

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

Date: 14 February 2022
My Ref:
Your Ref:

**Committee:
Audit Committee**

Date: Tuesday, 22 February 2022
Time: 10.00 am
**Venue: Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury,
Shropshire, SY2 6ND**

You are requested to attend the above meeting. The Agenda is attached
**Members of the public will be able to access the live stream of the meeting by
clicking on this link:**

<https://shropshire.gov.uk/AuditCommitteeMeeting22February2022>

**There will be some access to the meeting room for members of the press and
public but this will be very limited due to current Health and Safety Regulations. If
you wish to attend the meeting, please e-mail democracy@shropshire.gov.uk to
check that a seat will be available for you.**

Tim Collard
Interim Assistant Director – Legal and Democratic Services

Members of Audit Committee

Rosemary Dartnall
Simon Harris (Vice Chairman)
Nigel Lumby

Brian Williams (Chairman)
Roger Evans

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 declare their disclosable pecuniary interests and other registrable or non-registrable interests in any matter being considered at the meeting as set out in Appendix B of the Members' Code of Conduct and consider if they should leave the room prior to the item being considered. Further advice can be sought from the Monitoring Officer in advance of the meeting.

3 Minutes of the previous meetings held on the 16 September and 22nd October 2021 (Pages 1 - 14)

The Minutes of the meetings held on the 16 September and 22nd October 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 10.00 am Friday 18 February 2022.

5 Member Questions

To receive any questions of which Members of the Council have given notice. The deadline for notification for this meeting is 10.00 am on Friday 18 February 2022.

6 Second line assurance: Treasury Strategy Mid-Year Report 2021/22 (Pages 15 - 42)

The report of the Executive Director of Resources (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

7 Second line assurance: Treasury Strategy 2022/23 (Pages 43 - 104)

The report of the Executive Director of Resources (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

8 Second line assurance: Strategic Risk Update (Pages 105 - 110)

The report of the Risk and Insurance Manager is attached.
Contact: Angela Beechey (01743) 258915

9 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative (Pages 111 - 154)

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

10 Governance Assurance: Annual review of Audit Committee Terms of Reference (Pages 155 - 166)

The report of the Executive Director of Resources (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

11 Governance Assurance: Annual Audit Committee Self-Assessment (Pages 167 - 194)

The report of the Executive Director of Resources (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

12 Governance Assurance: Draft Audit Committee work plan and future training requirements (Pages 195 - 222)

The report of the Executive Director of Resources (Section 151 Officer) is attached.
Contact: James Walton (01743) 258915

13 Governance Assurance: Internal Audit Quality Assurance - External Assessment Outcomes 2021/22 (Pages 223 - 244)

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

14 Third line assurance: Internal Audit Charter (Pages 245 - 264)

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

15 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2021/22 (Pages 265 - 290)

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

16 Third line assurance: Report of the Audit Review of Risk Management (Pages 291 - 294)

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

17 Third line assurance: Internal Audit Plan 2022/23 (Pages 295 - 308)

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

18 Third line assurance: External Audit, Audit progress report and sector update (Pages 309 - 324)

The report of the Engagement Lead is to follow.
Contact: Grant Patterson (0121) 232 5296

19 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 30 June 2022 at 10.00 am - tbc.

20 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.

21 Exempt minutes of the previous meeting held on the 16th September 2021 (Pages 325 - 328)

The Exempt Minutes of the meeting held on the 16 September 2021 are attached for confirmation.
Contact: Michelle Dulson 01743 257719

22 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 329 - 334)

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



Committee and Date

Audit Committee

22 February 2022

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 16 SEPTEMBER 2021 10.00 AM - 12.30 PM

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

Present

Councillor Brian Williams (Chairman)
Councillors Rosemary Dartnall, Simon Harris (Vice Chairman), Nigel Lumby
and Roger Evans

23 Apologies for Absence / Notification of Substitutes

No apologies were received.

24 Disclosable Pecuniary Interests

Members were 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.

25 Minutes of the previous meeting held on the 30 July 2021

RESOLVED:

That the Minutes of the meeting of the Audit Committee held on the 30 July 2021 be approved as a true record and signed by the Chairman.

26 Public Questions

There were no questions from members of the public.

27 Member Questions

There were no questions from Members.

28 **Second line assurance: Risk Annual Report 2020/21 incorporating Strategic Risks Update**

The Committee received the report of the Risk and Insurance Manager – copy attached to the signed minutes – which provided an overview of the activity of the Risk, Insurance & Resilience Team during 2020/2021 and a synopsis of the current risk exposure of the authority in relation to Strategic, Operational and Project risks. It also identified some key activity for 2021/2022.

The Risk and Insurance Manager introduced and amplified her report. She was pleased to report that the Audit review of risk management this year had again identified the assurance level as 'Good'. She explained that all risks were now on a SharePoint site so that risk owners had access to update the risks at any time to allow real time reporting.

The Risk and Insurance Manager reported that each Strategic risk had a detailed profile and Action Plan sitting behind them, along with an implementation date and were linked to the Annual Governance Statement targeted outcomes. Of the 16 strategic risks, there were 11 high, 3 medium, 2 low and no very low risks.

The Risk and Insurance Manager updated members in relation to strategic, operational and project risk management. She explained that the Opportunity Risk Management Strategy was reviewed annually and reported to the Executive Directors, Cabinet and Audit Committee.

Turning to Business Continuity, the Risk and Insurance Manager confirmed that the arrangements remained robust and that the detailed tactical plans were constantly reviewed. Emergency planning continued to be put to the test with the main focus being on the continued response to and recovery from Covid-19.

In response to a query, the Risk and Insurance Manager confirmed that all 128 operational risk registers had a named lead officer as the overall risk owner. The Risk and Insurance Manager explained the key things they looked at when considering a strategic risk including what controls were currently in place and what additional controls were required in order to mitigate the risk. Also, if the implementation date had not been achieved the risk owner would be challenged.

In response to a query, the Risk and Insurance Manager explained the four classification levels for operational risks and that a likelihood of impact matrix was used to ensure that each risk was scored on the same basis.

RESOLVED:

To accept the position as set out in the report.

29 Second line assurance: Annual Treasury Report 2020/21

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which showed the borrowing and investment strategy, outturn for 2020/21 and investment performance of the Internal Treasury Team, confirming activities align with the approved Treasury Management Strategy.

The Executive Director of Resources (Section 151 Officer) reported that the Internal Treasury Team had outperformed their investment benchmark which had been the case for many years. He confirmed that the Council's Treasury activities during the year had been within the approved prudential and treasury indicators set and have complied with the Treasury Strategy.

The Executive Director of Resources (Section 151 Officer) drew attention to the Debt Maturity Profile, Prudential Indicators and the Council's Borrowing and Investment Strategy and Outturn position for 2020/21, set out in Appendices A, B and C respectively. He confirmed that as part of a future training session for Members of the Audit Committee on Treasury Management they would be looking at prudential indicators.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that the benchmark was a national benchmark based upon active treasury management and what should be achieved. In response to a further query about why the Council invested in other local authorities, the Executive Director of Resources (Section 151 Officer) explained that they could only invest in certain types of institutions which had to be AAA rated with sovereign backing. He confirmed that Shropshire Council also lent money to other local authorities.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained that internal borrowing was based on having cash available for the short term that would not be called upon. The interest rate was based upon the prevailing rate at the time.

The Chairman noted that there had been no external borrowing and congratulated the Internal Treasury Team for exceeding its benchmark yet again.

RESOLVED:

To accept the position as set out in the report.

30 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2021/22

The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which summarised Internal Audit’s work to date in 2021/22. The Head of Audit explained that delivery had been lower than normal, and that the plan had been adjusted to reflect the impact of vacancies and support to COVID activities. Lower assurances were highlighted, providing members with an opportunity to challenge further.

The Head of Audit advised Members that 32% of the revised Plan had been completed and that they were on track to deliver 90% by year end. She then drew attention to the proposed reduction of 203 days to 1,797 days due to a reduction in available resources, recruitment delays and initially at the start of the year, the continuing impact of COVID. It was confirmed that these changes had been discussed with and agreed by the Executive Director of Resources (Section 151 Officer).

The Head of Audit drew attention to table 3 (Appendix A) which set out the unsatisfactory and limited assurance opinions issued. She confirmed that no limited assurance opinions had been issued however there had been two unsatisfactory assurance opinions, as detailed in the report.

In response to a query, the Head of Audit expanded on the wellbeing activities available to support staff. In response to a further query, the Head of Audit went on to explain the process behind the decision of which audits were undertaken or otherwise which was dependent on risks and priorities and was quite a fluid plan. She confirmed that the Executive Director of Resources (Section 151 Officer) signed off the plan and that anything of significant concern would be reported back to the Committee and the risks explained.

A brief discussion ensued in relation to the unsatisfactory assurance opinion given for internet security and the Head of Audit explained that when they had gone out to test it was found that not all the policies and procedures were in place or weren’t being complied with. She confirmed that fundamental recommendations had been made and agreed by management and would be discussed in the exempt part of the meeting.

RESOLVED:

1. To note the performance to date against the 2021/22 Audit Plan.
2. To note the adjustments required to the 2021/22 plan to take account of changing priorities set out in Appendix B.

31 Third line assurance: Internal Audit: Quality assurance and Improvement Programme (QAIP)

The Committee received the report of the Head of Audit – copy attached to the signed Minutes – which confirmed, following a self-assessment quality assurance review (QAIP), that Internal Audit complied with the

Public Sector Internal Audit Standards (PSIAS) and where there was some limited partial conformance, this was normal in local government environments and not significant enough for escalation in the Annual Governance Statement.

It was confirmed that an external assessment was planned for the current year, in compliance with the PSIAS, details of which had been confirmed with the Chairman and Section 151 Officer. The Head of Audit confirmed that a number of quotes had been received and that the contract had been awarded to the Chartered Institute of Public Finance and Accountancy (CIPFA).

In response to a query, the Head of Audit confirmed that a full assessment had been undertaken five years ago but that following several years of self-assessments they were more confident about what was needed, therefore an assessment of the self-assessment was appropriate.

RESOLVED:

To endorse the approach agreed by the Section 151 Officer and Head of Audit in consultation with the Chairman of the Audit Committee for delivery of the external assessment.

32 Second line assurance: Statement of Accounts 2020/21

The Committee received the report of the Executive Director of Resources (Section 151 Officer) along with the revised draft Annual Statement of Accounts – copy attached to the signed Minutes – which presented members with the unaudited outturn position for the financial year 2020/21 and detailed any amendments made to the Draft Statement of Accounts during the audit process to date.

The Interim Director of Strategic Finance took Members through the changes made since they had last seen the Statement of Accounts. She drew attention to paragraph 2.5 and confirmed that this should refer to item 12 and not item 13.

The Interim Director of Strategic Finance informed the Committee that the first draft of the Statement of Accounts had been signed off by the Executive Director of Resources (Section 151 Officer) and published on 31 July 2021 and then sent to Grant Thornton. No material changes had been made, only minor amendments which were set out in paragraph 8 of the report.

The audit of the accounts had started a week late due to illness and to the late receipt of the valuation from the Council's external valuers. External Audit hoped to complete the audit in October and until their opinion was received the accounts would remain draft.

The Executive Director of Resources (Section 151 Officer) queried whether the Committee wished to hold an additional meeting on 22 October or whether it wished to delegate authority to himself to make any final amendments. Members of the Committee felt that as this function had been delegated to the Audit Committee by full Council it would not be appropriate to delegate beyond the Audit Committee.

Councillor Simon Harris voted against the recommendation to set up an additional meeting as he felt that if there were no significant issues the Committee could meet virtually and delegate to the Section 151 Officer.

RESOLVED:

1. To note the revised draft Statement of Accounts attached as Appendix 1.
2. To set up an emergency meeting on 22nd October 2021 for any adjustments to the Statement of Accounts to be reported to the Committee prior to publication on the Council's website.

33 Third line assurance: External Audit: Shropshire County Pension Fund Annual Audit findings (Information) 2020/21

The Committee received the report of the Engagement Lead – copy attached to the signed Minutes – which set out the Audit Findings for Shropshire County Pension Fund for the year ending 31 March 2021.

The Engagement Lead informed the Committee that the Pension Fund Audit was substantially complete and would be presented to Pensions Committee the following day. He confirmed that materiality was set at £20m and that there were no unadjusted misstatements. He drew attention to a £45m difference in valuation which had been adjusted and to two other valuations which had not been adjusted and were due to timing issues.

The Engagement Lead confirmed that no issues had been identified in relation to improper revenue recognition and the only issue in relation to the valuation of level 3 investments was the £45m difference mentioned above. There was also a valuation difference in Level 2 investments of £6.8m however, as this was below the level of materiality, it was not intended to adjust for it.

Finally, it was confirmed that there were no issues around the Fund's ability to continue as a going concern and that it was intended to issue an unqualified opinion.

RESOLVED:

That the contents of the report be noted.

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

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

The Engagement Manager gave a summary of progress and drew attention to the changes to arrangements for securing Value for Money which included the introduction of an Auditor's Annual Report which it was hoped would be ready by 31 December 2021.

Turning to the Whole of Government Accounts, the Engagement Manager explained that there was a slight delay due to a delay with the workbook which was due sometime in December.

RESOLVED:

That the contents of the report be noted.

35 Third line of assurance: Changes to Arrangements for Appointment of External Auditors

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which asked Members to consider and propose the most efficient and effective way of procuring an External Auditor from April 2023, to Council for their consideration and final decision.

The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He explained that the current arrangement with External Audit was coming to an end and that the Council needed to go through the process of appointing a new External Auditor. He referred to the three options contained in the report.

The Committee felt that options b) and c) would place enormous demand on officer time along with unnecessary expense and therefore agreed that option a) was the most appropriate method for appointing an External Auditor.

RESOLVED:

That option a) Using the Sector Led Body, the PSAA by indicating an option to "opt-in" as the preferred approach be recommended to Council for approval.

36 Date and time of next meeting

Members were advised that next meeting of the Audit Committee would be held on the 22 October 2021 at 10.00 am.

37 Exclusion of Press and Public

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.

38 Exempt Minutes

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 30 July 2021 be approved as a true record and signed by the Chairman.

39 First line assurance: Highways Term Maintenance update

The Committee received the exempt report of the Executive Director of Place – copy attached to signed exempt Minutes – which provided an update on progress towards a resolution of the issues identified by Audit relating to the management of the Councils Term Maintenance Contract with its Highway's provider Kier.

RESOLVED:

To approve the recommendations contained in the report.

40 Third line assurance: Fundamental Recommendations (Exempted by Categories 2, 3 and 7)

The Committee received the exempt report of the Head of Audit – copy attached to the signed Minutes – which set out three of the five fundamental recommendations referred to in the Internal Audit Performance and Revised Annual Audit Plan (the other two were detailed in the Fraud, Special Investigation and RIPA Update report).

RESOLVED:

That the contents of the report be noted.

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

The Committee received the exempt report of the Principal Auditor 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.

RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date:

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<p><u>Committee and Date</u></p> <p>Audit Committee</p> <p>22 February 2022</p>
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MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 OCTOBER 2021 2.00 - 2.50 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Brian Williams (Chairman)

Councillors Rosemary Dartnall, Nigel Lumby and Roger Evans

Councillor Simon R Harris joined the meeting by video link (in a non-voting capacity)

42 Apologies for Absence / Notification of Substitutes

Councillor Simon R Harris joined the meeting by video link (in a non-voting capacity).

43 Disclosable Pecuniary Interests

Members were 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.

44 Public Questions

There were no questions from members of the public.

45 Member Questions

There were no questions from Members.

It was agreed to take Agenda Items 5 (Second line assurance: Final Approval - Statement of Accounts 2020/21) and 6 (Third line assurance: External Audit: Draft Annual Audit Findings Report 2020/21) together.

46 Second line assurance: Final Approval - Statement of Accounts 2020/21 and

Third line assurance: External Audit: Draft Annual Audit Findings Report 2020/21

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which presented members with the audited outturn position for the financial year 2020/21 and detailed any amendments made to the Draft Statement of Accounts during the audit process.

The Committee also received the report of the Engagement Lead – copy attached to the signed Minutes – which set out the findings from the audit that were significant to those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260.

The Executive Director of Resources (Section 151 Officer) reminded Members that they had seen the Statement of Accounts at the September meeting when work was still awaiting completion by External Audit.

The Interim Director of Strategic Finance confirmed that Grant Thornton had substantially completed the audit and she confirmed that no material changes were identified during the audit to date, however there had been one amendment to the core financial statements and a number of other amendments made to the disclosures. The main changes were summarised in table one on page 3 of the report and in summary the adjustments included amendments to the balance sheet and the group balance sheets in relation to the classification of a grant, an adjustment had also been made in the group income and expenditure statement of accounts and some adjustments had been made in the accounting policies in relation to non-current assets as well as critical judgment and applying accounting policies. Amendments had also been made to a few notes to the accounts which were listed on pages 4 and 5 of the report.

The Interim Director of Strategic Finance confirmed that the final audit opinion would not be available until the audit had been completed however External Audit were anticipating an unqualified opinion pending the satisfactory conclusion of outstanding matters. The Interim Director of Strategic Finance then drew attention to the Annual Governance Statement which had been approved by the Audit Committee on 30 July 2021.

The Engagement Lead took Members through the Audit Findings Report and referred the Committee to the Headlines page. He confirmed that the audit was substantially complete apart from a couple of outstanding items which the External Audit Manager would take them through. He then drew attention to the audit adjustments, including in relation to the classification of a grant which did not impact upon the resources available to the Council but which had been put through the financial statements.

Turning to the recommendations, the Engagement Lead confirmed that they had completed their work in relation to housing and property, plant and equipment and were working through other random buildings. One thing that was noted for the future, was the way in which the Council applied de minimis to certain assets and that those below £50,000 were not recorded within the financial statements but they were satisfied that the level of those now was trivial, but the council had been asked to monitor the situation in case those assets crept up, when they should probably be disclosed properly in the financial statements.

He then referred to five recommendations which related to deficiencies identified by External Audit's specialist IT team, none of which were significant but were areas for improvement, set out in the appendices and which would be discussed with management. He confirmed that they anticipated giving an unqualified audit opinion subject to completing the work.

The Engagement Lead confirmed that there was still some work required to complete the Value for Money conclusion and that in future years there should be an alignment between External Audit reporting and the Annual Auditors report and opinion. It was hoped to get this done before the end of December, however during their work to date, no significant weaknesses had been identified.

The Engagement Lead drew attention to communications received from two electors which met the criteria to be considered as objections to the financial statements. It was hoped that one would be resolved between the elector and the Council. The second one required some work to be undertaken and again it was hoped to complete these by the end of December. Although this would not have a material impact on the accounts, it meant that the certificate could not be issued nor the accounts signed off. The Engagement Lead agreed to provide an update to the next meeting of the Audit Committee.

The Engagement Lead informed the Committee that the only other outstanding issue was related to the Whole of Government Accounts and that guidance from the Government was not expected until December.

In response to a query, the Engagement Lead was hopeful that they would be able to report back to the Audit Committee at its 9 December 2021 meeting. In response to a further query, the Engagement Lead explained materiality and how it was calculated. In response to a query it was confirmed that the JPUT report would be circulated to the Committee later that day however it was not a public report and was purely technical in nature.

In response to a query about the IT policy for the Leavers process and other issues, the Executive Director of Resources (Section 151 Officer) agreed to supply the Committee with dates for when these items should

be completed. Finally, the Engagement Manager took members through the status of the outstanding matters set out on page 6 of the report and the Executive Director of Resources (Section 151 Officer) summarised the current situation in relation to the accounts and informed the Committee that it was recommended that he be authorised, in consultation with the Chairman, to make any final minor amendments to the accounts. The Chairman confirmed that if any material issues arose, he would call an additional meeting.

RESOLVED:

- 1. That the 2020/21 Statement of Accounts be approved and that the Chairman of the Audit Committee signs them (in accordance with the requirements of the Accounts and Audit Regulations 2015).
- 2. That the Executive Director of Resources (Section 151 Officer) be authorised to make any adjustments to the Statement of Accounts prior to publication on the Council’s website.
- 3. That the Executive Director of Resources (Section 151 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.
- 4. To note the contents of the Draft Annual Audit Findings Report 2020/21.

47. Date and Time of Next Meeting

Members were advised that next meeting of the Audit Committee would be held on the 9 December 2021 at 10.00 am.

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 22 February 2022	
Cabinet 5 January 2022	
Council 13 January 2022	<u>Public</u>

TREASURY STRATEGY 2021/22 – MID YEAR REVIEW

Responsible Officer

James Walton

e-mail: James.Walton@shropshire.gov.uk Tel: (01743) 258915

1. Synopsis

The report provides an economic update for the first six months of 2021 and includes a review of the investment portfolio and borrowing strategy for 2021/22 and confirms compliance with Treasury and Prudential limits. The report has been prepared in accordance with the CIPFA Code of Practice on Treasury Management. As at 30 September 2021, the Council held £175m in investments and had £292m of borrowing.

2. Executive Summary

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

- An economic update for the first six months of 2021/22
- A review of the Treasury Strategy 2021/22 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2021/22
- A review of the Council's borrowing strategy for 2021/22
- A review of any debt rescheduling taken
- A review of compliance with Treasury and Prudential limits for 2021/22

2.2. The key points to note are:-

- The internal treasury team achieved a return of 0.14% on the Council's cash balances outperforming the benchmark by 0.22%. This amounts to additional income of £198,180 for the first six months of the year which is included within the Council's projected outturn position in the quarterly financial monitoring report
- In the first six months all treasury management activities have been in accordance with the approved limits and

prudential indicators set out in the Council's Treasury Strategy

- Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m, £35m and £250k available from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the three facilities in to a single £49.25m funding arrangement.

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 4.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.
- 4.4. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.

5. Financial Implications

- 5.1. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the

Council.

- 5.2. The 2021/22 six-month performance is above benchmark and has delivered additional income of £198,180.

6. Climate Change Appraisal

- 6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Treasury Team is working with the Council in order to achieve this. There are no climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.

7. Background

- 7.1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.
- 7.2. The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.
- 7.3. The Council defines its treasury management activities as "the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks". The report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 7.4. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -
 - A high-level overview of how capital expenditure, capital

financing and treasury management activity contribute to the provision of services

- An overview of how associated risk is managed
- The implications for future financial sustainability

A report setting out the Council’s Capital Strategy was taken to full Council in February 2021

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

8. Economic Update and Forecast

8.1. A detailed commentary can be found in Appendix D.

8.2. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts were updated 8 November and are shown below:

Link Group Interest Rate View												
	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Bank Rate	0.10%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate	1.45%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.90%
10yr PWLB Rate	1.74%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%
25yr PWLB Rate	1.96%	2.10%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%
50yr PWLB Rate	1.67%	1.90%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%

9. Treasury Strategy update

9.1. The Treasury Management Strategy (TMS) for 2021/22 was approved by Full Council on 25 February 2021. This Treasury Strategy does not require updating as there are no policy changes or any changes required to the prudential and treasury indicators previously approved. The details in this report update the position in the light of the updated economic position.

10. Annual Investment Strategy

10.1. The Council’s Annual Investment Strategy, which is incorporated in the TMS, outlines the Council’s investment priorities as the security and liquidity of its capital. As shown by forecasts in section 8.1, it is a very difficult investment market in terms of earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% bank rate. However, with the potential increase of bank rate on

the horizon, we expect to see some improvement in interest earned going forward.

10.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.

10.3. In the first six months of 2021/22, the internal treasury team outperformed its benchmark by 0.22%. The investment return was 0.14% compared to the benchmark of -0.08%. This amounts to additional income of £198,180 during the first six months which is included within the Council's projected outturn position in the quarterly financial monitoring report.

10.4. A full list of investments held as at 30 September 2021, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2021/22 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

10.5. As illustrated in the economic background section above, investment rates available in the market have decreased significantly due to the bank rate decrease to 0.10% in March 2020. The average level of funds available for investment purposes in the first six months of 2021/22 was £180 million.

10.6. The Council's interest receivable/payable budgets are currently projecting a surplus of £1.87 million as reported in the monthly revenue monitoring reports due to no long-term borrowing being undertaken, changes to the Minimum Revenue Provision (MRP) calculation previously approved by Council and minor changes in borrowing requirements.

11. Borrowing

11.1 Details of the Council's borrowing activity can be found within Appendix D.

12. Cornovii Development Ltd

12.1 Cornovii Development Ltd (CDL) and Shropshire Council have

agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m, £35m and £250k available from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the three facilities in to a single £49.25m funding arrangement. A further update will be provided in the Treasury Strategy 2022/23 that goes to full Council in February 2022.

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

Council, 25 February 2021, Treasury Strategy 2021/22.
Council, 25 February 2021, Capital Strategy 21/22 – 25/26
Council, 20 September 2018, Revised Minimum Revenue Provision Statement 2018/19

Cabinet Member:

Gwilym Butler, Portfolio Holder for Resources

Local Member

N/A

Appendices

- A. Investment Report as at 30 September 2021
- B. Prudential Limits
- C. Prudential Borrowing Schedule
- D. Economic Update, Forecast and Borrowing



Shropshire Council

Monthly Investment Analysis Review

September 2021

Monthly Economic Summary

General Economy

The Flash (i.e. provisional) UK Manufacturing PMI dropped to 56.3 in September from 60.3 in August, somewhat lower than market forecasts of 59.0. Although it signalled the weakest pace of expansion in the sector since February, due to supply chain delays, slower new order growth and rising material and labour shortages, the survey remained at levels historically consistent with robust economic growth. Similarly, the Flash Services PMI eased to 54.6 in September from 55.0 in August, also pointing to the slowest growth in the services sector in seven months. Notably, respondents reported that input price inflation accelerated amid reports of higher wage costs, product shortages and increased transportation costs - and that companies raised their own charges at the fastest pace since the series began in 1996. As a result of the falls in both indices, the Flash Composite PMI (which incorporates both sectors), eased to 54.1 in September, from 54.8 in August. Mirroring these developments, the Construction PMI (which is released one month behind), also fell to 55.2 in August from 58.7 in July and below market expectations of 56.9 as a restricted supply of materials, labour and transport began to weigh on overall activity. Input cost inflation, meanwhile, accelerated to the second-fastest rate in the 24-year history of the survey.

