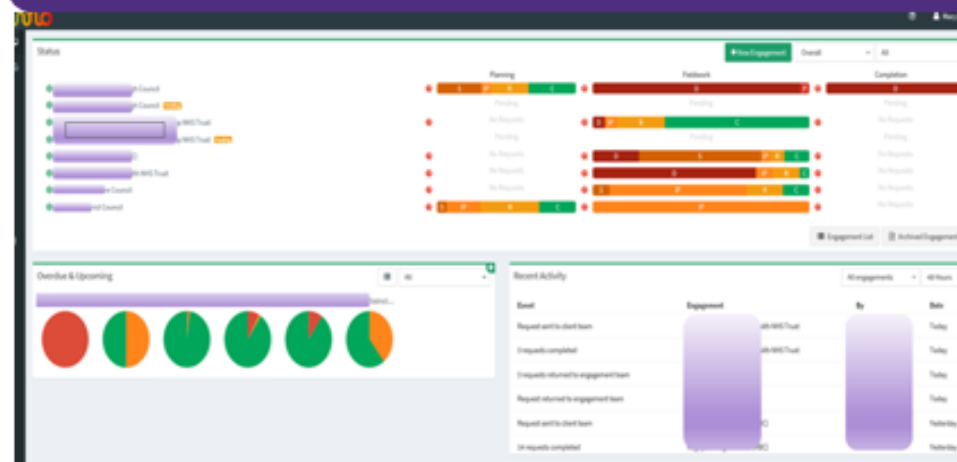
Comments:

Documents downloaded and will be passed to IT colleagues for review and completion

Files:

File Name	Size	Uploaded By	Upload Date
2.0.docx	24.71 KB	Thomas Greenall	27 Jan 2019
2.0.docx	34.83 KB	Thomas Greenall	27 Jan 2019

4. Inflow provides a user friendly dashboard view which will indicate the status of information requests.



Inflo – client experience

Page 96

“As a newcomer to Inflo, I have found it really easy to use and navigate. It has really streamlined how we receive requests for and provide information to Grant Thornton and allows us to easily keep track of how our audit is progressing. It is also reassuring to know that our information is being shared securely”

Dudley Integrated Health and Care NHS Trust

“Inflo has improved our ability to monitor progress against the audit tasks required, It has removed duplication and is user-friendly as all of the team can access the system.

It is easy to see the deadlines for completion of tasks and enables us to log any ad hoc requests received during the course of the audit. We also like that we are able to inspect documents that we have already uploaded and add further information and notes if required.

The ability to re-assign tasks to other team members is great when there are cases of staff being unavailable. We love how all of the instructions are contained in the request so we have one source to refer to rather than a trail of emails”

Warwick District Council

“We are under continued pressure to streamline processes and information flow both with our internal and external stakeholders I was delighted to discover that this new portal approach (inflo) was being rolled out to us. This has enabled us to;

- have access to the audit requirements over the planned visits for the closure of accounts
- provide the ability to redirect tasks where necessary.
- upload information directly into a centralised area which prevents risk of information being lost.
- give transparency of the information flow between the audit team and RBC.
- clearly understand the progress being made at any point in time.
- plan more effectively on information requirements over the whole closedown period
- I am confident that this will only improve both the speed and delivery of the overall process”

Rugby Borough Council

Your returning Engagement Lead



Engagement Lead – Grant Patterson, Director (BSc Hons, CPFA)

Grant is a Director in our Midlands public audit practice – a team of over 80 specialist professionals, and is a member of the practice's leadership team. Grant trained with the Audit Commission in Kent and London. He spent time within the Audit Commission's technical team before returning to the field as a District Auditor and joining Grant Thornton as a Director in 2012.

Grant is both committed and passionate about the public sector and has over 30 years of LG audit experience working with parish, district, county and unitary councils and also police and fire bodies. Grant has over 12 years' experience as a public sector specialist Engagement Lead: four years as a District Auditor with the Audit Commission and eight years as a Director at Grant Thornton.

He has also been review partner at a number of significant public bodies and panel member in dealing with significant accounting judgements on individual clients.

In addition to Shropshire Council and Shropshire Pension Fund, Grant's current LG portfolio includes Leicester City Council, West Midlands Combined Authority, West Midlands Pension Fund, Warwick DC, Rugby BC, Nuneaton and Bedworth BC and Oadby & Wigston BC.