The combination of supply chain delays, slower order growth and rising material and labour shortages noted in the PMI surveys may also have weighed on GDP, which expanded by just 0.1% m/m in July compared to forecasts of a 0.7% rise. However, upward revisions to previous releases meant that the economic output was now forecast to be around 1% less than prior to the pandemic compared to 2% previously. Product and labour shortages may also have contributed to the 0.1% m/m decline in exports in July, which caused the UK trade deficit to widen to £3.1 billion compared to £2.5 billion in June.

Unemployment data, meanwhile, also confirmed the tightening of the labour market reported in the PMI surveys. Employment rose by 183,000 in the three months to July, which was the largest rise since January 2020 – and occurred despite firms having to start paying 10% of the wages of their furloughed workers. A fall of 86,000 in unemployed workers, meanwhile, allowed the unemployment rate to ease to 4.6% in July from 4.7% in June. More timely data revealed that PAYE employment increased by a further 241,000 during August, suggesting that labour market strength may continue – although the end of the furlough scheme in September represents a future source of uncertainty. The rise in vacancies to a record 1,034,000, 249,000 above their pre-pandemic level, suggests that labour shortages intensified during August. Against this backdrop, average earnings growth (excluding bonuses) eased to 6.8% y/y in the three months to July compared to 7.3% y/y in the three months to June as compositional and base effects began to fade. However, the Monetary Policy Committee (MPC) noted this month private sector regular pay growth had been around 4%, after accounting for these factors.

UK inflation, as measured by the Consumer Price Index, increased to 3.2% y/y in August from 2% in July and above market forecasts of 2.9%. However, base effects – including last year's Eat Out to Help Out scheme (which artificially depressed prices) - accounted for the majority of the rise. That said, the MPC noted at this month's policy meeting that the scheduled rise in utility prices and further base effects will likely contribute to inflation rising to slightly above 4% later in the year. Against this backdrop, the Committee judged that its existing monetary policy remained appropriate. However, the MPC also noted that some developments since the August Monetary Policy Report appeared to have strengthened the case for a modest tightening of monetary policy. As a result, Gilt yields rose as month-end approached and investors increased the probability attached to Bank Rate being raised in 2022.

Judging by the 0.9% m/m fall in August retail sales, the stalling of the UK's economic recovery in July highlighted by the GDP data has likely continued. However, some of the fall may also be explained by households changing their spending patterns following the expiration of lockdown. As a result, retail sales are now unchanged compared to a year ago. The prospect of looming energy price rises, food costs and tax rises, meanwhile, saw the GfK Consumer Confidence index decline to -13 in September from -8 in August.

The UK's public sector net borrowing (excluding public sector banks) was estimated to have been £20.5 billion in August - the second-highest August borrowing since monthly records began in 1993 - but £5.5 billion less than in August 2020. Although public sector net borrowing was estimated to have been £93.8 billion in the financial year-to-August 2021, this is £88.9 billion less than in the same period last year and £31.9 billion below that forecast by the OBR.

In the US, non-farm payrolls rose 235,000 in August, the lowest in 7 months and well below forecasts of 750,000 as a surge in COVID-19 infections may have discouraged companies from hiring and workers from actively looking for a job. Nevertheless, the gain saw the unemployment rate fall to 5.2% from 5.4% in July. The US economy, meanwhile, was confirmed to have grown at a 6.7% annualised rate in Q2 compared to the first estimate of 6.3%. Against this backdrop, the Federal Reserve forecast at its September policy meeting that core inflation would remain above 2% until 2023. As a result, the central bank judged that "a moderation in the pace of asset purchases may soon be warranted" and increased their median interest rate projections to 0.3% in 2022 (from 0.1% previously) and 1% in 2023 (from 0.6%).

As in the US, Q2 growth in the Eurozone was also revised higher during the month, to 2.2% q/q from 2% previously. Inflation, meanwhile, was confirmed at 3% y/y in August compared to 2.2% in July and its highest since November 2011. However, the ECB judged at its policy meeting that most of this year's increase in inflation will prove temporary. As expected, the central bank left rates unchanged and, in light of the bloc's recovery, elected to plan PEPP purchases at a "moderately lower pace...than in the previous two quarters."

Housing

Nationwide reported that house price growth eased to 10% y/y this month compared to 11% y/y in August. On the month, prices rose 0.1%. The Halifax survey, meanwhile, confirmed that prices rose 7.1% y/y and 0.7% m/m in August. According to the Nationwide, house prices are now around 13% higher than when the pandemic began.

Currency

The prospect of above target inflation and anaemic economic growth saw Sterling fall against both the US Dollar and the Euro this month.

September	Start	End	High	Low
GBP/USD	\$1.3786	\$1.3484	\$1.3872	\$1.3425
GBP/EUR	€1.1630	€1.1635	€1.1727	€1.1558

Forecast

In light of the hawkish nature of the minutes from September's MPC meeting, Link Group has revised its forecast for Bank Rate to bring forward its first rate rise to June 2022.

Bank Rate	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24
Link Group	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%
Capital Economics	0.10%	0.10%	0.10%	0.25%	0.25%	0.25%	0.50%	0.50%	0.50%	0.50%	-

Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
Handelsbanken Plc	20,000,000	0.01%		Call	AA-	0.000%
Santander UK PLC	15,000,000	0.40%		Call	A	0.000%
MMF Aberdeen Standard Investments	15,000,000	0.01%		MMF	AAAm	
Dover District Council	6,000,000	0.03%	06/07/2021	06/10/2021	AA-	0.000%
DMO	4,000,000	0.01%	30/09/2021	08/10/2021	AA-	0.001%
Highland Council	5,000,000	0.30%	11/11/2020	11/10/2021	AA-	0.001%
DMO	3,000,000	0.01%	15/09/2021	18/10/2021	AA-	0.001%
Barclays Bank Plc (NRFB)	1,000,000	0.03%	15/07/2021	22/10/2021	A	0.003%
DMO	1,500,000	0.01%	10/09/2021	22/10/2021	AA-	0.001%
Lloyds Bank Plc (RFB)	3,000,000	0.01%	15/09/2021	22/10/2021	A+	0.003%
Goldman Sachs International Bank	5,000,000	0.23%	04/05/2021	27/10/2021	A+	0.003%
Telford & Wrekin Council	3,000,000	0.33%	29/10/2020	27/10/2021	AA-	0.002%
DMO	2,000,000	0.01%	22/09/2021	29/10/2021	AA-	0.002%
Lloyds Bank Plc (RFB)	3,000,000	0.01%	15/09/2021	29/10/2021	A+	0.004%
Goldman Sachs International Bank	5,000,000	0.20%	18/05/2021	18/11/2021	A+	0.006%
Kingston Upon Hull City Council	5,000,000	0.06%	20/05/2021	22/11/2021	AA-	0.003%
Highland Council	5,000,000	0.28%	15/01/2021	23/11/2021	AA-	0.003%
Barclays Bank Plc (NRFB)	4,000,000	0.08%	30/06/2021	30/11/2021	A	0.008%
Nationwide Building Society	5,000,000	0.07%	09/06/2021	08/12/2021	A	0.009%
Nationwide Building Society	5,000,000	0.07%	15/06/2021	13/12/2021	A	0.010%
Barclays Bank Plc (NRFB)	5,000,000	0.07%	01/07/2021	20/12/2021	A	0.010%
Lloyds Bank Plc (RFB)	2,000,000	0.02%	06/07/2021	05/01/2022	A+	0.013%
Lloyds Bank Plc (RFB)	5,000,000	0.02%	15/07/2021	14/01/2022	A+	0.014%
Lloyds Bank Plc (RFB)	2,000,000	0.02%	03/08/2021	17/01/2022	A+	0.014%
Lloyds Bank Plc (RFB)	5,000,000	0.02%	23/07/2021	21/01/2022	A+	0.015%
Plymouth City Council	5,000,000	0.11%	26/02/2021	26/01/2022	AA-	0.008%
Plymouth City Council	5,000,000	0.10%	14/07/2021	29/01/2022	AA-	0.008%
National Westminster Bank Plc (RFB)	5,000,000	0.09%	05/02/2021	04/02/2022	A	0.016%
National Westminster Bank Plc (RFB)	2,000,000	0.13%	18/05/2021	18/02/2022	A	0.018%
Coventry Building Society	5,000,000	0.05%	31/08/2021	28/02/2022	A-	0.020%
Slough Borough Council	3,000,000	0.20%	12/04/2021	23/03/2022	AA-	0.011%
Cheltenham Borough Council	1,000,000	0.05%	05/08/2021	20/04/2022	AA-	0.013%
National Westminster Bank Plc (RFB)	5,000,000	0.16%	01/06/2021	31/05/2022	A	0.031%
Kingston Upon Hull City Council	2,000,000	0.08%	17/09/2021	22/08/2022	AA-	0.021%
National Westminster Bank Plc (RFB)	5,000,000	0.20%	24/08/2021	23/08/2022	A	0.042%
National Westminster Bank Plc (RFB)	2,000,000	0.22%	20/09/2021	19/09/2022	A	0.046%
Total Investments	£174,500,000	0.11%				0.008%

Note: A historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MME or USDRE for which the rating agencies

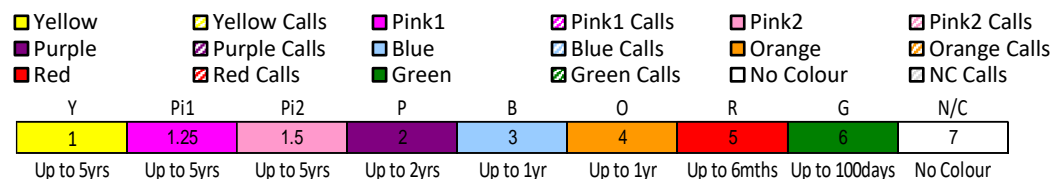
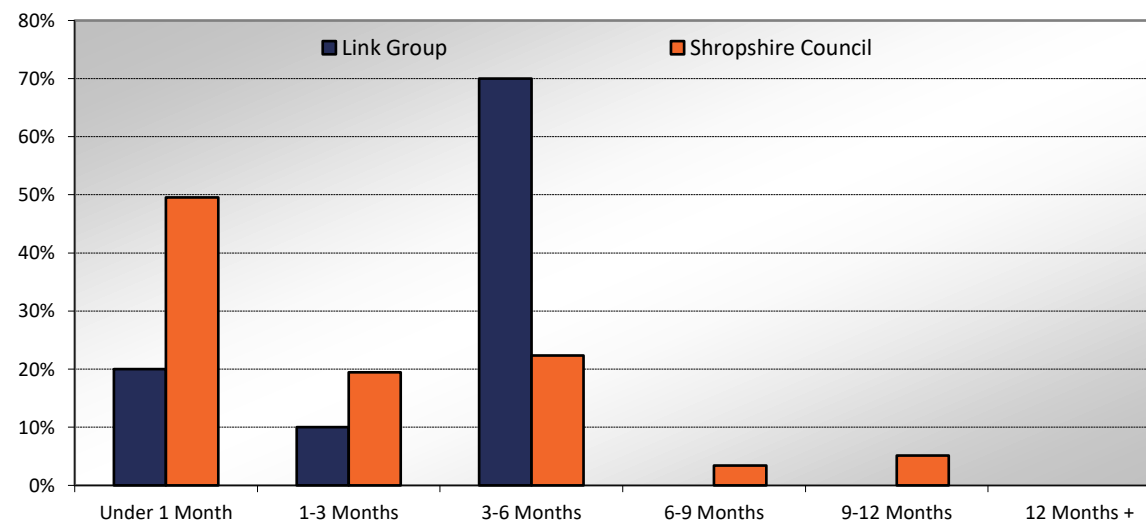
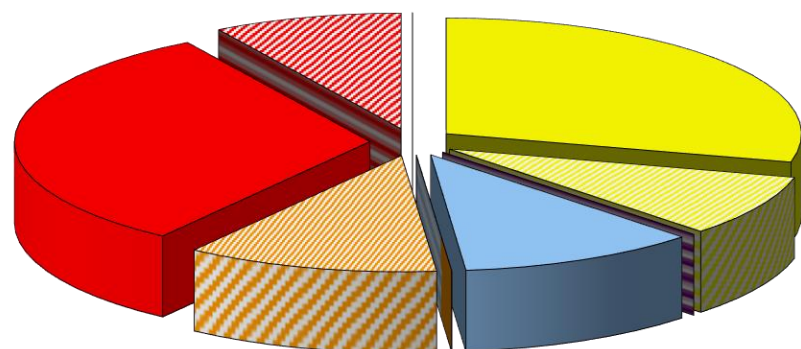
Shropshire Council

Current Investment List

Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default
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Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an ILMIF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.17**

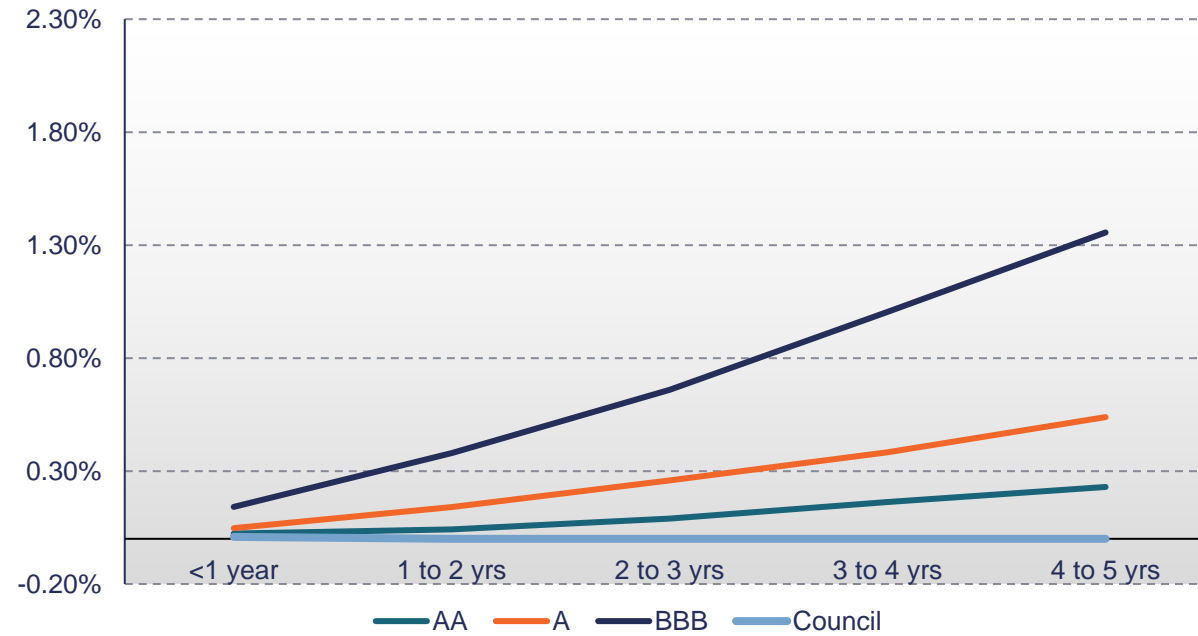
WARoR = Weighted Average Rate of Return
 WAM = Weighted Average Time to Maturity

	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	WAM at Execution	Excluding Calls/MMFs/USDBFs	
									WAM	WAM at Execution
Yellow	37.54%	£65,500,000	22.90%	£15,000,000	8.60%	0.10%	53	163	68	212
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	10.89%	£19,000,000	0.00%	£0	0.00%	0.16%	236	355	236	355
Orange	11.46%	£20,000,000	100.00%	£20,000,000	11.46%	0.01%	0	0	0	0
Red	40.11%	£70,000,000	21.43%	£15,000,000	8.60%	0.14%	60	127	76	161
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Total	100.00%	£174,500,000	28.65%	£50,000,000	28.65%	0.11%	69	151	97	211

Shropshire Council

Investment Risk and Rating Exposure

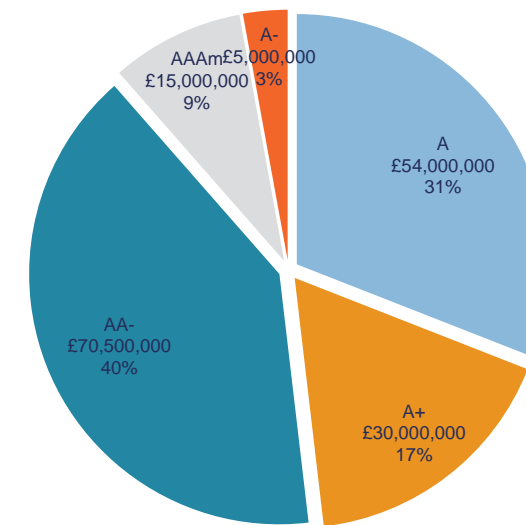
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.16%	0.23%
A	0.05%	0.14%	0.26%	0.38%	0.54%
BBB	0.14%	0.38%	0.66%	1.01%	1.36%
Council	0.01%	0.00%	0.00%	0.00%	0.00%

Rating Exposure



Historic Risk of Default

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

Chart Relative Risk

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

Rating Exposures

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

Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MMF or USDBF, for which the rating agencies provide a fund rating. The portfolio's historic risk of default therefore measures the historic risk of default attached only to those investments for which a counterparty has a counterparty credit rating and also does not include investments which are not rated.

Shropshire Council

Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action
24/09/2021	1844	Deutsche Bank AG	Germany	The Long Term Rating was upgraded to 'BBB+' from 'BBB'. At the same time, the Viabiity Rating was upgraded to 'bbb+' from 'bbb'
24/09/2021	1845	BNP Paribas	France	The Outlook on the Long Term Rating was changed to Stable from Negative.
24/09/2021	1846	Belgium Sovereign Rating	Belgium	The Outlook on the Sovereign Rating was changed to Stable from Negative.

Shropshire Council

Monthly Credit Rating Changes
MOODY'S

Date	Update Number	Institution	Country	Rating Action
				There were no rating changes to report.

Shropshire Council

Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
				There were no rating changes to report.

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

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Appendix B

Prudential Indicators – Quarter 2 2021/22

Prudential Indicator	2021/22 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	419*	402	402		
HRA CFR	95	95	95		
Gross borrowing	366	304	292		
Investments	150	170	175		
Net borrowing	216	134	117		
Authorised limit for external debt	615	304	292		
Operational boundary for external debt	500	304	292		
Limit of fixed interest rates (borrowing)	615	304	292		
Limit of variable interest rates (borrowing)	308	0	0		
Internal Team Principal sums invested > 364 days	70	0	0		
Maturity structure of borrowing limits	%	%	%	%	%
Under 12 months	15	4	0		
12 months to 2 years	15	0	2		
2 years to 5 years	45	2	1		
5 years to 10 years	75	10	10		
10 years to 20 years	100	33	34		
20 years to 30 years	100	22	23		
30 years to 40 years	100	18	19		
40 years to 50 years	100	2	2		
50 years and above	100	9	9		

* Based on period 6 Capital Monitoring report including Shrewsbury Shopping Centres.

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Appendix D

Economic Update

The Monetary Policy Committee (MPC) voted unanimously to leave Bank Rate unchanged at 0.10% and made no changes to its programme of quantitative easing purchases due to finish by the end of this year at a total of £895bn; two MPC members voted to stop the last £35bn of purchases as they were concerned that this would add to inflationary pressures.

There was a major shift in the tone of the MPC's minutes at the September meeting from the previous meeting in August which had indicated that some tightening in monetary policy was now on the horizon, however, they did not want to stifle economic recovery by increasing the Bank Rate too soon. In his press conference after the August MPC meeting, Governor Andrew Bailey said, the challenge of avoiding a steep rise in unemployment has been replaced by that of ensuring a flow of labour into jobs and that the Committee will be monitoring closely the incoming evidence regarding developments in the labour market, and particularly unemployment. In other words, it was flagging up a potential danger that labour shortages could push up wage growth by more than it expects and that, as a result, CPI inflation would stay above the 2% target for longer. It also discounted sharp increases in monthly inflation figures which were largely propelled by events a year ago e.g., the cut in VAT in August 2020 for the hospitality industry, in other words, the MPC had been prepared to look through a temporary spike in inflation.

The MPC's words indicated there had been a marked increase in concern that more recent increases in prices, particularly the increases in gas and electricity prices in October and due again next April, are, indeed, likely to lead to faster and higher inflation expectations and underlying wage growth, which would in turn increase the risk that price pressures would prove more persistent next year than previously expected. To emphasise its concern about inflationary pressures, the MPC pointedly chose to reaffirm its commitment to the 2% inflation target in its statement; this suggested that it was now willing to look through the flagging economic recovery during the summer to prioritise bringing inflation down next year. This is a reversal of its priorities in August and a long way from words at earlier MPC meetings which indicated a willingness to look through inflation overshooting the target for limited periods to ensure that inflation was 'sustainably over 2%'. In August, the MPC's focus was on getting through a winter of temporarily high energy prices and supply shortages, believing that inflation would return to just under the 2% target after reaching a high around 4% in late 2021, now its primary concern is that underlying price pressures in the economy are likely to get embedded over the next year and elevate future inflation to stay significantly above its 2% target and for longer.

Financial markets are now pricing in a first increase in Bank Rate from 0.10% to 0.25% in December 2021. At the MPC's meeting in February it will only have available the employment figures for November: to get a clearer picture of employment trends, it would need to wait until the May meeting when it would have data up until February. At its May meeting, it will also have a clearer understanding of the likely peak of inflation.

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

COVID-19 vaccines have been the game changer which have enormously boosted confidence that life in the UK could largely return to normal during the summer after a third wave of the virus threatened to overwhelm hospitals. With the household saving rate having been exceptionally high since the first lockdown in March 2020, there is plenty of demand and purchasing power stored up for services in hard hit sectors like restaurants, travel and hotels. The big question is whether mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

In the US, during the first part of the year, US President Biden's, and the Democratic party's, determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the \$900bn support package already passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy has been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing stimulus through monthly QE purchases.

These factors could cause an excess of demand in the economy which could then unleash strong inflationary pressures. This could then force the Federal Reserve Bank (Fed) to take much earlier action to start increasing the Fed rate from near zero, despite their stated policy being to target average inflation. It is notable that in the September Fed meeting, Fed members again moved forward their expectation of when the first increases in the Fed rate will occur. In addition, shortages of workers appear to be stoking underlying wage inflationary pressures which are likely to feed through into CPI inflation. A run of stronger jobs growth figures could be enough to meet the threshold set by the Fed of substantial further progress towards maximum employment for a first increase in the Fed rate.

A further concern in financial markets is when will the Fed end QE purchases of treasuries and how will they gradually wind them down. These purchases are currently acting as a downward pressure on treasury yields. In his late August speech at the Jackson Hole conference, Fed Chair Powell implied that the central bank plans to start tapering its asset purchases before the end of this year. But the plan is conditional on continued improvement in the labour market, which the August employment report suggests is proceeding more slowly than the Fed anticipated. That may mean that any announcement of tapering is pushed back, possibly even into early 2022.

As the US financial markets are, by far, the biggest financial markets in the world, any upward trend in treasury yields will invariably impact and influence financial markets in other countries. Inflationary pressures and erosion of surplus economic capacity look much stronger in the US compared to those in the UK, which would suggest that Fed rate increases are likely to be faster and stronger than Bank Rate increases in the UK. Nonetheless, any upward pressure on treasury yields could put upward pressure on UK gilt yields too.

In the Eurozone, the slow roll out of vaccines initially delayed economic recovery in early 2021 but the vaccination rate has picked up sharply since then. After a contraction in GDP of -0.3% in Q1, Q2 came in with strong growth of 2%, which is likely to continue into Q3, though some countries more dependent on tourism may struggle. Recent sharp increases in gas and electricity prices have increased overall inflationary pressures but the ECB is likely to see these as being only transitory after an initial burst through to around 4%, so is unlikely to be raising rates for a considerable time.

In China, after a concerted effort to get on top of the virus outbreak in Q1 of 2020, economic recovery was strong in the rest of the year; this enabled China to recover all the contraction. Policy makers have both quashed the virus and implemented a programme of monetary and fiscal support that has been particularly effective at stimulating short-term growth. At the same time, China's economy benefited from the shift towards online spending by consumers in developed

markets. These factors helped to explain its comparative outperformance compared to western economies during 2020 and earlier in 2021. However, the pace of economic growth has now fallen back after this initial surge of recovery from the pandemic and China is now struggling to contain the spread of the Delta variant through sharp local lockdowns - which will also depress economic growth. There are also questions as to how effective Chinese vaccines are proving. In addition, recent regulatory actions motivated by a political agenda to channel activities into officially approved directions, are also likely to reduce the dynamism and long-term growth of the Chinese economy.

Economic Forecast

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

Link Group Interest Rate View												
	Now	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24
Bank Rate	0.10%	0.25%	0.25%	0.50%	0.50%	0.50%	0.75%	0.75%	0.75%	0.75%	1.00%	1.00%
5yr PWLB Rate	1.45%	1.50%	1.50%	1.60%	1.60%	1.70%	1.70%	1.70%	1.80%	1.80%	1.80%	1.90%
10yr PWLB Rate	1.74%	1.80%	1.90%	1.90%	2.00%	2.00%	2.10%	2.10%	2.20%	2.20%	2.20%	2.30%
25yr PWLB Rate	1.96%	2.10%	2.20%	2.30%	2.40%	2.40%	2.40%	2.50%	2.50%	2.60%	2.60%	2.60%
50yr PWLB Rate	1.67%	1.90%	2.00%	2.10%	2.20%	2.20%	2.20%	2.30%	2.30%	2.40%	2.40%	2.40%

Bank coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings.

As shown in the forecast table above, one increase in Bank Rate from 0.10% to 0.25% has now been included in quarter 4 of 2021/22, a second increase to 0.50% in quarter 2 of 22/23 and a third one to 0.75% in quarter 4 of 22/23.

Significant risks to the forecasts

- COVID vaccines do not work to combat new mutations and/or new vaccines take longer than anticipated to be developed for successful implementation.
- The pandemic causes major long-term scarring of the economy.
- The Government implements an austerity programme that suppresses GDP growth.
- The MPC tightens monetary policy too early – by raising Bank Rate or unwinding QE.
- The MPC tightens monetary policy too late to ward off building inflationary pressures.

- Major stock markets e.g. in the US, become increasingly judged as being over-valued and susceptible to major price corrections. Central banks become increasingly exposed to the “moral hazard” risks of having to buy shares and corporate bonds to reduce the impact of major financial market sell-offs on the general economy.
- Geo-political risks are widespread e.g. German general election in September 2021 produces an unstable coalition or minority government and a void in high-profile leadership in the EU when Angela Merkel steps down as Chancellor of Germany; on-going global power influence struggles between Russia/China/US.

The overall balance of risks to economic growth in the UK is now to the downside, including residual risks from Covid and its variants - both domestically and their potential effects worldwide.

Borrowing

It is a statutory duty for the Council to determine and keep under review the “Affordable Borrowing Limits”. The Council’s approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy. A list of the approved limits is shown in Appendix B. The Prudential Indicators were not breached during the second quarter of 2021/22 and have not been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

No new external borrowing has currently been undertaken to date in 2021/22, although discussions are currently being held at the Capital Investment Board where outline business cases are being considered. The schemes being considered are already within the current authorised borrowing limits in place. In the event the authorised borrowing limits need to be amended, this will be reported to Council for approval. The table below illustrates the low and high points across different maturity bands for borrowing rates for the first six months of the financial year

	1 Year	5 Year	10 Year	25 Year	50 Year
Low	0.78%	1.05%	1.39%	1.75%	1.49%
Date	08/04/2021	08/07/2021	05/08/2021	17/08/2021	10/08/2021
High	0.98%	1.42%	1.81%	2.27%	2.06%
Date	24/09/2021	28/09/2021	28/09/2021	13/05/2021	13/05/2021
Average	0.84%	1.16%	1.60%	2.02%	1.81%
Spread	0.20%	0.37%	0.42%	0.52%	0.57%

Debt Rescheduling

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



<u>Committee and Date</u>	<u>Item</u>
Cabinet 16 February 2022	
Audit Committee 22 February 2022	<u>Public</u>
Council 24 February 2022	

Treasury Strategy 2022/23

Responsible Officer

James Walton

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1. Synopsis

The report proposes the Treasury Strategy for 2022/23 and recommends Prudential and Treasury Indicators for 2022/23 to 2024/25.

2. Executive Summary

2.1. In December 2021, CIPFA published the revised Treasury Management Code and Prudential Code. Formal adoption is not required until the 2023/24 financial year. Details of the changes in the codes can be found in Appendix 4. Members will be updated throughout the year.

2.2. This Treasury Strategy report has been prepared in compliance with CIPFA’s Code of Practice on Treasury Management 2017 and covers the following:-

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

2.3. The report is technical in nature but the key points to note are:-

Borrowing is largely driven by the requirements of the approved Capital Programme. From 2011/12 the Council’s borrowing requirement has been significantly reduced due to the Government changing the way in which it funds the Council’s capital expenditure and providing capital grants rather than supported borrowing

approval with on-going (as it was defined at the time) revenue support grant to meet the financing costs of the borrowing. Currently the approved borrowing requirement identified within the Capital Programme 2022/23 to 2024/25 is prudential borrowing of £65.228 million. In addition to this there is an anticipated prudential borrowing requirement for future prioritised schemes in the Capital Strategy 2022/23 to 2024/25 of £75.106 million.

- The Council's lending continues to be restricted to highly credit rated Banks, three Building Societies, Money Market Funds and Part Nationalised Institutions which meet Link Asset Services creditworthiness policy, other Local Authorities and the UK Government.
- At the close of December 2021, the publication of official LIBOR figures and related LIBID calculations ceased. This reference rate was used to benchmark the internal treasury team's performance against. The reference rate now used for benchmarking performance against will be SONIA (Sterling Overnight Index Average) which reflects the average interest rates that banks pay to borrow sterling overnight from other financial institutions and other institutional investors.
- The internal Treasury Team will continue to look for opportunities to make savings by actively managing the cash and debt portfolio in accordance with the Treasury Strategy
- The bank rate was decreased to 0.10% in March 2020 as a direct consequence to the COVID-19 pandemic and the impact on global financial markets. During this period of historically low bank rate, we have seen investment yields suppressed. In December 2021, bank rate was increased to 0.25% and further increases are expected in the coming year. This will impact on the investment income that the Council will receive during this period due to a rising interest rate environment.
- Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m, £35m and £250k available from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the three facilities in to a single £49.25m funding arrangement.

3. Recommendations

3.1. Recommendations to Cabinet

Cabinet recommend that Council:-

- a) Approve, with any comments, the Treasury Strategy for 2022/23
- b) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- c) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the DLUHC Guidance on Local Government Investments.
- d) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.
- e) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- f) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.
- g) Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

3.2. Recommendations to Audit Committee

- h) Audit Committee are asked to consider and endorse, with appropriate comment, the Treasury Strategy 2022/23.

3.3. Recommendations to the Council

- i) Approve, with any comments, the Treasury Strategy for 2022/23
- j) Approve, with any comments, the Prudential Indicators, set out in Appendix 1, in accordance with the Local Government Act 2003.
- k) Approve, with any comments, the Investment Strategy, set out in Appendix 2 in accordance with the DLUHC Guidance on Local Government Investments.
- l) Approve, with any comments, the Minimum Revenue Provision (MRP) Policy Statement, set out in Appendix 3.

- m) Authorise the Section 151 Officer to exercise the borrowing powers contained in Section 3 of the Local Government Act 2003 and to manage the Council's debt portfolio in accordance with the Treasury Strategy.
- n) Authorise the Section 151 Officer to use other Foreign Banks which meet Link's creditworthiness policy as required.
- o) Authorise the Section 151 Officer to progress and finalise the restatement and amendment of Cornovii Development Ltd loan agreements.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 4.2. There are no direct environmental, equalities or climate change consequences arising from this report.
- 4.3. Compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement and Treasury Management Practices and the Prudential Code for Capital Finance together with the rigorous internal controls will enable the Council to manage the risk associated with Treasury Management activities and the potential for financial loss.
- 4.4. The Council's Audit Committee is the committee responsible for ensuring effective consideration of the Council's Treasury Management Strategy and policies.

5. Financial Implications

- 5.1. The financial implications arising from the Treasury Strategy are detailed in this report. The Council makes assumptions about the levels of borrowing and investment income over the financial year. Reduced borrowing as a result of capital receipt generation or delays in delivery of the capital programme will both have a positive impact of the council's cash position. Similarly, higher than benchmarked returns on available cash will also help the Council's financial position. For monitoring purposes, assumptions are made early in year about borrowing and returns based on the strategies agreed by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.
- 5.2. As at 31 December 2021 the Council held £160 million in investments and borrowing of £292 million at fixed interest rates.

6. Climate Change Appraisal

6.1. The Council's Financial Strategy includes proposals to deliver a reduced carbon footprint for the Council therefore the Treasury Team is working with the Council in order to achieve this. There are no climate change impacts arising from this report. Shropshire Council's investment portfolio has no level 1, 2 or 3 emissions. It comprises of straightforward cash deposits with financial institutions and other Local Authorities.

7. Background

7.1. The Council operates a balanced budget, which broadly means cash raised during the year will meet its cash expenditure. Part of the Treasury Management operations ensure this cash flow is adequately planned, with surplus monies being invested in low-risk counterparties, providing adequate liquidity initially before considering optimising investment return.

7.2. The second main function of the Treasury Management service is the funding of the Council's capital plans. These capital plans provide a guide to the borrowing need of the Council, essentially the longer-term cash flow planning to ensure the Council can meet its capital spending operations. This management of longer-term cash may involve arranging long or short-term loans, or using longer term cash flow surpluses, and on occasion any debt previously drawn may be restructured to meet Council risk or cost objectives.

7.3. The contribution the treasury management function makes to the authority is critical, as the balance of debt and investment operations ensure liquidity or the ability to meet spending commitments as they fall due, either on day-to-day revenue or for larger capital projects. The treasury operations will see a balance of the interest costs of debt and the investment income arising from cash deposits affecting the available budget. Since cash balances generally result from reserves and balances, it is paramount to ensure adequate security of the sums invested, as a loss of principal will in effect result in a loss to the General Fund Balance.

7.4. Whilst any commercial initiatives or loans to third parties will impact on the treasury function, these activities are generally classed as non-treasury activities, (arising usually from capital expenditure), and are separate from the day-to-day treasury management activities.

7.5. The Council defines its treasury management activities as "the

management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks".

- 7.6. Revised reporting was required for the 2019/20 reporting cycle due to revisions of the DLUHC Investment Guidance, the DLUHC Minimum Revenue Provision (MRP) Guidance, the CIPFA Prudential Code and the CIPFA Treasury Management Code. The primary reporting changes include the introduction of a capital strategy, to provide a longer-term focus to the capital plans and greater reporting requirements surrounding any commercial activity undertaken under the Localism Act 2011. The capital strategy is being reported separately.
- 7.7. This strategy statement has been prepared in accordance with CIPFA's Code of Practice on Treasury Management. Accordingly, the Council's Treasury Strategy will be approved annually by full Council and there will also be a mid-year review report. In addition, treasury management update reports will be submitted quarterly to Executive Directors and Cabinet. The aim of these reporting arrangements is to ensure that those with ultimate responsibility for the treasury management function appreciate fully the implications of policies and practices, and that those implementing policies and executing transactions have properly fulfilled their responsibilities with regard to delegation and reporting.
- 7.8. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -
- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - An overview of how associated risk is managed
 - The implications for future financial sustainability
- 7.9. The aim of this capital strategy is to ensure that all elected members on the full council fully understand the overall long-term policy objectives and resulting capital strategy requirements, governance procedures and risk appetite.
- 7.10. This capital strategy is reported separately from the Treasury Management Strategy Statement; non-treasury investments will be reported through the former. This ensures the separation of the

core treasury function under security, liquidity and yield principles, and the policy and commercialism investments usually driven by expenditure on an asset. The capital strategy will show:

- The corporate governance arrangements for these types of activities
- Any service objectives relating to the investments
- The expected income, costs and resulting contribution
- The debt related to the activity and the associated interest costs
- The payback period (MRP policy)
- For non-loan type investments, the cost against the current market value
- The risks associated with each activity

Where a physical asset is being bought, details of market research, advisers used, (and their monitoring), ongoing costs and investment requirements and any credit information will be disclosed, including the ability to sell the asset and realise the investment cash.

7.11. Attached in appendix 2 is the Council's Annual Investment Strategy which includes a list of additional responsibilities for the Section 151 Officer role following the issue of the Treasury Management Code of Practice and Prudential Code.

7.12. The codes have clarified CIPFA's position that there is a clear separation between treasury and non-treasury investments and on the role of the treasury management team. Accordingly, periodic reporting by the treasury management team to members will focus solely on treasury investments. If non treasury investments are considered, a separate report will be presented for approval and any changes required to Prudential indicators incorporated within an updated Treasury Strategy if necessary.

7.13. The Council will adopt the following reporting arrangements in accordance with the requirements of the Code:-

Area of Responsibility	Council/Committee/Officer	Frequency
Treasury Management Policy Statement	Full Council/Cabinet	As required
Treasury Strategy/Annual Investment Strategy/MRP Policy	Full Council/Cabinet	Annually before the start of the financial year
Capital Strategy	Full Council/Cabinet	Annually before the start of the financial year

Treasury Strategy/Annual Investment Strategy/MRP Policy – mid year report	Full Council/Cabinet	Mid-year
Treasury Strategy/Annual Investment Strategy/MRP Policy – updates or revisions at other times	Full Council/Cabinet	As required
Annual Treasury Report	Full Council/Cabinet	Annually by 30 September after the end of the financial year
Quarterly Treasury Management Update Reports	Executive Directors/Cabinet	Quarterly
Treasury Management Monitoring Reports	Reports prepared by Investment Officer to the Head of Treasury & Pensions who reports to the Section 151 Officer	Monthly
Treasury Management Practices/Investment Management Practices	Section 151 Officer	As required
Scrutiny of Treasury Strategy	Audit Committee	Annually before the start of the financial year
Scrutiny of the treasury management performance	Audit Committee	Half yearly

8. Treasury Strategy 2022/23

- 8.1. The Local Government Act 2003 and supporting Regulations requires the Council to have regard to the CIPFA Prudential Code and the CIPFA Treasury Management Code of Practice to set Prudential and Treasury Indicators for the next three years to ensure that capital investment plans are affordable, prudent and sustainable. This report incorporates the indicators to which regard should be given when determining the Council's Treasury Management Strategy for the next financial year.
- 8.2. As the Council is responsible for housing, Prudential Indicators relating to Capital Expenditure, financing costs and the Capital Financing Requirement will be split between the Housing Revenue Account (HRA) and the General Fund.
- 8.3. The Act also requires the Council to set out its Treasury Strategy for borrowing and to prepare an Annual Investment Strategy. This sets out the Council's policies for managing its investments and for giving priority to the security and liquidity of those investments.
- 8.4. The proposed Strategy for 2022/23 in respect of the following aspects of the treasury management function is based upon the Section 151 Officer's view on interest rates, supplemented with leading market forecasts provided by the Council's Treasury Advisor, Link Asset Services.

8.5. The proposed strategy will focus on the following areas of treasury activity:-

- Treasury limits in force which will limit the treasury risk and activities of the Council.
- The determination of Prudential and Treasury Indicators.
- The current treasury position.
- Prospects for interest rates.
- Capital borrowing strategy.
- Policy on borrowing in advance of need.
- Debt rescheduling.
- Investment strategy.
- Capital plans.
- Creditworthiness policy.
- Policy on use of external service providers.
- The MRP strategy.
- Leasing.

8.6. It is a statutory requirement under Section 33 of the Local Government Finance Act 1992, for the Council to produce a balanced budget. In particular, Section 32 requires a local authority to calculate its budget requirement for each financial year to include the revenue costs that flow from capital financing decisions. This therefore means that increases in capital expenditure must be limited to a level whereby increases in charges to revenue from:-

- increases in interest charges caused by increased borrowing to finance additional capital expenditure, and
- any increase in running costs from new capital projects

are limited to a level which is affordable within the projected income of the Council for the foreseeable future.

8.7. The CIPFA Code requires the responsible officer to ensure that members with responsibility for treasury management receive adequate training. This especially applies to members responsible for scrutiny. In January 2022, Link & Officers provided member training on treasury management and further training will be arranged as required. The training needs of treasury management officers are periodically reviewed.

9. Treasury Limits for 2022/23 to 2024/25

9.1. It is a statutory requirement under Section 3 of the Local Government Act 2003 and supporting Regulations, for the Council to determine and keep under review how much it can afford to borrow. The amount so determined is termed the "Affordable

Borrowing Limit". This authorised limit represents the legislative limit specified in section 3 of the Local Government Act 2003.

- 9.2. The Council must have regard to the Prudential Code when setting the Authorised Limit, which essentially requires it to ensure that total capital investment remains within sustainable limits.
- 9.3. Whilst termed an "Affordable Borrowing Limit", the capital plans to be considered for inclusion incorporate those planned to be financed by both internal/external borrowing and other forms of liability, such as credit arrangements. The Authorised Borrowing Limit is to be set, on a rolling basis, for the forthcoming financial year and two successive financial years and is the limit which the Council must not breach. All of the other Prudential Indicators are estimates only and can be breached temporarily but this is very rarely the case. If this did happen it would be reported to Members outlining the reasons for this temporary breach.
- 9.4. The Council are asked to approve these Prudential Indicators in Appendix 1.

10. Prudential & Treasury Indicators for 2022/23 to 2024/25

- 10.1 Details of the Council's Prudential & Treasury indicators and calculations can be found within Appendix 1.

11. Current Treasury Position

- 11.1 The Council's treasury position at 31 December 2021 is set out below:-

Outstanding debt for capital purposes	Actual
	£m
Long-term fixed rate PWLB	242.4
Long term fixed rate – Market	49.2
Total	291.6
Investments	£m
Internally managed - long term (1 Year)	30.0
- short term cash flow	130.1
Total	160.1

12. Prospects for Interest Rates

- 12.1 The Council retains the services of Link Asset Services as adviser on treasury matters and part of the service provided is to help the Council to formulate a view on interest rates. The following table gives the latest Link central view: -

Link's interest rate forecast as at December 2021

Link Group Interest Rate View	20.12.21													
	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25
BANK RATE	0.25	0.25	0.50	0.50	0.50	0.75	0.75	0.75	0.75	1.00	1.00	1.00	1.00	1.25
3 month ave earnings	0.20	0.30	0.50	0.50	0.60	0.70	0.80	0.90	0.90	1.00	1.00	1.00	1.00	1.00
6 month ave earnings	0.40	0.50	0.60	0.60	0.70	0.80	0.90	1.00	1.00	1.10	1.10	1.10	1.10	1.10
12 month ave earnings	0.70	0.70	0.70	0.70	0.80	0.90	1.00	1.10	1.10	1.20	1.20	1.20	1.20	1.20
5 yr PWLB	1.40	1.50	1.50	1.60	1.60	1.70	1.80	1.80	1.80	1.90	1.90	1.90	2.00	2.00
10 yr PWLB	1.60	1.70	1.80	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.10	2.20	2.30
25 yr PWLB	1.80	1.90	2.00	2.10	2.10	2.20	2.20	2.20	2.30	2.30	2.40	2.40	2.50	2.50
50 yr PWLB	1.50	1.70	1.80	1.90	1.90	2.00	2.00	2.00	2.10	2.10	2.20	2.20	2.30	2.30

Link's current interest rate view is that Bank Rate will: -

- Increase in increments reaching 1.25% by March 2025.

The effect on interest rates for the UK is expected to be as follows: -

Short-term interest rates (investments)

- 12.2 Over the last two years, the coronavirus outbreak has done huge economic damage to the UK and to economies around the world. After the Bank of England took emergency action in March 2020 to cut Bank Rate to 0.10%, it left Bank Rate unchanged at its subsequent meetings until raising it to 0.25% at its meeting on 16th December 2021. As shown in the forecast table above, the forecast for Bank Rate now includes four increases, the latest one in December 2021 to 0.25%, then quarter 2 of 2022 to 0.50%, quarter 1 of 2023 to 0.75%, quarter 1 of 2024 to 1.00% and, finally, one in quarter 1 of 2025 to 1.25%. It is not expected that Bank Rate will go up fast after the initial rate rise as the supply potential of the economy is not likely to have taken a major hit during the pandemic: it should, therefore, be able to cope well with meeting demand after supply shortages subside over the next year, without causing inflation to remain elevated in the medium-term, or to inhibit inflation from falling back towards the MPC's 2% target after the spike up to around 5%. The forecast includes four increases in Bank Rate over the three-year forecast period to March 2025, ending at 1.25%. However, it is likely that these forecasts will need changing within a relatively short timeframe.

- 12.3 Investment returns are expected to improve in 2022/23. However, while markets are pricing in a series of Bank Rate hikes, actual

economic circumstances may see the MPC fall short of these elevated expectations. A more detailed economic commentary can be found within Appendix 5.

Long-term interest rates (borrowing)

- 12.4 The 50-year PWLB rate is expected to rise gradually to reach 2.0% by the end of March 2023. It is expected to continue rising gradually to reach 2.3% by the end of December 2024. There is scope for it to move around the central forecast by + or – 0.25%. The 25-year PWLB rate is also expected to rise slightly to reach 2.2% by the end of March 2023 and 2.5% by the end of December 2024. The 10-year PWLB rate is expected to rise gradually to 2.0% by the end of June 2023. Again, further gradual rises are expected in 2024/25. The 5-year PWLB rate is also expected to rise gradually from 1.4% to 1.8% by the end of June 2023 and to 2.0% by the end of December 2024. The PWLB rates and forecasts shown above take into account the review of PWLB margins over gilt yields. Subsequently, all forecasts have been reduced by 1%.
- 12.5 Borrowing interest rates fell to historically very low rates as a result of the COVID-19 crisis and the quantitative easing operations of the Bank of England still remain at historically low levels.
- 12.6 In November 2020, the Chancellor announced the conclusion to the review into PWLB rates; the rates offered by the PWLB were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which intended to purchase assets primarily for yield in its three-year capital programme.

13 Borrowing Strategy

- 13.1 The Council is currently maintaining an under-borrowed position. This means that the capital borrowing need (the Capital Financing Requirement), has not been fully funded with loan debt as cash supporting the Council's reserves, balances and cash flow has been used as a temporary measure. This strategy is prudent as investment returns are low and counterparty risk is still an issue that needs to be considered.
- 13.2 The approved borrowing requirement identified within the Capital Programme 2022/23 to 2024/25 is prudential borrowing of £65.228 million. In addition to this there is an anticipated prudential borrowing requirement for future prioritised schemes in the Capital Strategy 2022/23 to 2024/25 of £75.106 million. The Council will adopt a pragmatic approach to changing circumstances when considering new borrowing if required in the future. Consideration will be given to the following:-

- i) As long-term borrowing rates are expected to be higher than investment rates and look likely to be for the next couple of years or so all new external borrowing may be deferred in order to maximise savings in the short term. The running down of investments also has the added benefit of reducing exposure to interest rate and credit risk. However, in view of the overall forecast for long-term borrowing rates to increase over the next few years, consideration will also be given to weighing up the short term advantage of internal borrowing against potential long term costs if the opportunity is missed for taking loans at long term rates which will be higher in future years.
- ii) Temporary borrowing from the money markets or other local authorities.
- iii) PWLB variable rate loans for up to 10 years.
- iv) Long term fixed rate market loans (including loans offered by the Municipal Bond Agency) at rates below PWLB rates for the equivalent maturity period.
- v) Short term PWLB rates are expected to be cheaper than longer term borrowing therefore borrowing could be undertaken in the under 10 year period early on in the financial year when rates are expected to be at their lowest. This will also have the added benefit of spreading debt maturities away from a concentration in longer dated debt.
- vi) If it was felt that there was a significant risk in a sharp fall in long and short term rates then long term borrowings will be postponed. If it was felt there was a significant risk of a sharp rise in long and short term rates then the portfolio position would be re-appraised with the likely action that fixed rate funding will be drawn whilst interest rates were still relatively cheap.

13.3 Delegated authority is sought for the Section 151 Officer to exercise the borrowing powers contained in the Local Government Act 2003 to manage the debt portfolio.

14 External versus internal borrowing

- 14.1 The Prudential Code requires the Council to explain its policy on gross and net debt. The Council currently has gross debt of £292 million and net debt (after deducting cash balances) of £132 million. The next financial year is expected to see the Bank Rate incrementally increase. As borrowing rates are expected to be higher than investment rates this would indicate that value could best be obtained by avoiding new external borrowing and using internal cash balances to finance new capital expenditure. The policy of avoiding new borrowing by running down spare cash balances has served well over the last few years. This is referred to as internal borrowing and maximises short term savings. This is subject to change as the country navigates its way through and out of the coronavirus pandemic.
- 14.2 However, this needs to be carefully reviewed to avoid incurring higher borrowing costs in the future when authorities may not be able to avoid new borrowing to finance capital expenditure and/or the refinancing of maturing debt.
- 14.3 The Council has examined the potential for undertaking early repayment of some external debt in order to reduce the difference between its gross and net debt positions. However, the introduction by the PWLB of significantly lower rates for repayments than for new borrowing means that large premiums would be incurred, and such levels of premiums cannot be justified on value for money grounds.
- 14.4 Against this background caution will be adopted with the 2022/23 treasury operations. The Section 151 Officer will monitor the interest rate market and adopt a pragmatic approach to changing circumstances, reporting any decisions to Members at the next available opportunity.

15 Policy on borrowing in advance of need

- 15.1 The Council will not borrow more than or in advance of its needs purely in order to profit from the investment of the extra sums borrowed. Any decision to borrow in advance will be within forward approved Capital Financing Requirement estimates and will be considered carefully to ensure value for money can be demonstrated and that the Council can ensure the security of such funds.
- 15.2 In determining whether borrowing will be undertaken in advance of need the Council will:-

- Ensure that there is a clear link between the capital programme and maturity profile of the existing debt portfolio which supports the need to take funding in advance of need.
- Ensure the ongoing revenue liabilities created, and the implications for the future plans and budgets have been considered.
- Evaluate the economic and market factors that might influence the manner and timing of any decision to borrow.
- Consider the merits and demerits of alternative forms of funding.
- Consider the alternative interest rate bases available, the most appropriate periods to fund and repayment profiles to use.
- Consider the impact of borrowing in advance on temporarily (until required to finance capital expenditure) increasing investment cash balance and the consequent increase in exposure to counterparty risk, and other risks, and the level of such risks given the controls in place to minimise them.

16 Debt Rescheduling

16.1 Consideration will be given to the potential for making savings by running down investment balances to repay debt prematurely as short-term rates on investments are likely to be lower than rates currently paid on debt. However, this will need careful consideration in the light of premiums that may be incurred by such a course of action. The proposals for debt rescheduling are a continuation of the existing policy and such transactions will only be undertaken:-

- in order to generate cash savings at minimum risk.
- to help fulfil the strategy set out above.
- in order to enhance the balance of the long-term portfolio by amending the maturity profile and/or volatility of the portfolio.

17 Investment Strategy

17.1 The DLUHC and CIPFA have extended the meaning of 'investments' to include both financial and non-financial investments. This report deals solely with financial investments, (as managed by the treasury management team). Non-financial investments, essentially the purchase of income yielding assets, are covered in the Capital Strategy.

17.2 The Council is required, under CIPFA's Treasury Management Code of Practice, to formulate an Annual Investment Strategy (Appendix 2). This outlines the Council's approach to:-

- Security of capital
- Creditworthiness policy
- Monitoring of credit ratings
- Specified and Non Specified Investments
- Temporary Investments

17.3 The Council's investment priorities are the security of capital and the liquidity of its investments. The Council will also aim to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. The above guidance from the DLUHC and CIPFA place a high priority on the management of risk. This authority has adopted a prudent approach to managing risk as outlined in the Annual Investment Strategy.