Grant is also Engagement Lead for four NHS Trusts one of which is Shropshire Community Health NHST.

Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from local government sector specialists**
- **Reports of interest**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below :

Public Sector

Local
government

New NAO Code of Audit Practice for 2020-21

The NAO issued a new Code of Audit Practice which came into force on 1 April 2020 and applies to audits of 2020-21. The key change is an extension to the framework for VfM work.

The NAO has prepared Auditor Guidance Note (AGN 03), which sets out detailed guidance on what VfM work needs to be performed.

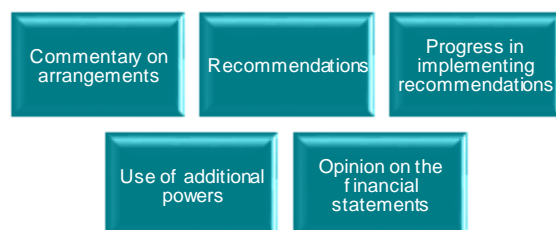
Public consultation on this ended 2 September 2020.

The new approach to VfM re-focuses the work of local auditors to:

- Page 99
- promote more timely reporting of significant issues to local bodies;
 - provide more meaningful and more accessible annual reporting on VfM arrangements issues in key areas;
 - provide a sharper focus on reporting in the key areas of financial sustainability, governance, and improving economy, efficiency and effectiveness; and
 - provide clearer recommendations to help local bodies improve their arrangements.

Under the previous Code, auditors had only to undertake work on VfM where there was a potential significant risk and reporting was by exception. Whereas against the new Code, auditors are required to undertake work to provide a commentary against three criteria set by the NAO – governance; financial sustainability and improving economy, efficiency and effectiveness.

A new Auditor's Annual Report presented at the same time as the audit opinion is the forum for reporting the outcome of the auditor's work on Value for Money. It is required to contain:



The 'Commentary on arrangements' will include a summary under each of the three specified reporting criteria and compared to how the results of VfM work were reported in previous years, the commentary will allow auditors to better reflect local context and also to draw attention to emerging or developing issues which may not represent significant weaknesses, but which may nevertheless require attention from the body itself. The commentary will not simply be a description of the arrangements in place, but an evaluation of those arrangements.

Recommendations: Where an auditor concludes there is a significant weakness in a body's arrangements, they report this to the body and support it with a recommendation for improvement.

Progress in implementing recommendations: Where an auditor has reported significant weaknesses in arrangements in the previous year, the auditor should follow up recommendations issued previously and include their view as to whether the recommendations have been implemented satisfactorily

Use of additional powers: Where an auditor uses additional powers, such as making statutory recommendations or issuing a public interest report, this needs to be reported in the auditor's annual report.

Opinion on the financial statements: The auditor's annual report also needs to summarise the results of the auditor's work on the financial statements. This is not a replacement for the AFR, or a verbatim repeat of it – it is simply a summary of what the opinion audit found

The new approach is more complex, more involved and will subsequently increase the cost of audit. We will be discussing this with the Chief Operating Officer shortly.

To review the new Code and AGN03 click [here](#)

The Annual Audit Letter for Shropshire Council

Page 1 of 1
Year ended 31 March 2020
22 February 2021



Agenda Item 13

Contents



Your key Grant Thornton
Team members are:

Page 102

Richard Percival

Director

T: 0121 232 5434

E: Richard.d.percival@uk.gt.com

Mary Wren

Manager

T: 0121 232 5254

E: mary.wren@uk.gt.com

Siobhan Barnard

In-charge

T: 0121 232 5121

E: Siobhan.barnard@uk.gt.com

Section

Page

1. Executive Summary	3
2. Audit of the Financial Statements	5
3. Value for Money conclusion	14

Appendices

A Reports issued and fees
B Reports issued and fees - Pension Fund

Executive Summary

Purpose

Our Annual Audit Letter (Letter) summarises the key findings arising from the work that we have carried out at Shropshire Council (the Council) for the year ended 31 March 2020.

This Letter is intended to provide a commentary on the results of our work to the Council and external stakeholders, and to highlight issues that we wish to draw to the attention of the public. In preparing this Letter, we have followed the National Audit Office (NAO)'s Code of Audit Practice and Auditor Guidance Note (AGN) 07 – 'Auditor Reporting'. We reported the detailed findings from our audit work to the Council's Audit Committee as those charged with governance in our Audit Findings Report on 29th October 2020.

Our work

Materiality

We determined materiality for the audit of the Council's financial statements to be £8,600,000, 1.5% of the Council's gross cost of services. We determined materiality for the audit of the Council's financial statements as a whole to be £8.700 million (Group) and £8.600 million (single entity statements), which equates to approximately 1.5% of the Council's gross operating expenses.

Financial Statements opinion

We gave an unqualified opinion on the Council's financial statements on 19 November 2020.

Our opinion included an emphasis of matter paragraph drawing attention to Note 4 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Authority's and land and buildings and the Authority's share of the pension fund's property investments as at 31 March 2020. As disclosed in note 4 to the financial statements, the outbreak of Covid-19, has seen many sectors of real estate markets experiencing significantly lower levels of transactional activity and liquidity. As at the valuation date, there is a shortage of market evidence for comparison purposes, to inform opinions of value. A material valuation uncertainty was therefore disclosed in both the Authority's land and buildings and the pension fund's property valuation reports. This paragraph did not represent a modification of our audit opinion.

Whole of Government Accounts (WGA)

We have completed our work on the Council's consolidation return in line with guidance issued by the NAO.

Use of statutory powers

We did not identify any matters which required us to exercise our additional statutory powers.

Respective responsibilities

We have carried out our audit in accordance with the NAO's Code of Audit Practice, which reflects the requirements of the Local Audit and Accountability Act 2014 (the Act). Our key responsibilities are to:

- give an opinion on the Council's financial statements (section two)
- assess the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources (the value for money conclusion) (section three).

In our audit of the Council's financial statements, we comply with International Standards on Auditing (UK) (ISAs) and other guidance issued by the NAO.

Executive Summary

Value for Money arrangements We were satisfied that the Council put in place proper arrangements to ensure economy, efficiency and effectiveness in its use of resources. We reflected this in our audit report to the Council on 19 November 2020.

Certificate We certified closure of the audit on 8th December 2020 following the completion of our work on Whole of Government Accounts.

Working with the Council

The outbreak of the Covid-19 coronavirus pandemic has had a significant impact on the normal operations of the Council including the administration of grants to businesses, closure of schools and car parks with additional challenges of reopening services under new government guidelines.

The finance team also had to manage remote working, access to systems and team capacity.

Authorities were still required to prepare financial statements in accordance with the relevant accounting standards and the CIPFA Code of Practice albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020.

We updated our audit risk assessment to consider the impact of the pandemic on our audit and issued an audit plan addendum on 31 July 2020. In that addendum we reported an additional financial statement risk in respect of Covid-19 and highlighted the impact on our VfM approach.

The Council published its draft financial statements on its website on 10th July 2020. A version of the financial statements were made available to the audit team at the same time. Restrictions for non-essential travel meant both Council and audit staff had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity.

Inevitably remote working impacted on delivery and additional time and resources were necessary on both sides to complete the work in accordance with the new extended reporting timetable.

In particular, Covid 19 increased the work undertaken in relation to Pensions Liabilities and Property Valuation due to the uncertainty of valuations. There was also an increase in the time taken to perform the audit as a direct result of remote working.

We would like to record our appreciation for the assistance and co-operation provided to us during our audit by the Council's staff.

Grant Thornton UK LLP
February 2021

Audit of the Financial Statements

Our audit approach

Materiality

In our audit of the Council's financial statements, we use the concept of materiality to determine the nature, timing and extent of our work, and in evaluating the results of our work. We define materiality as the size of the misstatement in the financial statements that would lead a reasonably knowledgeable person to change or influence their economic decisions.

We determined materiality for the audit of the Council's financial statements to be £8,600,000 (£8,700,000 for the Group), 1.5% of the Council's gross cost of services. We used this benchmark as, in our view, users of Council's financial statements are most interested in where the Council has spent its revenue in the year.

We also set a lower level of specific materiality of £100,000 for senior officer remuneration due to the sensitive nature and public interest of this area of the financial statements.

We set a threshold of £430,000 (£435,00 for the Group), above which we reported errors to the Audit Committee in our Audit Findings Report.