17.4 The Council are asked to approve the Investment Strategy set out in Appendix 2.

18 Minimum Revenue Provision (MRP) Statement

18.1 The Council is required to pay off an element of the accumulated general fund capital spend each year (the CFR) through a revenue charge (the Minimum Revenue Provision - MRP) although it is also allowed to undertake additional voluntary payments if required. DLUHC regulations have been issued which require the full Council to approve an MRP Statement in advance of each year. Council are asked to approve the Minimum Revenue Provision Statement set out in Appendix 3.

18.2 The DLUHC is conducting a consultation on amending MRP rules for English Local Authorities. Members will be updated on the implications of this following the consultation.

19. Leasing

19.1. In the past the Council has used operating leases to finance the purchase of vehicles and equipment. The Section 151 Officer will assess the relative merits of operating and finance leases on a case by case basis and enter into the most advantageous. Schools I.T equipment will continue to be internally financed by borrowing against a small fund set against school balances with schools repaying their borrowing over a period of 3 years.

19.2. From 2023/24, the accounting of leases will change under IFRS16. Members will updated throughout the year.

20. Lending to Housing Associations

20.1. As previously approved by full Council, the Council has offered to lend funds to Connexus Housing Ltd (which incorporates South Shropshire Housing Association and the Meres & Mosses Housing

Association) and Homes Plus (formerly Severnside Housing) at an agreed rate.

- 20.2. It has been agreed that the interest rate charged will depend on the period over which the loan is to be taken and that it will be linked to the applicable PWLB rate plus an administration fee. It has been agreed to offer to lend up to £10 million to each of these Housing Associations in order to support the building of affordable housing and shared office accommodation in Shropshire. For security purposes, each loan has been secured against existing assets held by or owned by the Housing Association. Officers have sought advice from Gowlings LLP who have confirmed that the Council has the power to lend funds to Housing Associations under the Housing Act 1996 and have drawn up the legal documentation relating to the loan agreement. To date £9,770,000 has been drawn down by Connexus Housing Ltd and £10,000,000 by Homes Plus (formerly Severnside Housing).

21. Cornovii Development Ltd

- 21.1 Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m, £35m and £250k available from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the three facilities in to a single £49.25m funding arrangement.
- 21.2 Members approve the Executive Director of Resources (Section 151 Officer) to progress and finalise the restatement and amendment of the loan agreement.

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

Council, 25 February 2021, Treasury Strategy 2021/22.

Council, 13 January 2022, Treasury Strategy Mid-Year Review 2021/22.

Council, 13 January 2022, Financial Strategy 22/23 – 26/27

Cabinet Member:

Gwilym Butler, Portfolio Holder for Resources

Local Member

N/A

Appendices

1. Prudential Indicators
2. Council's Annual Investment Strategy
3. Minimum Revenue Provision Policy Statement
4. CIPFA Treasury Management & Prudential Code Revision Update
5. Economic Update

Prudential Indicators

The Prudential Code and CIPFA Code of Practice on Treasury Management require the Council to set a number of Prudential and Treasury Indicators. Following the December 2017 publication of the revised CIPFA Treasury Management Code of Practice, there is no longer a requirement to include the prudential indicator showing the incremental impact on the Council tax / Housing rents of Capital Investment decisions, so this has been removed. In addition to the specified indicators, we have set further internal indicators for Treasury Management, regarding lower limits on interest rate exposure for both borrowing and investments.

It should be noted that these indicators should not be used for comparison with indicators from other local authorities. Use of them in this way would be likely to be misleading and counterproductive as other authorities Treasury Management policies and practices vary. The most important indicator is prudential indicator number 4 which specifies the authorised limit which cannot be breached under any circumstances. In the event that this indicator was breached a separate report would be brought to Council.

Prudential Indicator 1 - The ratio of financing costs indicator shows the trend in the cost of financing capital expenditure as a proportion of the Authority's net revenue. This indicator also shows the ratio of the HRA financing costs to the HRA net revenue stream.

Prudential Indicator	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	%	%	%	%
Non HRA ratio of financing costs to net revenue stream	9.2	9.9	7.3	9.4
HRA ratio of financing costs to HRA net revenue stream	38.7	37.9	39.0	38.7

Prudential Indicator	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	%	%	%	%
Non HRA ratio of financing costs (net of investment income) to net revenue stream	8.9	9.5	6.9	9.0

Prudential Indicator 2 - A key indicator of prudence is that gross external borrowing should not, except in the short term, exceed the capital financing requirement (CFR). The capital financing requirement is the maximum we would expect to borrow based on the current capital programme. Compliance with the indicator will mean that this limit has not been breached. Gross borrowing includes debt administered on behalf of Telford and Wrekin Council, Magistrates Courts and Probation Service. It also includes the debt transferred from Oswestry Borough Council and North Shropshire District Council on the 1st April 2009. In accordance with the Code the HRA Capital Financing requirement has been calculated separately and has been updated due to the HRA reform which took place on the 28 March 2012.

Prudential Indicator	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
Net Borrowing & Capital Financing Requirement:	£ m	£ m	£ m	£ m	£ m
Non HRA Capital Financing Requirement	388	413	431	453	469
HRA Capital Financing Requirement	85	90	95	100	100
Commercial activities/non-financial investments Capital Financing Requirement	4	6	19	34	32
Total CFR	477	509	545	587	601
Movement in CFR	2	32	36	42	14
Movement in CFR represented by					
Net financing need for the year (above)	5	4	44	45	20
Less MRP/VRP and other financing movements	-7	28	-9	-3	-6
Movement in CFR	2	32	36	42	14
Gross Borrowing (including HRA)	304	298	348	398	428
Investments	148	150	150	150	150
Net Borrowing	156	148	218	268	278

Prudential Indicator 3 - The estimated capital expenditure has been split between Non HRA and HRA and represents commitments from previous years to complete ongoing schemes, the expenditure arising from the proposed new schemes within the capital programme for 2021/22, and the estimated expenditure for 2022/23, 2023/24 and 2024/25. This indicator also includes details on the financing of capital expenditure.

Prudential Indicator	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£ m	£ m	£ m	£ m	£ m
Non HRA Capital expenditure	57.5	87.2	159.4	93.4	88.5
HRA Capital expenditure	4.5	9.2	16.5	20.2	19.0
Commercial activities/non-financial investments	3.7	1.2	13.0	16.8	0.0
Total Capital expenditure	65.7	97.6	188.9	130.3	107.5
Financing of capital expenditure					
Capital receipts	2.1	8.7	27.0	11.9	3.6
Capital grants	49.7	52.3	69.9	31.1	16.8
Other Contributions	6.4	10.9	23.0	9.4	0.0
Major Repairs Allowance	2.6	3.6	3.8	4.8	4.8
Alternative Funding Options	0.0	0.0	3.3	5.1	40.9
Revenue	0.4	3.0	3.4	0.8	1.0
Net financing need for the year	4.3	19.0	58.5	67.1	40.3
Commercial activities/non-financial investments	2020/21 Actual	2021/22 Estimate	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate
	£ m	£ m	£ m	£ m	£ m

Capital expenditure	3.7	1.2	13.0	16.8	0.0
Financing Costs	0.2	0.4	0.4	0.5	0.0
Net financing need for the year	3.5	0.8	12.6	16.2	0.0
Percentage of total net financing need	95%	69%	97%	97%	100%

Prudential Indicator	2021/22	2022/23	2023/24	2024/25
	£ m	£ m	£ m	£ m
HRA CFR	90	95	100	100

Prudential Indicator 4 which must not be breached - The authorised limit is the borrowing limit set for Shropshire Council and includes the HRA borrowing. This indicator shows the maximum permitted amount of outstanding debt for all purposes. It includes three components:

1. The maximum amount for capital purposes;
2. The maximum amount for short term borrowing to meet possible temporary revenue shortfalls;
3. The maximum permitted for items other than long term borrowing i.e. PFI & leasing.

Prudential Indicator	2022/23	2023/24	2024/25
External Debt	£ m	£ m	£ m
Authorised Limit for External Debt:			
Borrowing	528	534	543
Other long term liabilities (PFI)	92	92	94
Commercial activities/ non-financial investments	13	17	0
Total	633	643	637

Prudential Indicator 5 – The more likely outcome for the level of external debt is shown in the operational boundary which the Council is required to set. This is calculated on the same basis as prudential indicator number 4, however, this is the limit which external debt is not normally expected to exceed

Prudential Indicator	2022/23	2023/24	2024/25
External Debt	£ m	£ m	£ m
Operational Boundary:			
Borrowing	460	466	496
Other long term liabilities (PFI)	92	92	94
Commercial activities/ non-financial investments	13	17	0
Total	565	575	590

Prudential Indicator 6 - The estimated external debt is based on the capital programme for 2021/22

Prudential Indicator	2020/21 Actual	2021/22 Estimate
External Debt	£ m	£ m
Borrowing	304	298
Other long term liabilities (PFI)	99	96
Total	403	394

Prudential Indicator 7 - The Prudential Code requires the Council to set interest rate exposure limits for borrowing and investments

Prudential Indicator	2022/23	2023/24	2024/25
Borrowing Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	528	534	543
Upper Limit for Variable Interest Rate Exposure	264	267	271
Lower Limit for Fixed Interest Rate Exposure	264	267	272
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of debt exposed to fixed and variable interest rates. Variable rate debt carries the risk of unexpected increases in interest rates and consequently increases in cost. The upper limit for variable rate exposure has been set following advice from Link, however, this limit is never likely to be reached due to authority's objective to have no more than 25% of outstanding debt at variable interest rates.

Upper limit for fixed rate exposure

Calculation:

A maximum of 100% of the Authorised Limit (£528m in 2022/23) exposed to fixed rates is consistent with the Authority's objective to have a long term stable debt portfolio.

Upper limit for variable rate exposure

Calculation:

For efficient management of the debt portfolio it is considered prudent by Link to permit up to 50% (£264m in 2022/23) of the Authorised Limit to be borrowed at variable interest rates.

Lower limit for fixed rate exposure

Calculation:

Upper limit for fixed rate exposure less the maximum permitted borrowing at variable interest rates

Lower limit for variable rate exposure

Calculation:

To be consistent with the Authority's objective to have a long term stable portfolio all of the debt portfolio could be at a fixed rate therefore the lower limit for variable rate exposure should be nil.

Prudential Indicator	2022/23	2023/24	2024/25
Investment Limits	£ m	£ m	£ m
Upper Limit for Fixed Interest Rate Exposure	250	250	250
Upper Limit for Variable Interest Rate Exposure	250	250	250
Lower Limit for Fixed Interest Rate Exposure	0	0	0
Lower Limit on Variable Interest Rate Exposure	0	0	0

These indicators seek to control the amount of investments exposed to fixed and variable interest rates. Variable rate investments are subject to changes in interest rates, but have a higher degree of liquidity and action can be taken at short notice in response to interest rate changes.

Upper limit for fixed rate exposure

Calculation:

Maximum amount of fixed rate investments in order to maintain a stable investment portfolio.

Upper limit for variable rate exposure

Calculation:

For the purposes of efficient portfolio management in response to interest rate conditions a maximum potential exposure to variable rates of £250m in 2022/23 is recommended.

Lower limit for fixed rate exposure

Calculation:

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Lower limit for variable rate exposure

Calculation:

A lower limit of zero is locally set so as to enable full advantage to be taken of market conditions.

Prudential Indicator 9 - The upper and lower limit for the maturity structure of borrowings is detailed below.

Prudential Indicator	Upper Limit	Lower Limit
Maturity Structure of Fixed/Variable Rate Borrowing During 2022/23 **	%	%
Under 12 months	15	0
12 months & within 24 months	15	0
24 months & within 5 years	45	0
5 years & within 10 years	75	0
10 years & within 20 years	100	0
20 years & within 30 years	100	0
30 years & within 40 years	100	0
40 years & within 50 years	100	0
50 years and above	100	0

**** Internal limit is to have no more than 15% of total outstanding debt maturing in any one financial year. This is to ensure that the risk of having to replace maturing debt at times of high interest rates is controlled.**

Prudential Indicator 10 - The Council is required to set maximum levels for investments over 365 days for both the internal treasury team and an external fund manager if appointed

Prudential Indicator	2022/23	2023/24	2024/25
Investment Limits			
	£m	£m	£m
Upper Limit for Total Principal Sums Invested for over 365 days:			
Externally Managed (if appointed)	50	50	50
Internally Managed	70	70	70

Rationale: The limit for the external cash fund manager has been set at £50 million in the event that an external manager is appointed. The limit for the internal treasury team has been set in order for the authority to potentially take advantage of more stable returns going forward. This includes the lending to date to local housing associations and future lending to Cornovii Homes.

The Council's Annual Investment Strategy

The Council's investment policy has regard to the DLUHC Guidance on Local Government Investments and the CIPFA Treasury Management Code of Practice which requires the Council to formulate a strategy each year regarding the investment of its revenue funds and capital receipts. Authorities are required to take the guidance into account under the terms of section 12 of the Local Government Act 2003.

In accordance with the above guidance from the DLUHC and CIPFA, and in order to minimise the risk to investments, the Council applies minimum acceptable credit criteria in order to generate a list of highly creditworthy counterparties which also enables diversification and thus avoidance of concentration risk. The key ratings used to monitor counterparties are the Short Term and Long Term ratings.

Ratings will not be the sole determinant of the quality of an institution; it is important to continually assess and monitor the financial sector on both a micro and macro basis and in relation to the economic and political environments in which institutions operate. The assessment will also take account of information that reflects the opinion of the markets. To this end the Council will engage with its advisors to maintain a monitor on market pricing such as credit default swaps and overlay that information on top of the credit ratings.

The income and expenditure flow of the Council is such that funds are temporarily available for investment. Under the Annual Investment Strategy the Council may use, for the prudent management of its treasury balances, any of the investments highlighted under the headings of **Specified Investments** and **Non-Specified Investments** as detailed on the attached table (Appendix 2A).

Creditworthiness Policy

The Council uses the creditworthiness service provided by its treasury advisor, Link Asset Services. This service employs a sophisticated modelling approach utilising credit ratings from the three main credit rating agencies Fitch, Moody's and Standard and Poor's. In addition, in line with the Treasury Management Code of Practice, it does not rely solely on the current credit ratings of counterparties but also uses the following overlays:-

- Credit watches and credit outlooks from credit rating agencies.
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings.
- Sovereign ratings to select counterparties from only the most creditworthy countries.

This modelling approach combines credit ratings, credit watches and credit outlooks in a weighted scoring system which is then combined with an overlay of CDS spreads for which the end product is a series of colour coded bands which indicate the relative creditworthiness of counterparties. These colour codes are used by the Council to determine the duration of investments and are therefore referred to as durational bands. The Council is satisfied that this service gives the required level of security for its investments. It is also a service which the Council would not be able to replicate using in house resources.

The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Link's weekly credit list of worldwide potential counterparties. The Council will therefore use counterparties within the following durational bands:-

- Yellow – 5yrs e.g. AAA rated Government debt, UK Gilts, Collateralised Deposits
- Dark Pink – 5 years for Ultra-Short Dated Bond Funds or Enhanced Money Market Funds with a credit score of 1.25 (Not currently used)
- Light Pink - 5 years for Ultra-Short Dated Bond Funds or Enhance Money Market Funds with a credit score of 1.5 (Not currently used)
- Purple - 2yrs (Council currently has maximum of 1 year)
- Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green – 100 days
- No colour – not to be used

The Link Asset Services creditworthiness service uses ratings from all three agencies and uses a wider array of information than just primary credit ratings to determine creditworthy counterparties. By using this approach and applying it to a risk weighted scoring system, it does not give undue over reliance to just one agency's ratings.

Monitoring of Credit Ratings

All credit ratings will continue to be monitored continuously and formally updated monthly if any changes are required. The Council is alerted to interim changes in ratings from all three agencies by Link Asset Services.

If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Council's minimum criteria, the further use of that counterparty will be withdrawn immediately. If a counterparty is upgraded so that it fulfils the Council's criteria, its inclusion will be considered for approval by the S151 Officer.

In addition to credit ratings the Council will be advised of information in movements in CDS against the iTraxx benchmark and other market data on a daily basis via the Passport website. Extreme market movements may result in the downgrade of an institution or the removal from the Council's lending list.

Sole reliance will not be placed on the use of this external service. In addition the Council will monitor the financial press and also use other market data and information e.g. information on external support for banks.

UK banks – ring fencing

The largest UK banks, (those with more than £25bn of retail / Small and Medium-sized Enterprise (SME) deposits), are required, by UK law, to separate core retail banking services from their investment and international banking activities from the 1st January 2019. This is known as "ring-fencing". Whilst smaller banks with less than £25bn in deposits are exempt, they can choose to opt up. Several banks are very close to the threshold already and so may come into scope in the future regardless.

Ring-fencing is a regulatory initiative created in response to the global financial crisis. It mandates the separation of retail and SME deposits from investment banking, in order to improve the resilience and resolvability of banks by changing their structure. In general, simpler, activities offered from within a ring-fenced bank, (RFB), will be focused on lower risk, day-to-day core transactions, whilst more complex and "riskier" activities are required to be housed in a separate entity, a non-ring-fenced bank, (NRFB). This is intended to ensure that an entity's core activities are not adversely affected by the acts or omissions of other members of its group.

While the structure of the banks included within this process may have changed, the fundamentals of credit assessment have not. The

Council will continue to assess the new-formed entities in the same way that it does others and those with sufficiently high ratings, (and any other metrics considered), will be considered for investment purposes.

The Council currently has investments with HSBC, Barclays & Lloyds. HSBC and Lloyds are classified as ring fenced banks and Barclays as non ring fenced. All these institutions appear on Link Asset Services approved lending list and meet the council's creditworthiness criteria.

Country Limits

It is recommended that the Council will only use approved counterparties from the UK and from other countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Link's revised creditworthiness policy if required.

Security of Capital

The Council's current policy is to not place investments with any Foreign banks. The only exception to this is a call account set up with the Swedish bank, Handelsbanken, but this is a highly credit rated institution and the sovereign rating of Sweden is AAA as stated above. Funds are also repayable immediately if required. Following approval of the S151 Officer, lending to AAA rated Money Market Funds has also been recommenced. Lending to other Foreign banks which comply with Link's creditworthiness policy may be considered again but only with the express approval of the S151 Officer.

In addition, in order not to solely rely on an institution's credit ratings there have also been a number of other developments which require separate consideration and approval for use:

Part Nationalised banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. Link are still supportive of the Council using these institutions with a maximum 12 month duration. For this reason Royal Bank of Scotland (RBS) and National

Westminster Bank which are part of the RBS Group are included on the approved counterparty list.

Local Authorities are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to local authorities is an acceptable one (Local Government Act 2003 s13). Local Authorities are therefore included on the approved list.

The total permitted investment in any one organisation at any one time varies with the strength of the individual credit rating. For the highest rated and Part Nationalised Institutions the maximum amount is currently limited to £20m. Any changes to the maximum limit must be approved by the S151 Officer.

DLUHC Investment Guidance

Guidance from the DLUHC requires Councils to give priority to the security and portfolio liquidity of investments over yield whilst still aiming to provide good returns. This is in line with the Council's current practice and it is recommended that the policy should be reaffirmed.

The guidance also requires Councils to categorise their investments as either "specified" or "non-specified" investments.

(i) Specified Investments

Specified investments are deemed as "safer" investments and must meet certain conditions, ie they must :-

- be denominated in sterling
- have less than 12 months duration
- not constitute the acquisition of share or loan capital

- either: be invested in the UK government or a local authority or a body or investment scheme with a "high" credit quality.

The Council is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

Of the investments currently authorised by the Council, deposits in the Debt Management Office Account and with other Local Authorities automatically qualify as specified investments as they are of less than 12 months duration and are denominated in sterling.

The classification of the other investments is dependent on the counterparty having high credit quality in line with Link's creditworthiness policy. The Council is alerted to any changes in an institutions credit rating by Link Asset Services.

(ii) Non Specified Investments

These are any investments which do not meet the specified investment criteria outlined above. The Council is required to look at non-specified investments in more detail. It must set out:

- procedures for determining which categories of non-specified investments should be used
- the categories deemed to be prudent
- the maximum amount to be held in each category

The Strategy must also set out procedures for determining the maximum period for committing funds.

It is recommended that the following procedure be adopted for determining which categories of non-specified investments should be used:

- the Cabinet/Council should approve categories on an annual basis
- advice should be provided by the S151 Officer
- priority should be given to security and portfolio liquidity ahead of yield

It is recommended that for specified investments the range of maximum limits is set between £5m and £20m for the internal treasury team. For non specified investments it is recommended that the limit for the internal treasury team should be restricted to £70m of the total investment portfolio (excluding the Shrewsbury Shopping Centre acquisition). Any changes to the maximum limits must be approved by the S151 Officer.

Temporary Investment Strategy

The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England took emergency action in March to cut Bank Rate to first 0.25%, and then to 0.10%, it chose to increase rates to 0.25% in December 2021. It is felt that the bank rate will incrementally increase through 2022.

If an external fund manager is appointed in 2022/23 they would also have to adhere to the authorised specified and non-specified investments on the attached table. They would also have to comply with the Council's Annual Investment Strategy and their agreement

must stipulate guidelines and other limits in order to contain and control risk.

The market is continually monitored for opportunities to lock in to higher, longer term rates in order to bring some stability to the returns going forward and add value. However, based on the interest rate assumptions outlined above, we do not expect to lock into longer term deals unless exceptionally attractive rates are available which make longer term deals worthwhile.

For the cash flow generated balances, we will seek to utilise instant access accounts, Money Market Funds and short dated deposits (1-3 months) in order to benefit from the compounding of interest.

The present strategy is to diversify investments so as to spread risk over a range of investment types and periods and provide the opportunity to enhance returns. Due to the current lending restrictions in place diversification has been some what reduced due to the reduction in the number of institutions which we can lend to, however, by taking this course of action the credit risk has been reduced. The portfolio as at 31 December 2021 is set out in paragraph 11.1 of the Treasury Strategy 2022/23 report. Performance of the in-house operation will continue to be monitored on a monthly basis by your officers in conjunction with the treasury advisor.

All investments will continue to be made in accordance with the Local Government Act 2003, and with those institutions on the authorised lending list. The credit status of institutions on the approved list is monitored continuously.

At the end of the financial year, the Council will report on its investment activity as part of its Annual Treasury Report.

Policy on the use of external service providers

The Council currently uses Link Asset Services, as its external treasury management advisers. The Council recognises that the responsibility for treasury management decisions remains with the Council at all times and will ensure that undue reliance is not placed upon our external service providers. The Council also recognises that there is value in employing external providers of treasury management services in order to acquire access to specialist skills and resources. The Council will ensure that the terms of their appointment and the methods by which their value will be assessed are properly agreed and documented and subjected to review.

Scheme of Delegation

Full Council

- Approval of Treasury Strategy.
- Receiving and reviewing reports on treasury management policies, practices and activities including the Annual Treasury Report and Mid-Year Strategy Report.
- Budget consideration and approval

Cabinet

- Receiving & reviewing Treasury Strategy, Mid-Year Strategy Report, Annual Treasury Report and Quarterly Treasury Management Update Reports

Audit Committee

- Reviewing the treasury management policy and procedures and making recommendations to the responsible body.
- Receiving & reviewing Treasury Strategy, Mid Year Report, Annual Treasury Report.

Role of the Section 151 Officer

The role of the S151 Officer in relation to treasury management is as follows:-

- Recommending clauses, treasury management policy/practices for approval, reviewing the same regularly and monitoring compliance.
- Approval of segregation of responsibilities.
- Approval of the Treasury Policy Statement and Treasury Management Practices.
- Submitting regular treasury management policy reports.
- Submitting budgets and budget variations.
- Receiving and reviewing management information reports.
- Reviewing the performance of the treasury management function.
- Ensuring the adequacy of treasury management resources and skills and the effective division of responsibilities within the treasury management function.
- Ensuring the adequacy of internal audit and liaising with external audit.
- Recommending the appointment of external service providers.

The above list of specific responsibilities of the s151 Officer in the 2017 Treasury Management Code has not changed. However, implicit in the

changes in both Codes, is a major extension of the functions of this role, especially in respect of non-financial investments:-

- preparation of a capital strategy to include capital expenditure, capital financing, non-financial investments and treasury management, with a long term timeframe.
- ensuring that the capital strategy is prudent, sustainable, affordable and prudent in the long term and provides value for money
- ensuring that due diligence has been carried out on all treasury and non-financial investments and is in accordance with the risk appetite of the authority
- ensure that the authority has appropriate legal powers to undertake expenditure on non-financial assets and their financing
- ensuring the proportionality of all investments so that the authority does not undertake a level of investing which exposes the authority to an excessive level of risk compared to its financial resources
- ensuring that an adequate governance process is in place for the approval, monitoring and ongoing risk management of all non-financial investments and long term liabilities
- provision to members of a schedule of all non-treasury investments including material investments in subsidiaries, joint ventures, loans and financial guarantees
- ensuring that members are adequately informed and understand the risk exposures taken on by an authority
- ensuring that the authority has adequate expertise, either in house or externally provided, to carry out the above
- creation of Treasury Management Practices which specifically deal with how non treasury investments will be carried out and managed, to include the following: -
 - *Risk management (TMP1 and schedules), including investment and risk management criteria for any material non-treasury investment portfolios;*
 - *Performance measurement and management (TMP2 and schedules), including methodology and criteria for assessing the performance and success of non-treasury investments;*
 - *Decision making, governance and organisation (TMP5 and schedules), including a statement of the governance requirements for decision making in relation to non-treasury investments; and arrangements to ensure that appropriate professional due diligence is carried out to support decision making;*

- *Reporting and management information (TMP6 and schedules), including where and how often monitoring reports are taken;*
- *Training and qualifications (TMP10 and schedules), including how the relevant knowledge and skills in relation to non-treasury investments will be arranged.*

Pension Fund Cash

The Council complies with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 and does not pool pension fund cash with its own balances for investment purposes.