The scope of our audit

Our audit involves obtaining sufficient evidence about the amounts and disclosures in the financial statements to give reasonable assurance that they are free from material misstatement, whether caused by fraud or error. This includes assessing whether:

- the accounting policies are appropriate, have been consistently applied and adequately disclosed;
- the significant accounting estimates made by management are reasonable; and
- the overall presentation of the financial statements gives a true and fair view.

We also read the remainder of the Statement of Accounts to check it is consistent with our understanding of the Council and with the financial statements included in the Statement of Accounts on which we gave our opinion.

We carry out our audit in accordance with ISAs (UK) and the NAO Code of Audit Practice. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Our audit approach was based on a thorough understanding of the Council's business and is risk based.

We identified key risks and set out overleaf the work we performed in response to these risks and the results of this work.

Audit of the Financial Statements

Significant Audit Risks

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Covid-19</p> <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expected that this would have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to:</p> <ul style="list-style-type: none"> - Remote working arrangements and redeployment of staff to critical front line duties could impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation - Volatility of financial and property markets increased the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates - Financial uncertainty required management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and - Disclosures within the financial statements required significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. <p>We therefore identify the global outbreak of the Covid-19 virus as a significant risk.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none"> • worked with management to understand the implications the response to the Covid-19 pandemic had on the organisation's ability to prepare the financial statements • liaised with other audit suppliers, regulators and government departments to co-ordinate practical cross-sector responses to issues as and when they arose • evaluated the adequacy of the disclosures in the financial statements that arose in light of the Covid-19 pandemic • evaluated whether sufficient audit evidence could be obtained through remote technology; • evaluated whether sufficient audit evidence could be obtained to corroborate significant management estimates such as assets and the pension fund liability valuations • evaluated management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment • engaged the use of auditor experts for asset valuations 	<p>A material valuation uncertainty in respect of land and buildings and pension fund assets as at 31 March 2020 was reported in the financial statements. We drew attention to this uncertainty through inclusion of an emphasis of matter paragraph to be included in our audit report.</p> <p>We did not identify any further material uncertainties in relation to Covid-19 that would result in a material misstatement in the financial statements.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of land and buildings</p> <p>The Council revalues its land and buildings on a five-yearly basis. To ensure the carrying value in the Council and group financial statements is not materially different from the current value at the financial statements date, the Council requests a desktop valuation from its valuation expert. This valuation represents a significant estimate by management in the financial statements due to the value involved (£1,069 million in the Council's balance sheet as at 31 March 2019) and the sensitivity of this estimate to changes in key assumptions.</p> <p>We therefore identified the valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement, and a key audit matter</p>	<p>As part of our audit we :</p> <ul style="list-style-type: none">evaluated management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their workevaluated the competence, capabilities and objectivity of the valuation expertwrote to the valuer to confirm the basis on which the valuation was carried out to ensure that the requirements of the Code are metchallenged the information and assumptions used by the valuer to assess completeness and consistency with our understandingTested revaluations made during the year to see if they had been input correctly into the Authority's asset register	<p>Due to the outbreak of Covid-19 market activity has been impacted in many sectors. The Council's valuers considered that less weight can be attached to previous market evidence to inform their opinions of value as at 31 March 2020. They therefore reported to the Council on the basis of 'material valuation uncertainty'</p> <p>The Council expanded the relevant wording within the Financial Statements in relation to material uncertainty to give the reader a better understanding of the RICS guidance. We included this within our Emphasis of Matter to draw this to the attention of the reader.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the significant risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Valuation of net pension liability</p> <p>The Council's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements.</p> <p>The pension fund net liability is considered a significant estimate due to the size of the numbers involved (£49,891million in the Council's balance sheet) and the sensitivity of the estimate to changes in key assumptions.</p> <p>We therefore identified valuation of the Council's pension fund net liability as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>As part of our audit work we:</p> <ul style="list-style-type: none">• updated our understanding of the processes and controls put in place by management to ensure that the Council's pension fund net liability is not materially misstated and evaluate the design of the associated controls;• evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work;• assessed the competence, capabilities and objectivity of the actuary who carried out the Council's pension fund valuation;• assessed the accuracy and completeness of the information provided by the Council to the actuary to estimate the liability;• tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial report from the actuary;• carried out procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report;	<p>We noted that the valuation of pension fund investments properties are reported on the basis of material valuation uncertainty due to the impact of the pandemic. The financial statements were amended to report this and we referred to this in the emphasis of matter paragraph in our audit opinion.</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Management override of internal controls</p> <p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Council faces external scrutiny of its spending and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, this was one of the most significant assessed risks of material misstatement.</p>	<p>We:</p> <ul style="list-style-type: none">• evaluated the design effectiveness of management controls over journals• analysed the journals listing and determined the criteria for selecting high risk unusual journals• tested unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration• gained an understanding of the accounting estimates and critical judgements applied made by management and considered their reasonableness with regard to corroborative evidence• evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions	<p>Our work did not identify any issues in respect of management override of controls</p>

Audit of the Financial Statements

Significant Audit Risks - continued

These are the risks which had the greatest impact on our overall strategy and where we focused more of our work.

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Improper revenue recognition</p> <p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.</p> <p>Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Authority, we determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none">• there is little incentive to manipulate revenue recognition• opportunities to manipulate revenue recognition are very limited• the culture and ethical frameworks of local authorities, including Shropshire Council, mean that all forms of fraud are seen as unacceptable.	<p>Whilst not a significant risk, as part of our audit work we did undertake work on material revenue items.</p>	<p>Our work did not identify any matters that would indicate our rebuttal was incorrect.</p>

Audit of the Financial Statements

Significant Findings – Other Issues

This section provides commentary on issues and risks which were identified during the course of the audit.

Issue	Commentary
<p>International Financial Reporting Standard (IFRS) 16 Leases – (issued but not adopted)</p> <p>We reported in our audit plan that the implementation of IFRS 16 from 1 April 2020 would be recognised as a risk for 2019/20.</p> <p>Implementation of IFRS 16 was subsequently delayed to 1 April 2021 as a result of the Covid19 pandemic. However, audited bodies were still required to include disclosures in their 2019/20 statements. As a minimum, we expected audited bodies to disclose the title of the standard, the date of initial application and the nature of the changes in accounting policy for leases.</p>	<p>We reviewed the draft financial statements to assess whether the Council had included appropriate disclosures relating to the impact of the implementation of IFRS 16.</p>
<p>Dedicated Schools Grant</p> <p>The Council had a cumulative overspend of £2.247m as 31 March 2020 due to insufficient government funding. We have reviewed the statement from CIPFA which confirms the guidance in LAAP bulletin 99 Local Authority Reserves and Balances remains extant i.e.. it “neither anticipates nor allows for a voluntary earmarked balance to be presented in a deficit position.”</p>	<p>We reviewed the draft financial statements note 38 (Dedicated schools Grant) Narrative changes were discussed and agreed with the Council.</p>
<p>Group accounts</p> <p>The financial statements include group accounts which report the consolidated position for the Council’s subsidiaries and entities where it has significant control or influence. This includes Shropshire Town and Rural Housing Limited (STaR), the West Mercia Energy Joint Committee, the Jersey Property Unit Trust (including SSC No 1 Limited) and the new housing development company Cornovii Developments Limited. The group accounts also include financial transactions that will enable IP&E Limited to be dissolved during 2020/21.</p>	<p>We reviewed the group consolidation process and disclosure within the financial statements. No issues were identified as part of this review.</p>

Audit of the Financial Statements

Significant Findings – Other Issues

This section provides commentary on issues and risks which were identified during the course of the audit.

Issue	Commentary
<p>Going concern</p> <p>Clearly the pandemic has been a factor in both the Council's thinking going forward as well as the audit team's work from a going concern and ViM perspective. The Council's income streams (local taxation, fees and charges) have been affected and are susceptible to change as a result of the pandemic. These impacts are being monitored regularly by the Council using a reasonable and reasonable worse case scenario. We are also aware that funding from central government is being made available to mitigate the additional risks facing the Council, however there does remain uncertainty over the actual levels and if this will cover the extra costs generated by providing services during the pandemic.</p> <p>The Council has reviewed its Medium Term Financial Plan (MTFP) in light of Covid 19– we are aware that this is a situation which is changing as funding announcements are being made however we are satisfied that the Council has updated its MTFP with known developments and communicated the effects of this to Those Charged With Governance (TCWG).</p>	<p>The Council is closely monitoring the financial impacts of Covid19 using the best available data. Transformation and mitigating actions are being implemented to combat further overspends. The strong reserves position and ability to liquidate cash and cash equivalents provide a stabilising effect for the Councils plans.</p> <p>We are therefore of the view that the going concern assertion is appropriate for the Council and did not include a material uncertainty in this area within our audit report</p>

Audit of the Financial Statements

Audit opinion

We gave an unqualified opinion on the Council's financial statements on 19th November 2020.