LOCAL GOVERNMENT INVESTMENTS (England)**SPECIFIED INVESTMENTS**

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Criteria	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government (e.g. DMO Account) or with local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although most LAs not credit rated.	No	In-house and by external fund manager	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band green	No	In-house and by external fund manager	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) up to 1 year. <i>Custodial arrangement required prior to purchase</i>	No	Yes	Yes – Minimum colour band green	No	In house buy and hold and External fund managers	1 year
Banks nationalised by high credit rated (sovereign rating) countries – non UK	No	Yes	Minimum Sovereign Rating AA-	No	In house and external fund managers	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
UK Nationalised & Part Nationalised banks	No	Yes	Yes – Minimum colour band green	No	In House and external managers	1 year
Government guarantee (explicit) on all deposits by high credit rated (sovereign rating) countries	No	Yes	Yes – Minimum Sovereign Rating AA- / UK Sovereign Rating	No	In house and external fund managers	1 year
Bonds issued by multilateral development banks (Euro Sterling Bonds as defined in SI 2004 No 534) Bond issuance issued by a financial institution which is explicitly guaranteed by the UK Government e.g. National Rail	No	Yes	AAA	No	In-House on a buy and hold basis after consultation/advice from Link also for use by External fund manager	1 year
<i>Custodial arrangement required prior to purchase</i>	No	Yes	UK sovereign rating	No		
Gilt Funds and Bond Funds (including Ultra-Short Dated Bond Funds)	No	Yes	AAA	No	In House and by external fund managers	1 year
Gilts : up to 1 year	No	Yes	Govt-backed UK Sovereign Rating	No	In House on a buy and hold basis and for trading by external fund manager subject to the guidelines and parameters agreed with them	1 year
<i>Custodial arrangement required prior to purchase</i>						

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Money Market Funds (CNAV), Enhanced Money Market Funds (LVNAV & VNAV) & Government Liquidity Funds (including CCLA Fund)	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	No	In-house and by external fund managers subject to the guidelines and parameters agreed with them	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements. Deposits are repayable at call.
Treasury bills [Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value] Custodial arrangement required prior to purchase	No	Yes	Govt-backed UK Sovereign Rating	No	In House or external fund managers subject to the guidelines and parameters agreed with them	1 year

Monitoring of credit ratings:

All credit ratings will be monitored continuously and formally updated on a monthly basis if required. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Council's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Council has identified that affects the Council's pre-set criteria will also be similarly dealt with.

LOCAL GOVERNMENT INVESTMENT (England)

NON-SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated (with the exception of the WME US dollar account).

<u>Investment</u>	<u>(A) Why use it?</u> <u>(B) Associated risks?</u>	<u>Share/</u> <u>Loan</u> <u>Capital?</u>	<u>Repayable/</u> <u>Redeemable</u> <u>within 12</u> <u>months?</u>	<u>Security /</u> <u>Minimum credit</u> <u>rating</u>	<u>Capital</u> <u>Expen-</u> <u>diture?</u>	<u>Circumstance of</u> <u>use</u>	<u>Max % of</u> <u>overall</u> <u>investments</u>	<u>Maximum</u> <u>maturity of</u> <u>investment</u>
Certificates of Deposit with credit rated deposit takers (banks and building societies) with maturities greater than 1 year <i>Custodial arrangement</i> <i>required prior to</i> <i>purchase</i>	(A) tradable more liquid than fixed term deposits (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of CD which could negatively impact on price of the CD. (ii) Although in theory tradable, are relatively illiquid.	No	Yes	UK Sovereign rating	No	In house on a buy and hold basis after consultation/advice from Link & external cash fund manager(s) subject to the guidelines and parameters agreed with them.	50%	<i>Suggested</i> <i>limit:</i> Average duration in the portfolio not to exceed 5 years
Collateralised deposit	Deposits are backed by collateral of AAA rated local authority	No	Yes	UK Sovereign rating	No	In house & External Manager	25%	5 years
UK government gilts with maturities in excess of 1 year <i>Custodial arrangement</i> <i>required prior to</i> <i>purchase</i>	(A)((i) Excellent credit quality. (ii)Very Liquid. (iii) If held to maturity, known yield (rate of return) per annum ~ aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) 'Market or interest rate risk' : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss.	No	Yes	UK Sovereign rating	NO	In house on a buy & hold basis following advice from Link and for trading by external cash fund manager subject to the guidelines and parameters agreed with them	50%	<i>Suggested</i> <i>limit:</i> Average duration in the portfolio not to exceed 5 years

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investment s	Maximum maturity of investment
Term deposits with UK government, other Local Authorities, and credit rated deposit takers (banks and building societies) including callable deposits with maturities greater than 1 year	(A)(i) Certainty of rate of return over period invested. (ii) No movement in capital value of deposit despite changes in interest rate environment. (B) (i) Illiquid : as a general rule, cannot be traded or repaid prior to maturity. (ii) Return will be lower if interest rates rise after making the investment. (iii) Credit risk : potential for greater deterioration in credit quality over longer period	No	No	Minimum colour band purple	NO	In-House For trading by external cash fund manager subject to the guidelines and parameters agreed with them	£40 million 50%	<i>Suggested limit:</i> 3 years
Sovereign bond issues ex UK Government Gilts: any maturity	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) “Market or interest rate risk” : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	No	Yes	AAA	No	For trading by external cash fund manager only subject to the guidelines and parameters agreed with them	50%	<i>Suggested limit:</i> 5 years
Bonds issued by multilateral development banks (Euro-Sterling Bonds) or issued by a financial institution guaranteed by UK government Custodial arrangement required prior to purchase	(A) (i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B) (i) “Market or interest rate risk” : Yield subject to movement during life of bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	AAA	No	In house on a buy and hold basis after consultation/advice from Link. Also for use by external fund managers	10% 50%	5 years

Investment	(A) Why use it? (B) Associated risks?	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum credit rating **	Capital Expen- diture?	Circumstance of use	Max % of overall investment s	Maximum maturity of investment
Corporate Bonds & Corporate Bond funds (the use of these investments would constitute capital expenditure although this is currently under review)	(A)(i) Excellent credit quality. (ii) Liquid. (iii) If held to maturity, known yield (rate of return) per annum – aids forward planning. (iv) If traded, potential for capital gain through appreciation in value (i.e. sold before maturity) (v) No currency risk (B)(i) "Market or interest rate risk" : Yield subject to movement during life of sovereign bond which could negatively impact on price of the bond i.e. potential for capital loss	Yes	Yes	Minimum Sovereign rating AA-	Yes	To be used by external fund managers only	50%	<i>Suggested limit:</i> 5 years
Jersey Property Unit Trust (JPUT)	Required to facilitate the acquisition of the Shrewsbury Shopping Centres via a Jersey based Property Unit Trust – required only subject to full Council approval of the acquisition method on 14 th December 2017.	No	No	No Minimum Credit rating – assets held within the fund to undergo annual valuation to determine value of Units within the Trust.	Yes	In House use following specialist technical and legal advice.	£60m	5 years
Pooled property funds including CCLA Local Authorities Property Fund	Enhanced return but increased risk, only to be used following advice from Link	No	Yes	No Minimum Credit rating need to assess underlying assets within fund following advice taken from Link	No	In House Use & External Fund managers following advice from Link	20%	5 years
Floating Rate notes	(A)(i) Rate of return tied to some measure of current interest rates, so when interest rates are expected to go up they offer protection to investors against such rises (ii) In some circumstances may have access to banks which meet minimum credit criteria but generally don't take small fixed term deposit cash amounts (B)(i) Credit quality : if financial health of issuer deteriorates, investors will demand a greater yield and the price of the bond will fall	Yes	Yes	Minimum Colour band green	No	In House Use & External Fund managers following advice from Link	10%	3 years
US Dollar Deposits (WME Only)	US dollar account to be utilised as a part of West Mercia Energy prudent management of income and expenditure, ensuring that ongoing US dollar commitments can be hedged, thus extinguishing any adverse risk of	No	Yes	Minimum Colour band green	No	West Mercia Energy Only	N/A	3 Months

	exposure to movements in the exchange rate and guaranteeing a known cashflow for West Mercia Energy. The account is only to be used for this purpose and not for the purpose of speculative or trading transactions.							
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The Council's Annual Minimum Revenue Provision Statement

Statutory Requirements

The Council is required by statute to set aside a minimum revenue provision (MRP) to repay external debt. The calculation of the minimum revenue provision (MRP) is as per the *Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414]*. In regulation 28, detailed rules were replaced with a simple duty for an authority to make an amount of MRP which it considers to be "prudent".

The broad aim of a prudent provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits, or, in the case of borrowing supported by Government Revenue Support Grant, reasonably commensurate with the period implicit in the determination of that grant. The guidance includes four options (and there are two alternatives under Option three) for the calculation of a prudent provision.

There is no requirement to charge MRP where the Capital Financing Requirement (CFR) is nil or negative at the end of the preceding financial years. There is also no requirement to charge MRP on the Housing Revenue Account share of the CFR.

The legislation recommends that before the start of each financial year the Council prepares a statement of its policy on making MRP in respect of that financial year and submits it to the Full Council for approval.

The Department for Levelling Up, Housing & Communities (DLUHC) launched a consultation at the end of November 2021 seeking views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year. The consultation closes on 8th February 2022 and Members will be updated on the implications for the Council's MRP policy once the changes are finalised.

Policy for Calculation of Prudent Provision

The options for the calculation of a Prudent Provision are detailed in appendix 3(a) to this report. Authorities must always have regard for the guidance and the decision on what is prudent is for the authority to conclude, taking into account detailed local circumstances, including specific project timetables and revenue-earning profiles.

Following a review of the MRP policy from 2018/19 the prudent provision for Supported Borrowing has been calculated based on the expected useful life of the asset on an annuity calculation basis.

Option 3a - Asset life method (Unsupported Borrowing) - equal instalment method will continue to be used for unsupported borrowing agreed prior to 2018/19 and specific treatment for PFI Assets and assets held under Finance Leases and long-term capital loans. For any approved unsupported borrowing from 2018/19 the prudent provision

will be calculated on an annuity basis linked to the expected useful life of the asset for consistency with the Supported Borrowing calculation, Option 3b.

Supported Borrowing

From 2016/17 the approach for calculating the MRP was on a straight line (equal instalments) calculation basis on the remaining asset life of the assets linked to the borrowing. An analysis of the average remaining asset life of the assets financed from previous supported borrowing, determined the average remaining life to be around 45 years and this was used as the basis of calculation.

From 2018/19 Council approved to adopt the annuity calculation method for supported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

CIPFA puts forward the following reasons for using the annuity method in CIPFA's "The Practitioner's Guide to Capital Finance in Local Government" (2008) which states:

- The annuity method provides a fairer charge than equal instalments as it takes account of the time value of money, whereby paying £100 in 10 year's time, is less of a burden than paying £100 now.
- The schedule of charges produced by the annuity method results in a consistent charge over an asset's life, taking into account the real value of the amounts when they fall due.
- The annuity method is a prudent basis for providing for assets that provide a steady flow of benefits over their useful life.

For 2018/19 and onwards the Council has adopted the annuity-based calculation on a 45-year basis.

Unsupported Borrowing - Asset Life Method

For new borrowing under the Prudential system for which no Government support is being given and is therefore self-financed (unsupported borrowing) the MRP has been calculated in accordance with Option 3 Asset Life Method. Option 3 is to make provision over the estimated life of the asset for which the borrowing is undertaken.

Freehold land cannot properly have a life attributed to it, so for the purposes of Option 3 it should be treated as equal to a maximum of 50 years. But if there is a structure on the land which the authority considers to have a life longer than 50 years, that same life estimate may be used for the land.

To the extent that expenditure is not on the creation of an asset and is of a type that is subject to estimated life periods that are referred to in the guidance, these periods will generally be adopted by the Council. However, the Council reserves the right to determine useful life periods and prudent MRP in exceptional circumstances where

the recommendations of the guidance would not be appropriate. For energy efficiency schemes the payback period of scheme is used as the basis for calculating the period over which MRP is calculated.

This method is a straightforward calculation of MRP for unsupported borrowing which calculates MRP based on asset life.

Provision for debt under Option 3 will normally commence in the financial year following the one in which the expenditure is incurred. But the guidance highlights an important exception to the rule. In the case of a new asset, MRP would not have to be charged until the asset came into service and would begin in the financial year following the one in which the asset became operational. This “MRP holiday” would be perhaps two or three years in the case of major projects, or possibly longer for some complex infrastructure schemes, and could make them more affordable.

Prior to 2018/19 the Council adopted the Option 3a Straight Line calculation for unsupported borrowing. From 2018/19 Council approved to adopt the Option 3b annuity calculation method for new unsupported borrowing whilst retaining the link to the average remaining useful life of the assets it was used to finance. The annuity calculation method results in lower MRP payments in the early years, but higher payments in later years. This method has the advantage of linking MRP to the flow of benefits from an asset where these are expected to increase in later years.

The authority can still make voluntary extra provision for MRP in any year.

Adjustment A

This is an accounting adjustment to the MRP calculation that ensures consistency with previous capital regulations. Once calculated, the amount remains constant within the MRP calculations.

Between 2016/17 and 2017/18 the adjustment A was not included in the MRP calculation but continues to be a legitimate part of the calculation under the 2003 Regulations (Regulation 28) and can therefore continue to be used to reduce the supported borrowing CFR for MRP purposes. It has been considered to be prudent to include the Adjustment A value from 2018/19 onwards to calculate the CFR value. For Shropshire the fixed Adjustment A calculation is £4,446,483.75

PFI Assets and Assets Held Under Finance Leases

For assets under on-balance sheet PFI contracts and finance leases, the annual principal payment amount in the PFI or finance lease model is used as the MRP payment amount, with no additional charges above those within the contract.

Long Term Capital Loans

The Council has made available a small number of capital loans to Housing Associations and Village Halls, financed from the Councils balances. The annual repayments of principal amounts are treated as capital receipts and set aside in the Capital Adjustment Account in place of a revenue MRP charge.

Housing Revenue Account MRP

As at 31/03/22 the HRA CFR is £95.13m, this includes the £83.35m transferred to the Council as part of housing self-financing. In managing the HRA debt and considering the HRA business plan there is no mandatory requirement to make provision in the HRA for annual MRP payments. However, the Council will make annual voluntary provision for debt repayment in the HRA based on affordable levels in the HRA against the need for investment and delivering services in the HRA. The annual level of provision will be determined annually as part of the closure of the HRA.

2022/23 Annual MRP Statement

Appendix 3(b) provides the MRP statement for the 2022/23 financial year.

Capital Receipts Set Aside

The current regulations, Local Authority (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 [SI 2008/414] state that the minimum revenue provision is calculated using the previous year's closing Capital Financing Requirement for supported borrowing.

In 2009/10 Shropshire Council got DCLG approval to allow the new council to voluntarily set aside capital receipts as at 1st April 2009 to reduce the CFR and consequently reduce the MRP charge for 2009/10. This approach was discussed with our Treasury Advisors and External Auditors and was approved by Members in a report to Council in December 2009.

As the extent of new borrowing is not subject to any limitation the sum of capital receipts set aside are still available to support capital expenditure in future years. This will increase the CFR to its previous level and the MRP charge in future years will increase, but not beyond the level had the saving not been generated in 2009/10. Thus, the saving in MRP is therefore temporary, albeit very helpful to the short-term financial position.

As the full level of capital receipts set aside were not required to finance capital expenditure between 2009/10 and 2020/21, a balance was retained as set aside as at the end of each financial year to enable a further MRP saving in the following financial years. In the 2022/23 MRP Statement it has been assumed all the capital receipts retained as set aside as at 31 March 2022 to reduce the CFR will be offset by an increase in the CFR in 2022/23 from capital expenditure incurred in 2022/23. In the event that the level of capital expenditure in 2022/23 to be financed from the capital receipts set aside is below the level of capital receipts set aside, it is proposed to retain the balance in capital receipts as set aside in order to achieve a further MRP saving in 2023/24. This will be reported for approval as part of the Capital Outturn report 2021/22.

Appendix 3(a): Options for Prudent Provision

Option 1: Regulatory Method (Supported borrowing)

MRP is equal to the amount determined in accordance with the former regulations 28 and 29 of the 2003 Regulations, as if they had not been revoked by the 2008 Regulations. For the purposes of that calculation, the Adjustment A should normally continue to have the value attributed to it by the authority in the financial year 2004-05. However, it would be reasonable for authorities to correct any perceived errors in Adjustment A, if the correction would be in their favour.

Option 2: CFR Method (Supported borrowing)

MRP is equal to 4% of the non-housing CFR at the end of the preceding financial year without any adjustment for Adjustment A, or certain other factors which were brought into account under the previous statutory MRP calculation.

Option 3: Asset Life Method (Unsupported borrowing)

Where capital expenditure on an asset is financed wholly or partly by borrowing or credit arrangements, MRP is to be determined by reference to the life of the asset. There are two main methods by which this can be achieved, as described below. Under both variations, authorities may in any year make additional voluntary revenue provision, in which case they may make an appropriate reduction in later years' levels of MRP.

(a) Equal Instalment Method

MRP is the amount given by the following formula:

$$\frac{A - B}{C}$$

Where:

A is the amount of the capital expenditure in respect of the asset financed by borrowing or credit arrangements

B is the total provision made before the current financial year in respect of that expenditure

C is the inclusive number of financial years from the current year to that in which the estimated life of the asset expires.

For the purpose of the above formula in the initial year of making the MRP the variable "C" should be given the maximum values set out in the following table:

Expenditure Type	Maximum value of "C" in initial year
Expenditure capitalised by virtue of a direction under s16(2)(b)	"C" equals 20 years
Regulation 25(1)(a) Expenditure on computer programs	"C" equals the value it would have for computer hardware
Regulation 25(1)(b) Loans and grants towards capital expenditure by third parties	"C" equals the estimated life of the assets in relation to which the third-party expenditure is incurred
Regulation 25(1)(c) Repayment of grants and loans for capital expenditure	"C" equals 25 years, or the period of the loan, if longer
Regulation 25(1)(d) Acquisition of share or loan capital	"C" equals 20 years
Regulation 25(1)(e)	"C" equals the estimated life of the assets

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Expenditure on works to assets not owned by the authority	
Regulation 25(1)(ea) Expenditure on assets for use by others	“C” equals the estimated life of the assets
Regulation 25(1)(f) Payment of levy on Large Scale Voluntary Transfers (LSVTs) of dwellings	“C” equals 25 years

(b) Annuity Method

MRP is the principal element for the year of the annuity required to repay over the asset life the amount of capital expenditure financed by borrowing or credit arrangements. The authority should use an appropriate interest rate to calculate the amount. Adjustments to the calculation to take account of repayment by other methods during the repayment period (e.g. by the application of capital receipts) should be made as necessary.

Option 4: Depreciation Method (Unsupported borrowing)

MRP is to be equal to the provision required in accordance with depreciation accounting in respect of the asset on which expenditure has been financed by borrowing or credit arrangements. This should include any amount for impairment chargeable to the Income and Expenditure Account.

For this purpose, standard depreciation accounting procedures should be followed, except in the following respects.

- (a) MRP should continue to be made annually until the cumulative amount of such provision is equal to the expenditure originally financed by borrowing or credit arrangements. Thereafter the authority may cease to make MRP.
- (b) On disposal of the asset, the charge should continue in accordance with the depreciation schedule as if the disposal had not taken place. But this does not affect the ability to apply capital receipts or other funding sources at any time to repay all or part of the outstanding debt.
- (c) Where the percentage of the expenditure on the asset financed by borrowing or credit arrangements is less than 100%, MRP should be equal to the same percentage of the provision required under depreciation accounting.

Appendix 3(b): Minimum Revenue Provision Statement 2022/23

	£
<u>Supported Borrowing - Asset Life (45 years)</u>	
General Fund	
Closing CFR 2020/21	187,053,958
Proposed use of capital receipts voluntarily set aside to be applied in 2021/22	22,036,427
Adjustment A	(4,446,484)
Less transfer of asset from GF to HRA	-
	<u>204,643,901</u>
Less LGR (98) Debt	(44,079)
	<u>204,599,822</u>
Less MRP 2021/22	(2,559,510)
Add Back LGR (98) Debt	44,079
	<u>202,084,391</u>
CFR for Supported Borrowing MRP Calculation	202,084,391
Add Back Adjustment A	4,446,484
	<u>206,530,875</u>
Closing CFR 31/03/22 - Supported Borrowing (GF)	206,530,875
Housing Revenue Account	
Closing CFR 2020/21	85,129,619
Add profiled prudential borrowing 2021/22	5,000,000
Add transfer of asset from GF to HRA	0
Less MRP 2021/22 (none budgeted as per HRA MRP policy)	0
	<u>90,129,619</u>
	<u>296,660,494</u>
Closing CFR 31/03/22 - Supported Borrowing (GF&HRA)	296,660,494
<u>Unsupported Supported Borrowing – Asset Life (based on individual assets)</u>	
Unsupported Borrowing brought forward	85,667,326
Add profiled prudential borrowing 2021/22	3,914,815
Less MRP – 2020/21	(2,388,008)
	<u>87,194,133</u>
Closing CFR 31/03/22 - Unsupported Supported Borrowing	87,194,133
	<u>383,854,627</u>
Closing CFR (GF&HRA) 31/03/22 - Borrowing Requirement	383,854,627
Additional items included:	
Village Hall Loans	271,872
Housing Association Loans	16,000,392
Cornovii Developments Ltd.	3,698,486
	<u>403,825,376</u>
<u>Summary MRP</u>	
MRP 2022/23 at on Annuity Basis at 45 year life from 2018/19	2,618,589
LGR (98) Debt MRP	7,551
Prudential Borrowing MRP	2,418,607
	<u>5,044,747</u>
Total MRP 2022/23	5,044,747

N.B. The above excludes the CFR and MRP charges in relation to the on-balance sheet PFI schemes and finance leases.

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Appendix 4

CIPFA Treasury Management & Prudential Code Revision Update

CIPFA published the revised codes on 20th December 2021 and has stated that formal adoption is not required until the 2023/24 financial year. This Council has to have regard to these codes of practice when it prepares the Treasury Management Strategy Statement and Annual Investment Strategy, and also related reports during the financial year, which are taken to Full Council for approval.

The revised codes will have the following implications:

- a requirement for the Council to adopt a new debt liability benchmark treasury indicator to support the financing risk management of the capital financing requirement;
- clarify what CIPFA expects a local authority to borrow for and what they do not view as appropriate. This will include the requirement to set a proportionate approach to commercial and service capital investment;
- address ESG issues within the Capital Strategy;
- require implementation of a policy to review commercial property, with a view to divest where appropriate;
- create new Investment Practices to manage risks associated with non-treasury investment (similar to the current Treasury Management Practices);
- ensure that any long term treasury investment is supported by a business model;
- a requirement to effectively manage liquidity and longer term cash flow requirements;
- amendment to TMP1 to address ESG policy within the treasury management risk framework;
- amendment to the knowledge and skills register for individuals involved in the treasury management function - to be proportionate to the size and complexity of the treasury management conducted by each council;

- a new requirement to clarify reporting requirements for service and commercial investment, (especially where supported by borrowing/leverage).

In addition, all investments and investment income must be attributed to one of the following three purposes: -

Treasury management

Arising from the organisation's cash flows or treasury risk management activity, this type of investment represents balances which are only held until the cash is required for use. Treasury investments may also arise from other treasury risk management activity which seeks to prudently manage the risks, costs or income relating to existing or forecast debt or treasury investments.

Service delivery

Investments held primarily and directly for the delivery of public services including housing, regeneration and local infrastructure. Returns on this category of investment which are funded by borrowing are permitted only in cases where the income is "either related to the financial viability of the project in question or otherwise incidental to the primary purpose".

Commercial return

Investments held primarily for financial return with no treasury management or direct service provision purpose. Risks on such investments should be proportionate to a council's financial capacity – i.e., that 'plausible losses' could be absorbed in budgets or reserves without unmanageable detriment to local services. An authority must not borrow to invest primarily for financial return.

As this Treasury Management Strategy Statement and Annual Investment Strategy deals solely with treasury management investments, the categories of service delivery and commercial investments will be dealt with as part of the Capital Strategy report. However, as investments in commercial property have implications for cash balances managed by the treasury team, it will be for each authority to determine whether they feel it is relevant to add a high level summary of the impact that commercial investments have, or may have, if it is planned to liquidate such investments within the three year time horizon of this report, (or a longer time horizon if that is felt appropriate).

Members will be updated on how all these changes will impact our current approach and any changes required will be formally adopted within the 2023/24 Treasury Management Strategy report.

Appendix 5

Economic Update

At its 16 December meeting, the Monetary Policy Committee (MPC) voted 8-1 to raise Bank Rate by 0.15% from 0.10% to 0.25% and unanimously decided to make no changes to its programme of quantitative easing purchases due to finish in December 2021 at a total of £895bn.

The MPC disappointed financial markets by not raising Bank Rate at its November meeting. Until Omicron burst on the scene, most forecasters, therefore, viewed a Bank Rate increase as being near certain at this December meeting due to the way that inflationary pressures have been comprehensively building in both producer and consumer prices, and in wage rates. However, at the November meeting, the MPC decided it wanted to have assurance that the labour market would get over the end of the furlough scheme on 30th September without unemployment increasing sharply; their decision was, therefore, to wait until statistics were available to show how the economy had fared at this time.

On 10 December we learnt of the disappointing 0.1% rise in GDP in October which suggested that economic growth had already slowed to a crawl even before the Omicron variant was discovered in late November. Early evidence suggests growth in November might have been marginally better. Nonetheless, at such low rates of growth, the government's "Plan B" COVID-19 restrictions could cause the economy to contract in December.

On 14 December, the labour market statistics for the three months to October and the single month of October were released. The fallout after the furlough scheme ended on 30 September, (about one million people were still on furlough), was smaller and shorter than the Bank of England had feared: unemployment did not increase hugely in October. Indeed, vacancies rose to a record 1.219m in the three months to November showing there were acute shortages of labour.