Preparation of the financial statements

The Council published its draft financial statements on its website on 10th July 2020. A version of the financial statements were made available to the audit team at the same time. The finance team responded promptly and efficiently to our queries during the course of the audit.

Restrictions for non-essential travel meant both Council and audit staff had to work remotely including, remote accessing financial systems, video calling, alternative procedures for the physical verification of assets and completeness and accuracy of information produced by the entity.

Inevitably remote working impacted on delivery and additional time and resources were necessary on both sides to complete the work in accordance with the new extended reporting timetable.

In particular, Covid-19 increased the work undertaken in relation to Pensions Liabilities and Property Valuation due to the uncertainty of valuations. There was also been an increase in the time taken to perform the audit as a direct result of remote working.

Issues arising from the audit of the financial statements

We reported the key issues from our audit to the Council's Audit Committee on 29th October 2020.

Annual Governance Statement and Narrative Report

We are also required to review the Council's Annual Governance Statement and Narrative Report. It published them on its website as part of the draft Statement of Accounts in June 2020.

Both documents were prepared in line with the CIPFA Code and relevant supporting guidance. We confirmed that both documents were consistent with the financial statements prepared by the Council and with our knowledge of the Council.

Whole of Government Accounts (WGA)

We have completed our work on the Council's consolidation return in line with guidance issued by the NAO.

Other statutory powers

We also have additional powers and duties under the Act, including powers to issue a public interest report, make written recommendations, apply to the Court for a declaration that an item of account is contrary to law, and to give electors the opportunity to raise questions about the Council's accounts and to raise objections received in relation to the accounts.

We did not identify any matters which required us to exercise our additional statutory powers.

Certificate of closure of the audit

We certified closure of the audit on 8th December 2020 following the completion of our work on Whole of Government Accounts.

Value for Money conclusion

Background

We carried out our review in accordance with the NAO Code of Audit Practice, following the guidance issued by the NAO in April 2020 which specified the criterion for auditors to evaluate:

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

Key findings

Our first step in carrying out our work was to perform a risk assessment and identify the risks where we concentrated our work.

The risks we identified and the work we performed are set out overleaf.

As part of our Audit Findings report agreed with the Council in 29th October 2020, we agreed recommendations to address our findings.

Overall Value for Money conclusion

We are satisfied that in all significant respects the Council put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2020.

Value for Money conclusion

Value for Money Risks

Risks identified in our audit plan	How we responded to the risk	Findings and conclusions
<p>Financial sustainability</p> <p>We identified the following risk in our audit plan:</p> <p>In common with the Local Government sector as a whole, the Authority is under increasing funding pressure and, as a result, is facing a challenging savings target. This is further complicated by the issues arising as a result of the Covid-19 pandemic.</p> <p>We will continue to meet with senior management to consider how the financial pressures are being managed on an ongoing basis. We will also discuss working arrangements during the Covid-19 pandemic, with a particular focus on the following;</p> <ul style="list-style-type: none"> the reprofiling of planned expenditure to meet changing demands; oversight of additional funding provided both to the Authority and on an agency basis; and governance and data security arrangements during a period of widespread remote working. 	<p>We have met with senior management to consider how the financial pressures are being managed on an ongoing basis. We also discussed working arrangements during the Covid-19 pandemic, with a particular focus on the following;</p> <ul style="list-style-type: none"> the reprofiling of planned expenditure to meet changing demands; oversight of additional funding provided both to the Authority and on an agency basis; and governance and data security arrangements during a period of widespread remote working. 	<p>Outturn position 2019/20</p> <p>Historically, the Council has delivered against its financial objectives, this continued to be the case for 2019/20 with a £1.682m controllable overspend on the General Fund (GF) budget and a £4.106m underspend on the Housing Revenue Account Budget.</p> <p>Within the £1.692m General fund overspend were significant pressures relating to Children's Services (£6.668m overspend) and Place (£6.256m overspend). These overspends were offset largely by the Corporate budget underspend of £11.352m which was mainly non recurrent savings totalling £7.456m including the release of a contingency built up from MRP savings, unused s31 grant and early payment of pension contributions.</p> <p>The availability of non recurrent measures to balance annual budgets is now very limited and the continued reliance on one-off funding is unsustainable. The Council will need to deliver identified savings and develop further schemes to support the financial position going forward.</p> <p>Capital programme</p> <p>The Council has seen slippage in its capital programme of £127.209m. This is largely due to delays in delivering agreed programmed works and projects commencing late. The budget to be carried forward to 2020/21 for these specific planned works total £24.716m on the Housing Investment Programme.</p> <p>Updated financial strategy – Covid 19</p> <p>The local authority funding uncertainties and continuing Covid financial pressures mean that the Council faces a significant financial challenge over the next two years. Although it has a good track record on managing its financial position, it is likely that difficult decisions will need to be made as part of the 2022/23 budget setting process to ensure financial sustainability is maintained.</p> <p>It is clear that the Council has responded positively to the challenge presented by Covid-19 and are adequately monitoring and assessing the current and future impacts on the Council's finances.</p> <p>Based on our review of the significant risk identified we have concluded that Shropshire Council has proper arrangements to secure economy, efficiency and effectiveness in its use of resources.</p>

A. Reports issued and fees

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	25 th February 2020
Audit plan Addendum	31 st July 2020
Audit Findings Report	29 th October 2020
Annual Audit Letter	4 th March 2021

Fees

	Planned £	Actual fees 2018/19 £	2019/20 fees £
Statutory audit	126,561	148,830	115,061
Non-audit fees for other services	21,100	21,100	21,245
CFO insights Licence	10,000	10,000	10,000
Total fees	157,661	179,930	146,306

Area	Reason	Fee proposed £
Impact of Covid-19 on audit arrangements	Fee variation due to impact of Covid-19 on audit input	18,984
Member question	Responding to Member question regarding the governance of the Authority's Highways contract	3,285
Total		£22,269

Fee variation subject to PSAA approval.

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £103,061 assumed that the scope of the audit did not significantly change. We included a fee variation of £23,500 in our plan due to the enhanced auditing requirements since the scale fee was set. During the course of our audit further additional work was required. We have discussed our proposed fee variation with the Director of Finance, Governance and Assurance.

Non-audit fees for other services

- Other services include Certification of Housing Benefit Grant Claim (£13,300), Teachers Pension Return (£4,800) and Certification of Housing capital receipts grant (£3,000)
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

B. Reports issued and fees – Pension Fund

We confirm below our final reports issued and fees charged for the audit and provision of non-audit services.

Reports issued

Report	Date issued
Audit Plan	31 st July 2020
Audit plan Addendum	31 st July 2020
Audit Findings Report	18 th September 2020

Area	Reason	Fee proposed £
Impact of Covid-19 on audit arrangements	Fee variation due to impact of Covid-19 on audit input	3,343
Total		£3,343

Fees

	Planned £	Actual fees 2018/19 £	2019/20 fees £
Statutory audit	22,289	25,632	18,039
Non-audit fees for other services - IAS 19 calculations	3,000	3,000	2,000
Total fees	25,289	28,632	20,039

Fee variation subject to PSAA approval.

Audit fee variation

As outlined in our audit plan, the 2019-20 scale fee published by PSAA of £18,039 assumed that the scope of the audit did not significantly change. We included a fee variation of £4,250 in our plan due to the enhanced auditing requirements since the scale fee was set. During the course of our audit further additional work was required. We have discussed our proposed fee variation with the Director of Finance, Governance and Assurance.

Non-audit fees for other services

- We are required to respond to requests from the auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support IAS 19 calculations.
- For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. We have considered whether non-audit services might be perceived as a threat to our independence as the Council's auditor and have ensured that appropriate safeguards are put in place.

The above non-audit services are consistent with the Council's policy on the allotment of non-audit work to your auditor.

By virtue of paragraph(s) 1, 2, 3, 4, 5, 7 of Part 1 of Schedule 12A of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

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

Document is Restricted

This page is intentionally left blank