These figures by themselves, would probably have been enough to give the MPC the assurance that it could press ahead to raise Bank Rate at this December meeting. However, the advent of Omicron in late November potentially threw a spanner into the works as it poses a major headwind to the economy which, of itself, will help to cool the economy. The financial markets, therefore, swung round to expecting no change in Bank Rate.

For the second month in a row, the MPC blind-sided financial markets, this time with a surprise increase in Bank Rate from 0.10% to 0.25%. What's more, the hawkish tone of comments indicated that the MPC is now concerned that inflationary pressures are indeed building and need concerted action by the MPC to counter. This indicates that there will be more increases to come with financial

markets predicting 1% by the end of 2022. The 8-1 vote to raise the rate shows that there is firm agreement that inflation now poses a threat, especially after the CPI figure hit a 10-year high. The MPC commented that "there has been significant upside news" and that "there were some signs of greater persistence in domestic costs and price pressures".

On the other hand, it did also comment that "the Omicron variant is likely to weigh on near-term activity". But it stressed that at the November meeting it had said it would raise rates if the economy evolved as it expected and that now "these conditions had been met". It also appeared more worried about the possible boost to inflation from Omicron itself. It said that "the current position of the global and UK economies was materially different compared with prior to the onset of the pandemic, including elevated levels of consumer price inflation". It also noted the possibility that renewed social distancing would boost demand for goods again, (as demand for services would fall), meaning "global price pressures might persist for longer".

As for the timing of the next increase in Bank Rate, the MPC dropped the comment from November's statement that Bank Rate would be raised "in the coming months". That may suggest another rise is unlikely at the next meeting in February and that May is more likely. However, much could depend on how adversely, or not, the economy is affected by Omicron in the run up to the next meeting on 3 February. Once 0.50% is reached, the Bank would act to start shrinking its stock of QE, (gilts purchased by the Bank would not be replaced when they mature).

The MPC's forward guidance on its intended monetary policy on raising Bank Rate versus selling (quantitative easing) holdings of bonds is as follows: -

1. Placing the focus on raising Bank Rate as "the active instrument in most circumstances".
2. Raising Bank Rate to 0.50% before starting on reducing its holdings.
3. Once Bank Rate is at 0.50% it would stop reinvesting maturing gilts.
4. Once Bank Rate had risen to at least 1%, it would start selling its holdings.

COVID-19 vaccines have been the game changer which had enormously boosted confidence that life in the UK could largely return to normal during the second half of 2021 after a third wave of the virus threatened to overwhelm hospitals in the spring. The

bursting onto the scene of the Omicron mutation at the end of November had threatened to cancel the Christmas holidays, but the Government decided not to impose more severe restrictions in the hope that this mild, but highly contagious variant, would not overwhelm hospitals. The big question is whether further mutations of the virus could develop which render current vaccines ineffective, as opposed to how quickly vaccines can be modified to deal with them and enhanced testing programmes be implemented to contain their spread.

In the US, during the first part of the year, US President Biden's, and the Democratic party's, determination to push through a \$1.9trn (equivalent to 8.8% of GDP) fiscal boost for the US economy as a recovery package from the Covid pandemic was what unsettled financial markets. However, this was in addition to the \$900bn support package already passed in December 2020. Financial markets were alarmed that all this stimulus was happening at a time when: -

1. A fast vaccination programme has enabled a rapid opening up of the economy.
2. The economy has been growing strongly during 2021.
3. It started from a position of little spare capacity due to less severe lockdown measures than in many other countries.
4. And the Fed was still providing stimulus through monthly QE purchases.

It was not much of a surprise that a combination of these factors would eventually cause an excess of demand in the economy which generated strong inflationary pressures. This has eventually been recognised by the Fed at its recent December meeting with an aggressive response to damp inflation down during 2022 and 2023.

At its 3 November meeting, the Fed decided to make a start on tapering its \$120bn per month of QE purchases so that they ended next June. However, at its 15 December meeting it doubled the pace of tapering so that they will end all purchases in February. These purchases are currently acting as downward pressure on treasury yields and so it would be expected that Treasury yields will rise over the taper period, all other things being equal. It also forecast that it expected there would be three rate rises in 2022 of 0.25% from near zero currently, followed by three in 2023 and two in 2024, taking rates back above 2% to a neutral level for monetary policy.

In the Eurozone, the European Central Bank (ECB) joined with the Fed by also announcing on 16 December that it will be reducing its QE purchases - by half from October 2022, i.e., it will still be providing significant stimulus via QE purchases during the first half of 2022. Although headline inflation reached 4.9% in November, over half of that was due to energy but oil and gas prices are expected to fall sharply after the winter. As overall inflation will fall back sharply

during 2022, it is likely that the ECB will leave its central rate below zero, currently -0.50%, over the next two years. The main struggle that the ECB has had in recent years is that inflation has been doggedly anaemic in sticking below its target rate of 2% despite all the ECB's major programmes of monetary easing by cutting rates into negative territory and providing QE support.

In China, the pace of economic growth has now fallen back after the initial surge of recovery from the pandemic and China has been struggling to contain the spread of the Delta variant through using sharp local lockdowns - which depress economic growth. However, with Omicron having now spread to China and being much more easily transmissible, this strategy of sharp local lockdowns to stop the virus may not prove so successful in future; this strategy poses a potential renewed threat to world supply chains. The People's Bank of China made a start in December 2021 on cutting its key interest rate to encourage flagging economic growth.

A summary overview of the future path of Bank Rate

- In December 2021, the Bank of England became the first major western central bank to put interest rates up in this upswing in the current business cycle in western economies as recovery progresses from the Covid recession of 2020.
- The next increase in Bank Rate could be in February or May, dependent on how severe an impact there is from Omicron.
- If there are lockdowns in January, this could pose a barrier for the MPC to putting Bank Rate up again as early as 3rd February.
- With inflation expected to peak between 5 and 6% in April, the MPC may want to be seen to be active in taking action to counter inflation on 5th May, the release date for its Quarterly Monetary Policy Report.
- However, rising gas and electricity prices last October and next April and increases in other prices caused by supply shortages and increases in taxation next April, are already going to deflate consumer spending power without the MPC having to take any action on Bank Rate to cool inflationary pressures.
- On the other hand, consumers are sitting on around £160bn of excess savings left over from the pandemic so when will they spend this sum, in part or in total?
- The December 2021 MPC meeting was more concerned with combating inflation over the medium term than supporting economic growth in the short term.
- Bank Rate increases beyond May are difficult to forecast as inflation is likely to drop sharply in the second half of 2022.

- However, the MPC will want to normalise Bank Rate over the next three years so that it has its main monetary policy tool ready to use in time for the next downturn; all rates under 2% are providing stimulus to economic growth.
- We have put year end 0.25% increases into Q1 of each financial year from 2023 to recognise this upward bias in Bank Rate - but the actual timing in each year is difficult to predict.
- Covid mutations remain a major potential downside threat in all three years as we are likely to get further mutations. How quickly can science come up with a mutation proof vaccine, or other treatment, – and for them to be widely administered around the world?

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Committee and Date

Audit Committee – 22nd
February 2022

Item

Public

STRATEGIC RISK REPORT FEBRUARY 2022

**Responsible
Officer**

Angela Beechey

e-mail: Angela.beechey@shropshire.gov.uk
Tel: 01743 252073

1. Synopsis

Audit Committee regularly review the Council's underlying risk exposure by considering the Council's Strategic Risks. This report sets out the current strategic risk exposure following the December 2021 quarterly review.

2. Executive Summary

The management of the strategic risks 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. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

4.1. The authority has an Opportunity Risk Management Strategy which details the methodology to be followed when identifying and monitoring risks which affect the Council.

4.2. The risks identified can either be operational, project or strategic risks. This report refers to the strategic risks, ie those risks which affect the council as a whole, not just a particular service area.

5. Financial Implications

- 5.1. If the strategic risks are not well managed then there could be severe financial implications for the council.
- 5.2. There are three strategic risks which are financial based, but all the strategic risks will have a financial implication for the whole authority to some degree.

6. Climate Change Appraisal

- 6.1. The importance of Climate Change is recognised within the council and as such it is listed as a strategic risk with a score of Likelihood 4, Impact 4 making it a high scoring risk.

7. Background

- 7.1. Our strategic risks are reviewed on a quarterly basis ensuring that the level of risk exposure is monitored regularly in our rapidly changing environment.
- 7.2. The review on this occasion was achieved through virtual meetings with the nominated strategic risk leads followed by virtual meetings with the Executive Directors responsible for the strategic risks. As a result of the continuing work pressures due to Covid-19 not all the Executive Directors were able to meet on this occasion.
- 7.3. The Strategic Risks are held within a SharePoint site where access is available for everyone who has an additional control and access is available to the Executive Directors. The risks are therefore able to be updated in real-time.
- 7.4. As at the December 2021 review there were 16 strategic risks on the risk register and these are each managed by specific Executive Directors. These are detailed below together with the direction of travel following the review:

STRATEGIC RISK LIST - December 2021 REVIEW					
Risk	Risk Owner	L	I	Status	Travel
Ability to fund Adult Services.	Tanya Miles	5	5	25	=
Ability to fund Children's Services.	Tanya Miles	5	5	25	=
Cyber Attack	James Walton	5	5	25	New
Failure to safeguard vulnerable children.	Tanya Miles	5	4	20	=
The response to and the recovery from Covid 19 on the authority and the continuation of service delivery	Andy Begley	4	4	16	=
Economic Impact of Brexit	Mark Barrow	4	4	16	Archive
The effects of climate change.	Mark Barrow	4	4	16	=
Failure to deliver the Commercial Strategy within agreed timescales and to levels approved by Council within the Financial Strategy prevents the Council from meeting savings targets and corporate outcomes.	Mark Barrow	4	4	16	=
Inability to deliver a Balanced Budget	James Walton	5	3	15	=
Failure to manage and mitigate the mental health & wellbeing of Staff	James Walton	5	3	15	=
Failure to safeguard vulnerable adults	Tanya Miles	5	3	15	=
ICT infrastructure reliance	James Walton	3	5	15	New
Failure to deliver the Economic Growth Strategy prevents the Council from meeting the corporate outcomes.	Mark Barrow	3	4	12	=
Governance	James Walton	4	3	12	=
Loss of reputation and public confidence in the Council by failing to meet public expectations and identified need.	James Walton	2	4	8	=
Failure to clearly articulate the strategic vision and strategy for the Council results in inability to deliver outcomes.	Andy Begley	2	4	8	=
Failure to adhere to legislation in relation to DOLs and implement the replacement scheme Liberty Protection Safeguards.	Tanya Miles	2	3	6	=

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

7.5.1. Cyber & ICT Infrastructure Reliance - James Walton

It has been agreed that this strategic risk represents two specific risks which, from a risk mitigation point of view, would attract two different scores and mitigating actions. In the circumstances therefore this risk has now been divided into two individual risks as follows:

- Cyber Attack – Likelihood 5, Impact 5 = High.

Exploitation of vulnerability or gained privilege by Cyber Criminals resulting in theft of data, deletion of data, damage to hardware, denial of access, ransomware or other disruption to some or all of the Council's ICT infrastructure or externally hosted/cloud systems, also possibly causing loss of income and damage to reputation. This

comes at a time of increased criminal activity and a widening attack surface due to multiple hosted/cloud systems and extended homeworking working.

- ICT Infrastructure Reliance – Likelihood 3, Impact 5 = High Failure to implement and maintain robust measures to prevent a failure of the Council’s ICT Infrastructure leads to an inability to perform business critical functions and provide statutory services. With the increase in homeworking following Covid and the continuance of this way of working the reliance on ICT infrastructure is greater than ever.

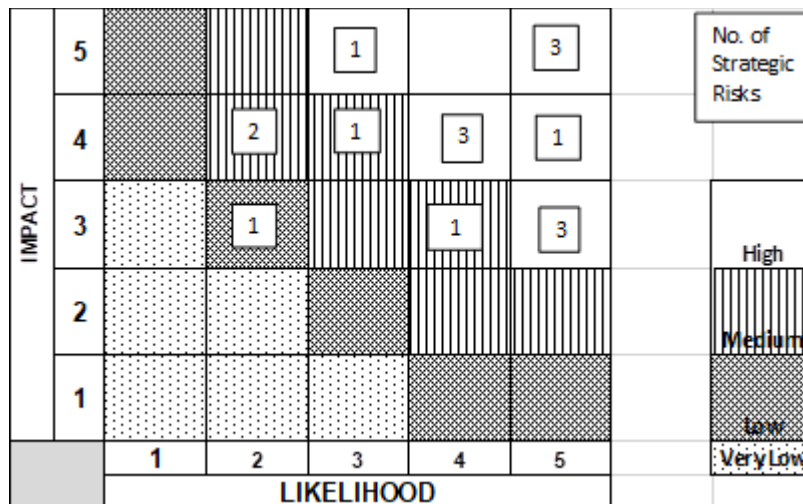
7.5.2 Economic Impact of Brexit – Risk Owner – Mark Barrow

It was proposed by Mark Barrow that this risk be archived. It was felt that the position is in a settled state, the labour status has been worked through and we know where there are some pressures and shortages. Whilst there are still some areas of concern these will be picked up under the Economic Growth Strategy.

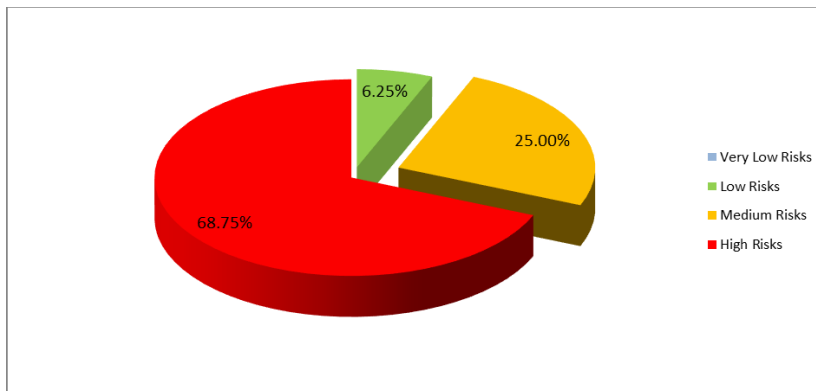
7.5.3 Strategic Vision and Strategy - Risk Owner – Andy Begley

This risk is to be reviewed fully at the annual Strategic Risk Workshop which is due to take place at the end of February 2022.

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



7.7. 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 under 94%, with only one of our risks below our tolerance level.



7.8. All of the assurances during this review have been updated. Where there are differences of opinion with the assurances these will be discussed and challenged in the strategic risk workshop with Executive Directors later this month.

8. Additional Information

- 8.1. The strategic risks elaborate in greater detail the risk, the current controls and the outstanding actions which are in place.
- 8.2. The Executive Team have undertaken to review each strategic risk one by one on a cyclical basis at their weekly meetings. A risk is considered and challenged at a high level to ensure it is still relevant and to monitor the controls proposed for mitigation. The score and target score are considered and future implications considered.

9. Conclusions

- 9.1. The report details the changes to the strategic risk profile following the review in December 2021.
- 9.2. 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 (Portfolio Holder)

Gwilym Butler, Portfolio Holder Resources

Local Member

N/A

Appendices

[Please list the titles of Appendices]



Committee and Date

Audit Committee
22 February 2022
10:00 am

Item

Public

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

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

1. Synopsis

Whilst the Council can never be free from fraud activities, it continues to be focused on acknowledging, preventing and pursuing fraud, bribery and corruption and Audit Committee members reaffirm the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.

2. Executive Summary

- 2.1. This report outlines the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council manages these risks with the aim of prevention, detection, investigation and subsequent reporting of fraud, bribery and corruption.
- 2.2. The Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed 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 continuing and important role the strategy plays in the corporate governance and internal control framework. This report also provides an update on the action plan to ensure continuous improvement in the fight against fraud, bribery and corruption providing an update to members in response to national and local issues.

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

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

6. Climate Change Appraisal

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

7. Background

- 7.1. The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy, Anti Money Laundering (AML) procedures and guidance, all supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.

- 7.2. The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in November 2021. In reviewing the Strategy, only minor adjustments have been made to reflect structure changes at the Council and the move to a more digital approach. All proposed changes are identified in the Strategy in bold italic, underlined font
- 7.3. The Strategy can be located on the Council's website alongside Speaking up about Wrongdoing policies for both staff and the public and Anti Money Laundering (AML) procedures and guidance. A review of these has identified minor changes which have been reflected in the Strategy and supporting policies, procedures and guidance.

8. Additional Information

Counter Fraud, Bribery and Anti-Corruption Strategy

- 8.1. Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. This aligns with CIPFA's Code of practice on managing the risks of fraud and corruption and recognises that the strategy will enable the Council to:
- Acknowledge and understand fraud risks;
 - Prevent and detect more fraud; and
 - Pursue and punish fraud and recover losses.
- 8.2. The Strategy reflects best practice from the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (the National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).
- 8.3. It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).
- 8.4. The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the Council's focus clearly on outcomes (e.g. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).

- 8.5. The strategy continues to emphasise the Council's remit to reduce losses to fraud, bribery and corruption to an absolute minimum. It:
- Demonstrates links between 'policy' work and 'operational' work. Has robust arrangements and executive support to ensure counter-fraud, bribery and corruption measures are embedded throughout the Council.
 - Shows agreement by both the political and executive authority for the Council's approach.
 - Acknowledges fraud and identifies accurately the risk.
 - Creates and maintains a strong structure to pursue its remit including:
 - Having the necessary governance, authority and support;
 - Providing for specialist training and accreditation;
 - Completing appropriate propriety checks;
 - Developing effective relationships with other organisations.
 - Enables actions to tackle the problem by:
 - Integrating different actions;
 - Building a strong counter fraud and anti-corruption culture;
 - Having clear actions to deter any problem;
 - Acting to prevent fraud and corruption;
 - Early detection of any issues;
 - Investigating appropriately in accordance with clear guidance;
 - Having clear and consistent sanctions where fraud or corruption is proven;
 - Having clear policies on redressing losses.
 - Focuses on outcomes and not merely activity.

National Picture

CIFAS Fraudscape 2021

- 8.6. CIFAS is a fraud prevention service in the United Kingdom. It is a not-for-profit membership association representing organisations from across the public, private and voluntary sectors. In their 2021 fraudscape document, they report 309,849 cases of fraudulent conduct reported to the National Fraud Database (NFD), one case every two minutes. High risk areas of fraud include:
- Identity fraud and misuse of facility accounted for 82% of cases in 2020.
 - A large proportion of identity fraud victims were between 31 and 40 years and 51 plus. Social media continued to be used to harvest personal and financial information for example with online quizzes designed to collect detailed personal information.
 - Covid 19 related cases were reported such as applying and paying for false vaccinations and tests, applications for stimulus packages and grant refunds, the abuse of bank accounts

indicating behaviours of money muling¹ with business accounts used to launder funds. 2020 saw a 23% increase in companies being impersonated, partly due to the stimulus packages offered to support businesses through the pandemic.

- Facility takeover grew significantly enabled by social engineering techniques such as phishing² and smishing³, harvesting information to take over accounts, campaigns impersonated delivery services such as DPD parcel delivery, Royal Mail and public bodies such as HMRC to socially engineer individuals to reveal personal and financial information.
- Despite lower levels of recruitment, there were notable filings of dishonest actions and disclosing personal information to third parties. Movement to remote working for employees in some cases has increased the potential for individuals to harvest data for fraudsters and increased the potential for false references.

8.7. The CIFAS report summarised by stating that much of the impact of COVID-19 on fraud is still to be seen.

- Perpetrators are highly likely to exploit a range of vulnerabilities and uncertainties, including employment scams, travel scams and investment fraud, as well as the stimulus packages on offer.
- The impersonation of companies throughout the pandemic means it is highly likely companies will be increasingly targeted if further provision is offered to business to support the economy.
- Identity fraud remains a priority for all sectors, due to the rise of synthetic identities and readily available access to false documentation.
- The rise in cybercrime as a service, such as phishing kits, fraud tool kits and hacking services, is an extremely high threat to all sectors.
- Social media continues to be a key enabler for recruiting mules with more than two thirds of the UK population using a social media platform.
- The pandemic has changed how mules "cash out". Cashing out via cryptocurrency assets and wallets has become attractive to criminal networks due to the anonymity this provides.
- Facility takeover has seen a significant rise during the pandemic. It is highly likely that digital channels will continue to

¹ A money mule, sometimes called a "smurfer," is a person who transfers money acquired illegally in person, through a courier service, or electronically, on behalf of others. Typically, the mule is paid for services with a small part of the money transferred.

² Phishing is a type of social engineering where an attacker sends a fraudulent message designed to trick a human victim into revealing sensitive information to the attacker or to deploy malicious software on the victim's infrastructure like ransomware.

³ Smishing is the fraudulent practice of sending text messages purporting to be from reputable companies to induce individuals to reveal personal information, such as passwords or credit card numbers.

be favoured but as organisations bolster their defences, threat actors may look to exploit vulnerabilities via telephony channels.

- Remote working remains a threat and so it is essential that organisations review their working from home policies and audit the data and information that staff have access to.

8.8. The full report is available at:
<https://www.fraudscape.co.uk/#welcome>

8.9. AON, the Council's insurance brokers reported on the top ten risks in November of this year fraud elements of which include cyber criminals capitalising on remote working showing an increase in ransomware attacks and business interruption.

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

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

8.11. The Audit Committee approved an Action Plan to ensure that the Council continues to protect its assets and further improve its resilience to fraud and corruption. The following has been and continues to be delivered:

Action Plan

Action	Implementation Date and Update
To proactively use the results of previous fraud risk assessments and publicly available information from recognised organisations to direct counter fraud resources in the annual Internal Audit Plan.	Completed and ongoing.
To refresh the Council's suite of anti-fraud policies, strategies and procedures and to ensure that they continue to be relevant to national guidance.	Annually in November. Completed and ongoing.
To remind all staff and members of their role in sustaining a strong counter fraud, bribery and anti-	Annually in November.

Action	Implementation Date and Update
corruption culture and the appropriate reporting channels where any fraud is suspected.	Completed through directorates and management meetings.
To undertake an annual Fraud Risk Assessment covering the Council's main areas of exposure to fraud and to use the results to influence the Council's approach moving forward.	Annually in October. Completed and ongoing.
To update the Council's e-learning module on Fraud Awareness and to promote its uptake by all employees.	Completed and ongoing.
To be an active participant in the National Fraud Initiative (NFI) and to investigate robustly suspected cases of fraud identified through NFI and report outcomes to Audit Committee.	Biannually in November. Completed and ongoing.
To refresh the Fraud Awareness pages on the web site and to engage with managers through targeted communications to emphasise their obligations to operate effective systems of internal control which are designed to reduce the risk to the Council of fraud, error or inadvertent loss.	Completed and ongoing annually in November.
Refresh of the Council's Money Laundering Policy, communication of and training on.	Completed and ongoing.

CIPFA Fraud and Corruption Tracker (CFaCT) annual survey

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

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

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

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

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

8.14. The survey has not operated for 2020/21 but we can now report on the outcomes contained in the national report produced in early 2021 based on the previous year's inputs from August 2020. This report⁴ recognises that it does not capture the impact of the ongoing coronavirus pandemic but provides an insight about the fraudulent activities that occur across the local government landscape in the period prior to the national response effort, highlighting the importance of counter fraud protocols in fighting fraud and corruption.

8.15. The report highlights:

- the types of fraud identified in the 2019/20 CFaCT survey
- the monetary cost value of fraud in 2019/20
- the impact of counter fraud and prevention activities to improve the public sector budget
- the emerging risks and threats impacting the fraud and corruption landscape.

8.16. For local authorities in the UK, CIPFA has estimated that the total value of fraud identified and prevented in 2019/20 is approximately £239.4m, which is an average value of £5,090 per fraud case. In the previous year, there was an estimated value of £253m with a lower average of £3,600 per case detected and prevented.

8.17. 47,000 instances of fraud had been detected or prevented in 2019/20, which is lower than the approximation of 71,000 reported by CIPFA in 2018/19. Council tax fraud represented almost two thirds (65%) of these identified instances of fraud with an estimated value of £35.9m, followed by disabled parking concession (Blue Badge Scheme) and housing fraud which represent 17% and 11% of the total cases of UK public sector fraud, respectively. Grant fraud (prior to the COVID-19 grant disbursement), represented 0.3% of the total identified instances of UK public sector fraud and 15% of the total value (£36.6m). The largest growing fraud area is housing tenancy (other), with an estimated £60.1m lost in 2019/20 compared to £47.7m in 2018/19. This is followed by council tax single person discount (SPD) which has an estimated increase of £9.6m to an estimated value of £29.0m for cases detected/prevented in 2018/19.

8.18. Other notable frauds that did not emerge as major types of fraud within the national picture include:

⁴ <https://www.cipfa.org/services/cipfa-solutions/fraud-and-corruption/fraud-and-corruption-tracker>

- adult social care
- insurance
- procurement
- no recourse to public funds/ welfare assistance
- payroll, recruitment, expenses and pension
- economic and voluntary sector support and debt
- mandate fraud, manipulation of data and grant fraud.

8.19. The two highest perceived fraud risk areas for 2019/20 remain the same as previous years: procurement and council tax SPD. This shows these are the areas that require strict controls and support. The perceived third, fourth and fifth highest fraud risk areas are business rates, adult social care and council tax reduction (CTR) respectively.

8.20. Overall messages were that:

- The cumulative value of fraud prevented and detected by local authorities continues to decline supporting the need to stay vigilant and continue to raise awareness of fraud risks within the Council. These are assessed regularly at Shropshire and at least annually in all areas.
- A dedicated counter fraud team remains the preferred method of delivery amongst respondents. Counter fraud resources are spread across the Council in Shropshire.
- Organisations should maximise the opportunities to share data and intelligence where initiatives allow to reduce losses through fraud. This is actioned through the NFI activity, Action Fraud, NAFN⁵ and other bodies when beneficial.
- Whistleblowing allegations received remained constant with 2018/19 with access at 85% of authorities to a helpline. CIPFA recommend actively public campaigns across all levels of the Council to raise awareness of whistleblowing policies and access to supporting services. This is reported upon elsewhere in this report and annually in terms of delivery to the Summer Audit Committee.
- Cyber security threats increase proportionally to remote working and increased electronic service applications. Strong control measures are required here. Audit conduct reviews of cyber security controls and dedicated resources in IT manage these.
- Authorities should consider their strategies against the Fighting Fraud and Corruption Locally 2020 Strategy checklist. Shropshire Council has, details appear in this report.

International Fraud Awareness Week

8.21. Week beginning the 15th November saw International Fraud Awareness week. To support this Internal Audit staff adopted an email footer to highlight to others how fraud can impact on their service areas and result in the loss of public money. In addition,

⁵ National Anti-Fraud Network

initiatives and links to corresponding strategies and policies were highlighted through the internet, included on the staff newsletter, in reminders to complete the fraud awareness corporate trainings, how to report suspected fraud and other social media sites such as Yammer⁶.

CIPFA's Counter Fraud Assessment Tool

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

8.23. Whilst no organisation is fraud proof, Shropshire Council continues to take robust steps to improve its resilience and to meet the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance. Please see **Appendix B** for a more detailed breakdown. Where percentages fall below 100% the planned activities recorded within this report and particularly within the action plan in paragraph 8.11 of this report are designed to maintain and improve the fraud risk environment.

National Fraud Initiative (NFI)

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

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

The current exercise for 2020/21 will finish on the 31st March 2022 and an updated report from the NFI is expected in July 2022.

⁶ Yammer is a social network platform that fosters cross-institutional engagement. It combines features found in Twitter, Facebook, and other similar platforms

8.25. Results currently for Shropshire of the 2020/21 data matching exercise are shown in the table below. Please note there are a small number of investigations still outstanding across these reports which may impact further on the figures shown. In the event of additional savings being identified prior to the closure of this exercise, these will be advised to the Audit Committee in due course.

8.26. The July 2020 national report in respect of the 2018/19 data matching exercise is available online
https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/903221/NFI_report_2020.pdf

Area of Investigation	Outcome of Investigations 2020/21	2020/21 Saving Identified	2018/19 Saving Identified
Deceased Pensioner Matches	<p>This report identifies where an occupational pensioner has died but pension is still in payment.</p> <p>115 matches were identified, and all matches investigated. Two deceased pensioners were identified as receiving a pension into the deceased pensioner's bank account when the service had not been advised of the death. This resulted in overpayments of £2,032.52. £2,000.95 in respect of the overpayments is being recovered from the estates or next of kin. The balance of £31.57 in respect of the second overpayment is being reviewed to establish the Executor/Next of Kin details. In the absence of progress the amount will be written off due to low value.</p>	£2,032.52	<p>£19,408.64</p> <p>(11 incidents from 77 matches)</p>
Housing Benefit Claimants to Student Loans	<p>This report identifies individuals who are claiming benefits, but who's student loan eligibility results in them being ineligible for those benefits.</p> <p>21 matches were identified, and all matches investigated. One case was identified in respect of undeclared student loan and the amount is being recovered through reductions in weekly benefit payment.</p>	£2,275.39	£0.00
Blue Badges to Deceased Persons	<p>The report identified 555 matches and all matches were investigated.</p> <p>All cases had been notified prior to receipt of the NFI data matches.</p>	£0.00	£0.00

Area of Investigation	Outcome of Investigations 2020/21	2020/21 Saving Identified	2018/19 Saving Identified
Concessionary Bus Passes to Deceased Persons	<p>The reports identify concessionary travel pass holders who have been matched to deceased records.</p> <p>These reports identified 2,181 matches. All matches were investigated and identified a total of 1,664 errors where the Council had not been notified of the pass holders' death. All passes have since been cancelled. The Cabinet Office estimates a saving of £24.00 per pass hence the savings figure applied.</p>	£39,936	£23,808
Housing/ Council Tax Benefits/ Council Tax Reduction Scheme	<p>Dispensation has been obtained from the Cabinet Office that the team would only sample investigate a small number of matches due to existing controls in place in respect of real time reporting and processes for annual billing.</p> <p>No overpayments were identified on the matches reviewed, other than the student loan case which has been reported above.</p>	£0.00	£0.00
Creditor Reports	<p>Creditor reports on possible duplicate payments, invalid VAT registration numbers and duplicate supplier accounts were provided.</p> <p>Data is still being reviewed at the time of this report</p>	£0.00	£3,184.00
Housing Tenants to Deceased Persons	<p>These reports identified 33 matches. All were investigated and found to be due to either timing differences or mismatches.</p>	£0.00	£0.00

Area of Investigation	Outcome of Investigations 2020/21	2020/21 Saving Identified	2018/19 Saving Identified
Other reports	Other reports such as deceased parking permit holders, taxi drivers to in-country immigration, payroll to payroll and procurement were all investigated and where appropriate records have been updated accordingly. No savings have been identified from these reports.	£0.00	£0.00
Total Savings		£44,243.91	£46,400.64

Transparency requirements

8.27. Legislation on transparency applies to anti-fraud activities. The Local Government Transparency Code sets out the minimum data that local authorities should be publishing, the frequency with which it should be published and how it should be published. The Council has complied with these requirements, the results of which can be found on the web site⁷.

Update on Regulation of Investigatory Powers Policy and Guidance (RIPA) Activity

8.28. RIPA Policy and Guidance sets out the approach the Council will take with respect to the authorisation and use of surveillance activity to deliver the Council's statutory and public duties, whilst protecting individuals' right to privacy. The Council's existing Regulation of Investigatory Powers Policy, which was adopted in August 2015, is currently being updated to reflect both legislative and organisational changes. The updates will ensure that any surveillance activities undertaken by the Council are compatible with the human right to privacy by ensuring compliance with the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA), the European Convention on Human Rights (ECHR) and the Human Rights Act 1998 (HRA).

8.29. The Policy addresses the use of activities that involve:

- the surveillance of individuals;
- the use of undercover officers and informants, known as Covert Human Intelligence Sources (CHIS); and
- the obtaining of communications data.

8.30. All Council applications to acquire communications data are processed through the National Anti-Fraud Network who act as the Council's Single Point of Contact (SPoC). National Anti-Fraud Network (NAFN) engages with the applicant and the Office for Communications Data Authorisations (OCDA) to obtain authorisations on the Council's behalf. A senior manager at service manager level or above within the Council must be made aware of all applications before they are submitted to NAFN for processing.

8.31. The Audit Committee's governance role will be reinforced in the refreshed policy and guidance, full details of which will appear on the Council agenda in the new year.

Whistleblowing Policy

8.32. The Council has a whistleblowing policy for the public and one for its employees. Both policies have been reviewed and updated in

⁷ <https://shropshire.gov.uk/open-data/>

respect of key contacts and staff information. There have been no changes proposed to the process of 'blowing the whistle'. An annual reminder is circulated to all employees to raise awareness as to the availability of this policy.

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

Anti-Money Laundering (AML) Procedure

8.34. There are no revisions proposed to the Council's Anti-Money Laundering procedure and guidance, they continue to reflect The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017. Training is available on the Council's electronic training tool, Leap into Learning. The AML Officer and her deputies continue to stay aware of their requirements. In addition, Directors continue to spread awareness, identify any money laundering risks in their areas to be shared at least annually with the AML Officer and identify employees who need training.

Serious Organised Crime Checklist

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

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

- Awareness, Strategy, Guidance and Training
- Risk Management
- Communication and Information/ Intelligence Sharing
- Whistleblowing
- Assurance
- Operational controls for
- Licensing
- Planning/ Development management
- Social Housing

- Procurement
- Insider threat

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

Awareness and training

8.38. Fraud awareness training is available on the Council's eLearning tool, Leap into Learning and continues to result in positive feedback from recipients. Questions explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy. Audit Committee members have been provided access to the training to complete and experience it first-hand.

Qualified officers

8.39. Internal Audit has a qualified officer with the Advanced Professional Certificate in Investigative Practice and two officers who are accredited CIPFA Counter Fraud Technician. In total over a third of the Audit team have qualifications or considerable experience in conducting investigations.

Shropshire Council counter fraud risks and plans

8.40. In terms of potential for fraud, the counter fraud risk assessment has been refreshed and shared across all directorates. There is no change to the high-risk area of housing benefits and cybercrime. Grant risks have fallen out of this category reflecting the reduced value and quantity of business grants being managed.

High

- Housing benefits
- Cybercrime

Thirteen medium risk areas continue to be identified; the list of risks is:

Medium

- Payroll, fraudulent travel, expense, overtime and timesheets
- Pension continues after death
- Employee commits benefit fraud
- Inappropriate and incorrect contract awards
- False invoicing
- Debtors; claiming false exemptions, failing to raise a debt, suppressing recovery action
- Housing applications for financial assistance with repairs, homelessness and lettings

- Council tax discounts
- NDR reliefs
- Parking abuse including blue badge use/disabled parking
- Direct payments / personal budgets
- Property and taxi licenses
- School, diversion of resources.

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

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control may be at risk. A Housing Benefit audit in 2020/21 recorded a good level of assurance.
- The 2020/21 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, personal budgets, blue badge parking permits, direct payments are reported on within this report.
- To support the allocation of grants to businesses during the COVID pandemic, the beginning of the year showed continuing due diligence applied through the NFI database; companies house enquiries and by using Spotlight, a Government initiative to reduce losses from fraud and error. There are a few residual grant claims and the controls will continue with these.
- To reduce the risk of cybercrime and the impact it would have on all areas of the Council, we are completing an ongoing programme of IT Audit work of key infrastructure systems, including internet security, patch management, IT change management and legacy infrastructure and systems. We are also part of a multi-agency working group which is developing a draft Local Resilience Forum ICT and Cyber Response Framework to manage the tactical aspects of a multi-agency response to a cyber-attack.
- Internal Audit resources have been deployed to provide assurance and advice in respect of initiatives such as; data analytics for financial systems; recruitment processes; management of new grants; property access security systems; joint arrangements for children's services and internal control self-assessments.
- The current year audit plan includes several internal audit reviews that have been conducted, or are planned, to help ensure

appropriate controls are in place, and are operational, to counter the fraud risks identified from the risk assessment:

- IT reviews, as detailed earlier in this section
- Payroll including holiday pay
- Counter fraud work, NFI participation, review of policies and delivery of training and awareness campaigns
- Debt recovery
- Income collection
- Purchase ledger
- Sales ledger
- Grant reviews across all Council services
- General ledger
- Contracts and tendering including financial evaluations, IT contracts, dog wardens and highways
- Council tax collection
- Business rates (NDR)
- Parking cash collection
- Housing strategy and provision
- Adoption allowances, appointeeships, placement and care assessments

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, the strategic plan to reduce fraud
Fighting Fraud Locally: The Local Government Fraud Strategy 2020

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

Regulation of Investigatory Powers Policy 1 October 2015

CIPFA Fraud and Corruption Tracker (CFaCT) survey report 2020

National Fraud Initiative (NFI) Report 2020

Home Office Serious and Organised Crime report and checklist 2017

Cifas Fraudscape 2020 Full Digital Report

Cabinet Member (Portfolio Holder) Lezley Picton, Leader of the Council and Brian Williams, Chairman of Audit Committee

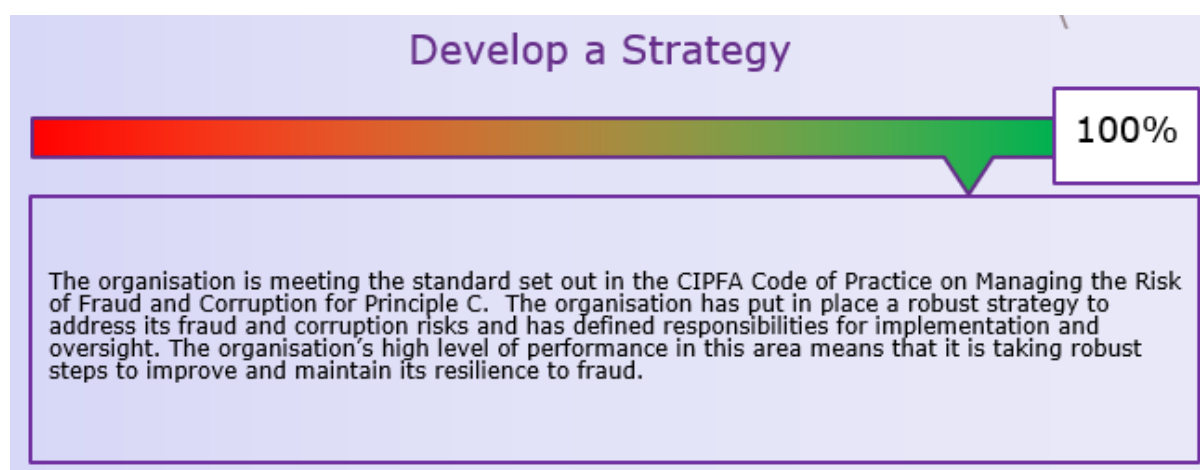
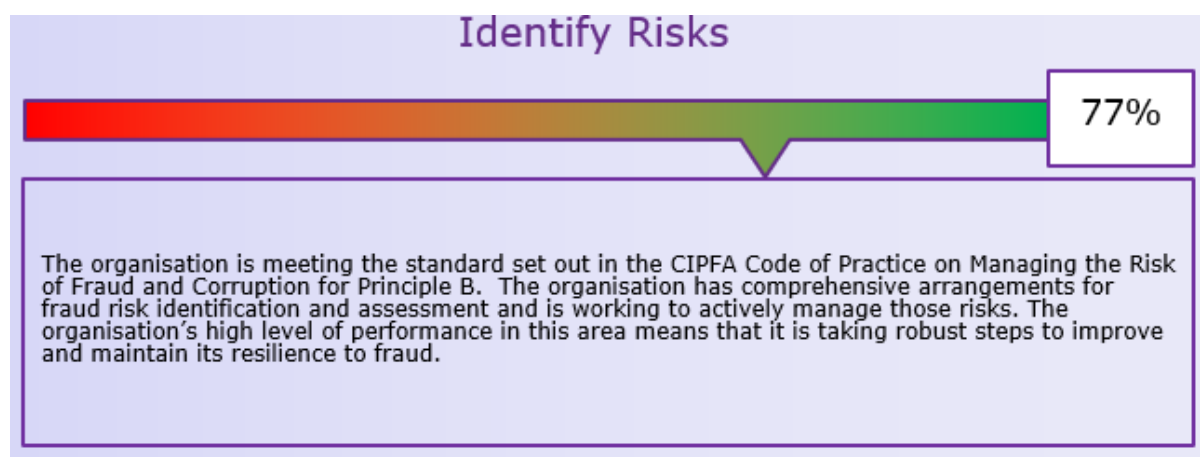
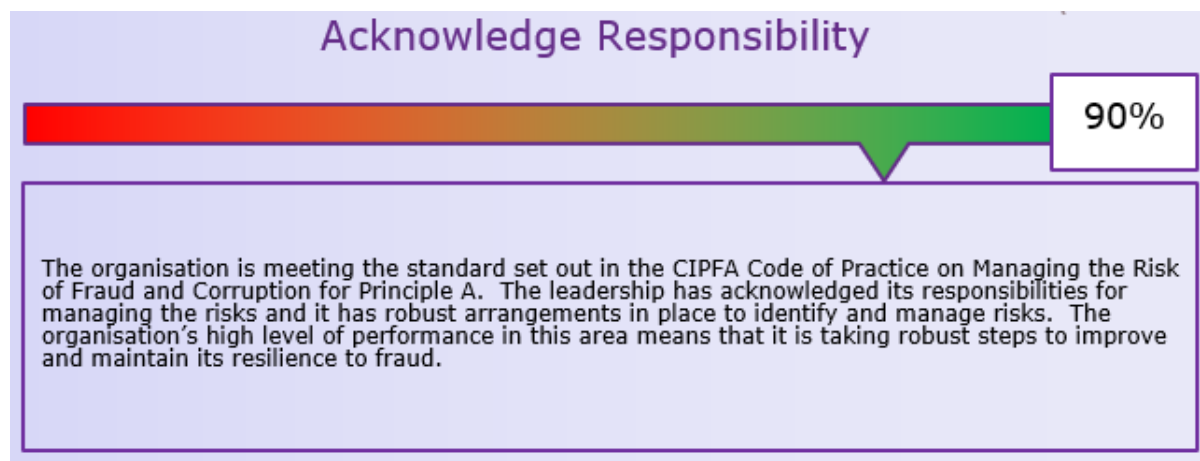
Local Member N/A

Appendices:

Appendix A: Counter Fraud Bribery and Anti-Corruption Strategy

Appendix B: Counter Fraud Assessment Tool – reviewed Oct 2021

APPENDIX B Counter fraud assessment tool: CIPFA's code of practice on managing the risk of fraud and corruption



Provide Resources

85%

The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption for Principle D. The organisation has put in place a robust process for reviewing its capacity and capability which aligns to its counter fraud strategy. The organisation's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.

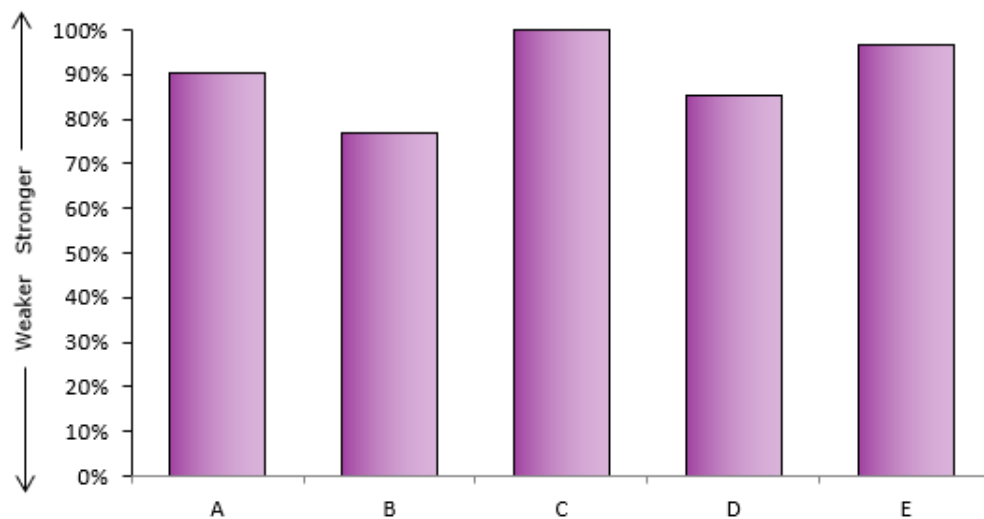
Take Action

97%

The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption for Principle E. It is actively implementing the actions identified in its counter fraud strategy and responding effectively to the risks emerging. It reviews its performance and has arrangements in place to provide assurance and accountability. The organisation's high level of performance in this area means that it is taking robust steps to improve and maintain its resilience to fraud.

Summary Page

91%



The organisation is meeting the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. The leadership has acknowledged its responsibilities for managing the risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements in place to carry it out. The organisation is proactive in managing fraud and corruption risks and responds effectively. Stakeholders can be confident in the approach taken by the organisation and meeting the standards of the counter fraud code contributes to good governance. Whilst no organisation is 'fraud proof', the organisation has taken robust steps to ensure its resilience. This high level of performance should be acknowledged

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Counter Fraud, Bribery and Anti-Corruption Strategy

POLICY STATEMENT AND STRATEGY

Document Details:

Owner/Lead Officer: **Executive** Director of **Resources (Section 151 Officer)** ~~Finance, Governance and Assurance~~

Date: November 2021

Review Arrangements: Next Review Date - November 2022

Counter Fraud, Bribery and Anti-Corruption Policy Statement

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

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

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

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

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

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

This Policy Statement is underpinned by a Counter Fraud, Bribery and Anti-Corruption Strategy. The Strategy sets out what actions the Council proposes to take over the medium-term future to continue to develop its resilience to fraud

and corruption. It sets out the key responsibilities to fraud prevention, what to do if fraud is suspected and the action that will be taken by management.

Counter Fraud, Bribery and Anti-Corruption Strategy

1. Introduction

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

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

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

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

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

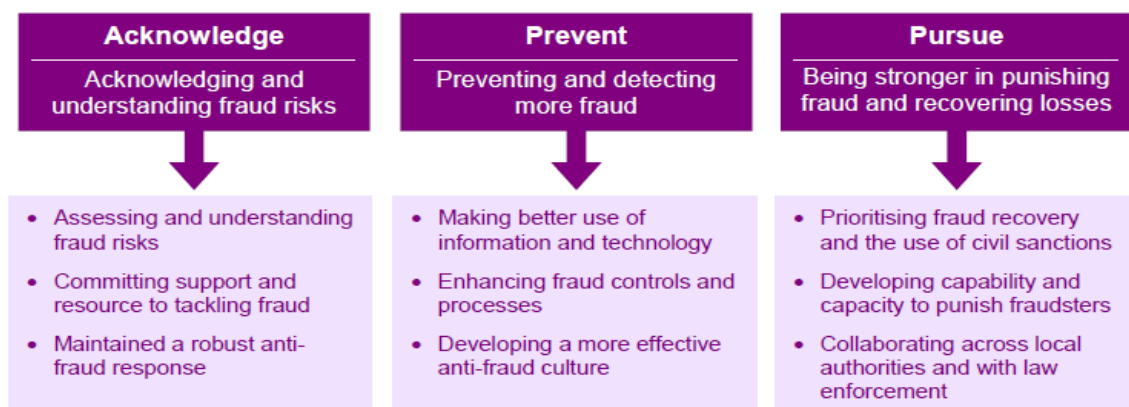
The five key elements of the CIPFA Code are to:

Acknowledge the responsibility of the governing body – in the Council's case elected members and the senior managers – for countering fraud, bribery and corruption

ACKNOWLEDGE

Identify the fraud, bribery and corruption risks	PREVENT
Develop an appropriate counter-fraud, bribery and anti-corruption strategy	
Provide resources to implement the strategy	
Act in response to fraud, bribery and corruption	PURSUE

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



2. Definitions

What is Fraud?

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

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

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

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

What is Bribery?

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

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

Shropshire Council is classed as a “commercial organisation” under the Act. There is also a corporate offence under the Act for a failure by a commercial organisation to prevent bribery that is intended to obtain or retain business, or an advantage in the conduct of business, for the organisation.

What is Corruption?

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

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

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

What is Theft?

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

3. Scope

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

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

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

4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

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

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

Managing the Risk of Fraud and Corruption

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

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

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

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

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

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

6. Fighting Fraud Locally: Govern, Acknowledge, Prevent, Pursue and Protect

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

Govern	Executive Support over Controls and Processes	We will have robust arrangements and executive support to ensure counter fraud, bribery and anti-corruption measures are embedded throughout the Council.
ACKNOWLEDGE	Committing Support	The Council's commitment to tackling fraud threat is clear. We have strong whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. Staff awareness of fraud risks is maintained through e-learning and other training. Our suite of counter fraud strategies, policies and procedures is widely published and kept under regular review.
	Assessing Risks	We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities. Elected members and senior managers have an important role to play in scrutinising risk management procedures and risk registers.

		Also, the Internal Audit Service will carry out assurance work in areas of higher risk to assist management in preventing fraudulent activity.
	Robust Response	We will strengthen measures to prevent fraud. Internal Audit will work with management and our internal partners such as Human Resources, Finance, Legal and policy makers to ensure new and existing systems and policy initiatives are adequately fraud proofed.

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

PURSUE	Fraud Recovery	A crucial element of our response to tackling fraud is recovering any monies lost through fraud. This is an important part of our strategy and will be rigorously pursued, where possible. See Appendix 4 for the loss recovery approach.
	Punishing Fraudsters	We will apply realistic and effective sanctions for individuals or organisations where an investigation reveals fraudulent activity. This may include legal action, criminal and/or disciplinary action.
	Enforcement	We will investigate instances of suspected fraud detected through the planned proactive work; cases of suspected fraud referred from internal or external stakeholders or

received via the whistleblowing procedure. We will work with internal, external partners and organisations, including law enforcement agencies.

PROTECT

This theme lies across all pillars of this strategy.

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

7. Responsibilities

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

8. Reporting, Advice, Support

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

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

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

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

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

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

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

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

9. Investigations

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

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

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

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

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

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

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

Compensation - Where a case has been proved, the relevant **Executive** Director and **Executive** Director of **Resources** Director of Finance, Governance

and Assurance (Section 151 Officer), with advice from the Monitoring Officer, will agree whether and how much to pursue as compensation. The **Executive** Director will also inform the Insurance service where it is believed an insurance claim can be made.

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

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

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

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

10. Strategy Review

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

APPENDIX 1



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:
 - Your immediate Supervisor or Line Manager (or more senior management depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing).
 - The Head of Audit, Ceri Pilawski on 01743 257739 or the Section 151 Officer, James Walton on 01743 258915.

- The Whistleblowing Hotline on 01743 252627 or email audit@shropshire.gov.uk.
- ~~Audit Services, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury SY2 6ND, 01743 257737.~~
- If the fraud is in relation to Benefits details for reporting appear on the Council's web site: <https://www.shropshire.gov.uk/benefits/report-benefit-fraud/>.

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

11. **Harassment, bullying or victimisation** – if you have raised concerns action will be taken to protect you from reprisals and it will be made clear to colleagues that it will be considered a disciplinary matter to mistreat a whistle-blower.
12. **Confidentiality** – The Council will do its best to protect your identity when you raise a concern and do not want your name to be disclosed. It must, however, be appreciated that the investigation process may reveal the source of the information and a statement by you may be required as part of the evidence
13. **Anonymous referrals** –these are not encouraged as they affect the ability to investigate, but any case of suspected fraud, bribery or corruption, however reported, will be looked into.

14. **Malicious referrals** – if it is found that your referral is malicious or has been made for personal gain, action may be taken against you under the Council's Disciplinary Policy or relevant agreement if you work for one of the Council's partners. The matter would be referred to the appropriate senior manager before any action is taken.

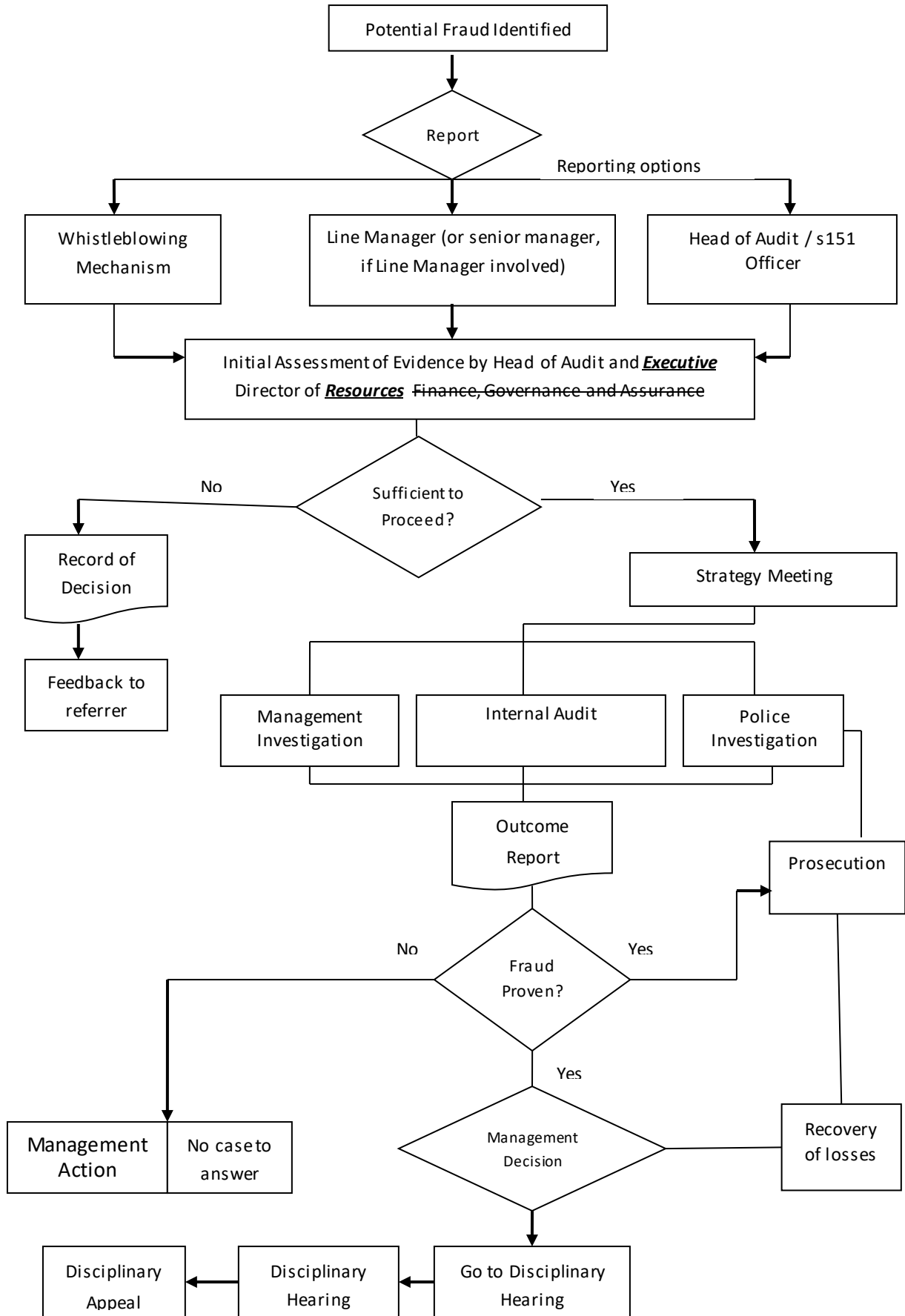
INVESTIGATION

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

POTENTIAL OUTCOMES

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

Appendix 1 - The Council's typical fraud response plan



APPENDIX 2

NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

SPECIFIC RESPONSIBILITIES
APPENDIX 3

Stakeholder	Specific Responsibilities
Head of Paid Service (CEO)	Ultimately accountable for the effectiveness of the Council's arrangements for countering fraud, bribery and corruption.
Monitoring Officer (Director of Legal and Democratic Services)	To advise members and employees on ethical issues, standards and powers to ensure that the Council operates within the law and statutory codes of practice.
Section 151 Officer (<u>Executive Director of Resources</u> Director of Finance, Governance and Assurance)	To make proper arrangements for the Council's financial affairs and to ensure the Council has an adequately resourced and effective Internal Audit.
Audit Committee	To monitor the effectiveness of the Council's Counter fraud, bribery and anti-corruption strategy and arrangements. To monitor the Council's Whistleblowing policy.
Members	To support and promote the development of a strong counter fraud, bribery and anti-corruption culture.
External Audit	Statutory duty to ensure that the Council has in place adequate arrangements for the prevention and detection of fraud, bribery corruption and theft.
Internal Audit	Responsible for developing and implementing the Counter fraud, bribery and anti-corruption strategy and investigating any issues reported under this policy and the Speaking up about wrongdoing (whistleblowing) policy. To ensure that all suspected or reported irregularities are dealt with promptly and in accordance with this policy and that action is identified to improve controls and reduce the risk of recurrence.
Managers	To promote employee awareness and ensure that all suspected or reported irregularities are referred immediately to Internal Audit. To ensure that there are mechanisms in place within their service areas to assess the risk of fraud, bribery, corruption and theft and to reduce these risks by implementing robust internal controls.
Employees	To comply with Council policies and procedures, to be aware of the possibility of fraud, bribery, corruption and theft, and to report any genuine concerns to the appropriate management, Head of the Paid Service, the Section 151 Officer, the Monitoring Officer, or Internal Audit.
Public, Partners, Suppliers, Contractors and Consultants	To maintain strong counter fraud, bribery and anti-corruption principles and be aware of the possibility of fraud, bribery and corruption against the Council and report any genuine concerns or suspicions through the identified channels.

Stakeholder	Specific Responsibilities
	<p>Public agencies may include the:</p> <ul style="list-style-type: none">• Police.• External Audit.• Local, regional and national auditor networks.• National Anti-Fraud Network.• CIPFA.• Department of Work and Pensions.• Other local authorities.• Public health.

Shropshire Council – Loss Recovery Approach

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

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

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

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

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

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

Financial Considerations in relation to reporting fraud to law enforcement authorities

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

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

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

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

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

² Section 40 (1) Magistrates' Courts Act 1980

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

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

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

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

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

Adopted Strategy

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

Factors which tend to favour a criminal prosecution	Factors which tend to favour Civil Recovery
There is believed to be little prospect of recovery through civil means.	The defendant is known to have assets available for execution or the defendant is working and it is considered that there is a good prospect of recovery.
There is a high level of culpability or wrongdoing	There is lower level of culpability or dishonesty.
Evidence gathered points to their having been a high level of planning of the fraudulent / criminal activity.	The fraud was opportunistic.
It has come to light during the investigation that the defendant is	The incident is believed to be a one off

Factors which tend to favour a criminal prosecution	Factors which tend to favour Civil Recovery
known to have previous convictions for this kind of activity.	
The defendant denies any responsibility and is unwilling to co-operate with the Council.	The defendant has acknowledged their wrongdoing and is prepared to co-operate with the Council.
It is likely that the police and CPS are likely to be willing to investigate / prosecute.	Whether it is believed that the Police / CPS are unlikely to investigate.

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

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



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 22 February 2022 10 am	<u>Public</u>

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

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

1. Synopsis

Effective audit committees bring many benefits to an organisation. To ensure that the Council continues to provide an effective Audit Committee their Terms of Reference are considered and approved by members annually. There are no significant changes proposed in 2021.

2. Executive Summary

The Audit Committee’s Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their: Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition. The Terms of Reference are attached as an **Appendix** and are reviewed each year. Slight changes have been made to reflect current reporting titles and to further clarify the responsibilities of the Audit Committee in relation to approving the Statement of Accounts, but there are no significant changes proposed. Suggested changes are underlined and shown in bold italics.

3. Recommendations

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

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

- 5.1. There are no financial implications.

6. Climate Change Appraisal

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

7. Background

- 7.1. Part of the responsibility of this Committee is to review annually its Terms of Reference, making any recommendations for significant changes in them to Full Council.
- 7.2. The Chartered Institute of Public Finance and Accountancy (CIPFA); defines the purpose of an audit committee as being to provide those charged with governance an independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of financial reporting and annual governance processes. By doing this and overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 7.3. The Audit Committee satisfies the wider requirement for sound financial management, as set out in the Accounts and Audit Regulations, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, Section 151 of the Local Government Act 1972 requires the Council to, 'make arrangements for the proper administration of its financial affairs'. In discharging sound financial management, the Section 151 Officer requires an effective audit committee and an internal audit service which

evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.

7.4. Effective audit committees bring many benefits to the Council. They can:

- Increase public confidence in the objectivity and fairness of financial and other reporting.
- Reduce the risk of illegal or improper acts.
- Reinforce the importance and independence of internal and external audit and any other review processes that report to the Committee.
- Provide a sharper focus on financial reporting, both during the year and at year end, leading to increased confidence in the objectivity and fairness of financial reporting.
- Assist the co-ordination of sources of assurance and, in so doing, make management more accountable.
- Provide additional assurance through a process of independent and objective review.
- Raise awareness of the need for internal control and the implementation of audit recommendations.

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

8. Additional Information

- 8.1. At Council, on the 24th September 2020, the Audit Committee was given responsibility for approving the Final Accounts Pack including the Statement of Accounts for the financial year 2019/20 onwards. To accommodate this, detailed changes were proposed and accepted for the Constitution, these were reflected in the Audit Committee's Terms of Reference. In addition, reflecting on these changes and the current responsibilities of the Committee the following proposed adjustments are suggested for paragraph: -
- 43, to reflect the ability of Audit Committee to escalate concerns to Council.
 - 44, to update the reports received from External Audit.
 - 45, to fully reflect the delegated powers the Committee was awarded in the previous year in respect of approving the Statement of Accounts when required.

The relevant text is in ***bold, italics and underlined***.

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

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2018 Edition

TIS Online CIPFA Audit Committee

Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards, CIPFA 2019

Local Government Act 1972

Accounts and Audit (England) Regulations

Council 24th September 2020 Report 9, Review of the Constitution to permit the Audit Committee to approve the Final Accounts pack including the Annual Statement of Accounts

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member N/A

Appendices

Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE

Membership

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

Meetings

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

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

CORE FUNCTIONS

Governance risk and control

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

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

18. To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

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

- a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
 - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
27. To consider summaries of specific internal audit reports as requested.
 28. 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.
 29. To contribute to the Quality Assurance and Improvement Programme and to the external quality assessment of Internal Audit that takes place at least once every five years.
 30. To support the development of effective communication with the Head of Audit.

External Audit

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

36. To review and advise on the effectiveness of relationships between External and Internal Audit and other inspection agencies or relevant bodies.

Financial reporting

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

Treasury Management

39. 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.
40. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity².
41. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management in accordance with best practice.

Accountability Arrangements

42. To publish an annual report on the work of the Committee by reporting annually to Full Council on the Committee's findings, conclusions and recommendations; providing its opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements.
43. To report to Council where the Audit Committee **wish to raise concerns within their remit**, 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.

² Clause 3 Treasury Management Code of Practice

Work plan

44. In carrying out the core functions the Audit Committee will approve an annual work plan. This will enable members to consider, review and, as appropriate, approve: -
- a) An annual review of the Terms of Reference for the Audit Committee, making any recommendations for significant changes in them to Full Council.
 - b) Any proposals for the revision of the Internal Audit Charter.
 - c) The Head of Audit's Annual Report and opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
 - d) Regular performance reports on the work completed by Internal Audit and the progress made by directorates in implementing recommended actions.
 - e) Revisions to the annual audit plan as advised by the Head of Audit and agreed by the Section 151 Officer.
 - f) The Council's Statement of Accounts when required or before submission to Full Council for such approval.
 - g) A report on the review of the adequacy of the Council's corporate governance arrangements.
 - h) A report on the Internal Audit system and ongoing Quality Assurance and Improvement Programme.
 - i) A report on the strategic risks of the Council and a review of the adequacy of the Council's risk management arrangements.
 - j) The Council's Annual Governance Statement.
 - k) The External Auditor's work plan, including comments on the scope and depth of external audit work to ensure it gives value for money.
 - l) The External Auditor's **Progress and Findings; and Annual Reports** Management Letter The Annual **Audit Letter** from the External Auditor following completion of the annual audit of the Accounts.
 - m) Reports on any joint projects undertaken by Internal and External Audit.

- n) Reports on Internal Audit investigations including frauds and consideration of recommendations for strengthening internal controls.
- o) The annual review and re-affirmation of the Council's Counter Fraud, Bribery and Anti-Corruption Strategy to ensure on-going training and awareness of all staff regarding Counter Fraud and Anti-Corruption measures.
- p) Any issues within the remit of the Audit Committee referred to it by the Head of the Paid Service, the Section 151 Officer, Monitoring Officer or any Council body for determination.
- q) Treasury Strategy Reports including the Annual Investment Strategy and Minimum Revenue Provision Policy before submission to Full Council.
- r) The mid-year Treasury Strategy Report and Annual Treasury Report before submission to Full Council.

Powers of the Audit Committee

45. The Committee will have no delegated powers, **other than those assigned from Council to approve the Statement of Accounts when required**, but can require relevant officers, members and agencies to attend at any meeting where such attendance would be expedient to the work of the Committee.

Audit Committee Competency Framework

46. All Members of the Audit Committee should have, or acquire as soon as possible after appointment: -
- a) An understanding of the objectives and current significant issues facing the Council.
 - b) An understanding of the Council's structure including key relationships with external partner organisations.
 - c) An understanding of any relevant legislation or other rules governing the operation of the Council.
 - d) A broad understanding of the local government environment, its accountability structures and current, major initiatives.
47. CIPFA recommends that the Audit Committee should corporately possess an appropriate level of knowledge/skills/experience in: -
- a) The Council's governance and regulatory frameworks.

- b) Understanding of the wider governance environment in which the Council operates and the accountability structures within that environment.
- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

Reviewed November 2021.



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 22 February 2022 10 am	 <u>Public</u>

Audit Committee Self-Assessment 2021

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

1. Synopsis

Shropshire Council’s Audit Committee aims to comply with the Chartered Institute of Public Finance and Accountancy’s guidance on the function and operation of audit committees. There is significant compliance with the code and an improvement plan to address partial compliance.

2. Executive Summary

Members are asked to review and comment on the self-assessment of good practice questionnaire attached to this report. The questionnaire allows members to assess the effectiveness of the Audit Committee and identify whether there are any further improvements that could be made which would improve its overall effectiveness. With the Audit Committee membership being relatively new the self-assessment will help identify where there remain high levels of compliance with accepted good practice. There are a few areas of partial compliance with good practice, these are identified to be considered and to have appropriate action taken.

3. Recommendations

Members are asked to:

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

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

6. Climate Change Appraisal

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

7. Background

- 7.1. The Chartered Institute of Public Finance and Accountancy, CIPFA, produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2018 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.

- 7.2. Shropshire Council has used this guidance to self-assess the Audit Committee against this recommended practice as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed.
- 7.3. This is the first year of activity and therefore assessment of the current Audit Committee. The Section 151 Officer and the Head of Audit have completed an initial review of the self-assessment, based on information from previous assessments and with knowledge of the Committee's compliance with recommended practices, for members to consider, discuss and amend as appropriate. In preparation for 2021/22, the self-assessment has been updated and circulated to members for consideration prior to this meeting, attached as **Appendix A**.
- 7.4. Given the changes to membership, new training skill evaluations have been completed and considered as part of this exercise. Information from self-assessments is considered against ongoing requests from committee members in response to current training topics.
- 7.5. Training sessions provided since inception of the Committee in May 2021 have included:
- Member induction: The Key Role of Audit Within the Council's Governance Framework
 - Audit Committee
 - Terms of reference
 - Timetable and work plans
 - Member skills and experience
 - Independent member
 - Governance
 - Three lines of assurance
 - Shropshire Council's Governance framework
 - Annual Governance Statement
 - Internal Audit year end opinion
 - Internal audit
 - Risk management
 - External audit
 - Counter fraud
 - Finances
 - Revenue outturn
 - Capital outturn
 - Treasury Management
 - Statement of Accounts
 - What to expect from Internal Audit reports?
 - Counter Fraud
 - Audit Committee self-assessment
 - Financial Statements
 - Risk Management

- 7.6. In addition to training sessions the following information has been shared with and between members:
- CIPFA Audit Committees Practical Guidance for Local Authorities 2018
 - Audit Committee work plans and Terms of Reference
 - CIPFA Audit Committee updates covering
 - Supporting improvements to risk management arrangements
 - Defining the relationship between the audit committee and the scrutiny function
 - New consultation on local audit and audit committee arrangements
 - Regular briefing on new developments
 - Fraud prevention training
- 7.7. **Appendix B** provides a summary from the self-assessment detailed above, showing the areas members have identified for future focus, refresh sessions and where training has been provided.
- 7.8. Following the current review of the Audit Committee self-assessment of good practice, a few areas of partial compliance were identified and question 13 was not currently applicable. These are summarised below with the proposed actions to improve for members to consider as components in an action plan looking forward.

SAR¹	Partial compliance	Proposed action
4	Is the role and purpose of the audit committee understood and accepted across the authority?	Members continue to raise awareness as to the role and purpose of the Audit Committee and the value that can be added by all to improve governance, risk management and internal controls. Members can refer others to the Induction training of Audit.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Members continue to consider areas identified for improvement in the Annual Governance Statement against their work and training plans, to ensure coverage of all areas the committee requires assurances from.
12	Has an effective audit committee structure and composition of the committee been selected?	The Audit Committee structure provides representation from the three major political groups. New members are having knowledge of

¹ SAR = Self-assessment reference

SAR¹	Partial compliance	Proposed action
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership. 	<p>Audit broadened and enhanced by consideration of their relevant training requirements and the development of future training plans.</p> <p>Training planned December, January and February</p>
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Members continue to seek ways of obtaining such feedback. This is seen as an ongoing theme.
23	Has the committee evaluated whether and how it is adding value to the organisation?	Members continue to challenge how they can add value to the Council.

7.9. *Do members wish to make any adjustments to the self-assessment?*

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

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

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member

N/A

Appendices

A Self-assessment of good practice November 2021

B Audit Committee – self assessment supporting information: Knowledge and Skills baseline assessment August 2021

B2 Improvement plan for an effective Audit Committee to be refreshed annually in December

C Self-assessment of good practice showing evidence

Appendix A: Self-assessment of Good Practice November 2021

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

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

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

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

Appendix B: Audit Committee – self assessment supporting information: Knowledge and Skills baseline assessment August 2021

	Confident > Comfortable > Not Confident					Rank
Overview of the governance structures of the Council and decision-making processes. Knowledge of the organisational objectives and major functions of the Council	Confident	Confident	Comfortable	Comfortable	Comfortable	M
An understanding of the audit committee’s role and place within the governance structures. Familiarity with the committee’s terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee.	Confident	Confident	Confident	Comfortable	Not Confident	M
Awareness of the key principles of the Public Sector Internal Audit Standards and the Local Government Application Note. Knowledge of the arrangements for delivery of the internal Audit service in the authority and how the role of the head of internal audit is fulfilled	Comfortable	Comfortable	Comfortable	Not Confident	Not Confident	M
Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. Understanding of good financial management principles. Knowledge of how the organisation meets the requirements of the role of the chief financial officer, as required by the CIPFA Statement on the Role of the Chief Financial Officer in Local Government.	Confident	Comfortable	Comfortable	Not Confident	Not Confident	M
Knowledge of the role and functions of the external auditor and who currently undertakes this role; the key reports and assurances that external audit will provide; arrangements for the appointment of auditors and quality monitoring undertaken.	Confident	Confident	Confident	Confident	Comfortable	H
Understanding of the principles of risk management, including linkage to good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members and of the audit committee	Confident	Confident	Comfortable	Not Confident	Not Confident	M

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	Confident > Comfortable > Not Confident					Rank
Understanding of the main areas of fraud risk the organisation is exposed to. Knowledge of the principles of good fraud risk management practice. Knowledge of the organisation's arrangements for tackling fraud.	Orange	Orange	Orange	Green	Green	M
Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangement to uphold ethical standards for both members and staff. Knowledge of the whistleblowing arrangements in the authority.	Blue	Blue	Blue	Orange	Orange	H
Aware that the Effectiveness Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: - <ul style="list-style-type: none"> regulatory requirements treasury risks the organisation's treasury management strategy the organisation's policies and procedures in relation to treasury management. 	Orange	Orange	Green	Green	Green	L
Able to focus on material issues and overall position, rather than being side-tracked by detail.	Blue	Blue	Orange	Orange	Orange	M
Able to frame questions that draw out relevant facts and explanations.	Blue	Blue	Blue	Orange	Orange	H
Able to understand the reasons for weaknesses in internal control and seek assurances that a solution will be found, providing clear challenge to ensure that actions and allocations of responsibility are clear.	Blue	Blue	Orange	Orange	Green	M
Able to understand the practical implications of recommendations to understand how they might work in practice.	Blue	Blue	Orange	Orange	Orange	M
Able to support the use of plain English in communications, avoiding jargon, acronyms, etc.	Blue	Blue	Blue	Blue	Orange	H

	Yes<>No<>Partially					Rank
Knowledge gained from a professional qualification in accountancy						L
Knowledge gained from a professional qualification in internal audit						L
Risk management qualification or practical experience of applying risk management or knowledge of risks and opportunities associated with major areas of activity.						M
Legal qualification and knowledge of specific areas of interest to the committee, for example, constitutional arrangements, data protection or contract law.						L
Direct experience of managing or working in a service area similar to that operated by the authority.						L
Knowledge of relevant legislation, risks and challenges associated with major service areas which will help the audit committee to understand the operational context						M
Project management qualifications or practical knowledge of project management principles.						L
Knowledge gained from management or development work in IT.						L

Key to ranking

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

- H High
- M Medium
- L Low

Training delivered and planned for 2021/22

Rank	Skills: Core	Evidence of training since April 2021
M ²	Organisational knowledge	

² Based on 5/8 completed responses in August 2021. All permanent members completed the evaluation.

Rank	Skills: Core	Evidence of training since April 2021
M	Audit Committee role and functions	June 2021 ³ (MI); June 2021 ⁴ (AC); Sept 2021
M	Governance	June 2021 (MI) (AC); Sept 2021
M	Internal Audit	June 2021 (MI); Sept 2021
M	Financial management and accounting	June 2021 (MI) (AC); Planned December 2021
H	External Audit	June 2021 (MI) (AC)
M	Risk Management	June 2021 (AC); Planned December 2021
M	Counter-fraud	June 2021 (AC); Sept 2021
H	Values of good governance	June 2021 (MI) (AC); Sept 2021
L	Treasury management	June 2021 (AC); Planned Jan 2022
M	Strategic thinking and understanding of materiality	
H	Questioning and constructive challenge	
M	Focus on improvement	Sept 2021
M	Able to balance practicality against theory	
H	Clear communication skills and focus on the needs of users	
	Skills: Specialist	
L	Accountancy	June 2021 (MI) (AC)
L	Internal Audit	June 2021 (MI) (AC); Sept 2021
M	Risk Management	June 2021 (AC); Planned December 2021
M	Governance and Legal	June 2021 (MI) (AC)
L	Service knowledge relevant to the functions of the organisation	Sept 2021
L	Programme and project management	
L	IT system and IT governance	
	Analysis of the effectiveness of Audit Committee	
	Promoting the principles of good governance and their application to decision making.	
	Contributing to the development of an effective control environment.	

³ (MI) Member Induction available to all, not restricted to Audit Committee members

⁴ AC) Member training specific to Audit Committee

Rank	Skills: Core	Evidence of training since April 2021
	Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.	
	Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.	
	Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.	
	Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.	
	Supporting the development of robust arrangements for ensuring value for money.	
	Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risk.	
	Promoting effective public reporting to the authority's stakeholders and local community and measures to improve transparency and accountability.	

Appendix B2: Improvement plan for an effective Audit Committee to be refreshed annually in December

SAR⁵	Partial compliance	Proposed action	Review December 2022
4	Is the role and purpose of the audit committee understood and accepted across the authority?	Members continue to raise awareness as to the role and purpose of the Audit Committee and the value that can be added by all to improve governance, risk management and internal controls. Members can refer others to the Induction training of Audit.	
5	Does the audit committee provide support to the authority in	Members continue to consider areas identified for improvement in the Annual	

⁵ SAR = Self-assessment reference

SAR⁵	Partial compliance	Proposed action	Review December 2022
	meeting the requirements of good governance?	Governance Statement against their work and training plans, to ensure coverage of all areas the committee requires assurances from.	
12	<p>Has an effective audit committee structure and composition of the committee been selected?</p> <ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership. 	<p>The Audit Committee structure provides representation from the three major political groups. New members are having knowledge of Audit broadened and enhanced by consideration of their relevant training requirements and the development of future training plans.</p> <p>Training planned December, January and February</p>	
19	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Members continue to seek ways of obtaining such feedback. This is seen as an ongoing theme	
23	Has the committee evaluated whether and how it is adding value to the organisation?	Members continue to challenge how they can add value to the Council.	

Appendix C: Self-assessment of Good Practice showing evidence

	Good practice questions	Yes/ No/ Partly	Evidence
	Audit Committee purpose and governance		
1.	Does the authority have a dedicated audit committee?	Yes	Constitution, Terms of Reference Actual meetings, details on internet.
2.	Does the audit committee report directly to full council?	Yes	ToR ⁶ paragraph (para) 44 reviewed, revised and reapproved at December Audit Committees.
3.	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Yes	ToR from para 10 reviewed, revised and reapproved at December Audit Committees.
4.	Is this role and purpose of the audit committee understood and accepted across the authority?	Partially	Key officers and members are aware. This may not be fully embedded with new members ⁷ to the Council and sometimes there is confusion over the scrutiny/ audit committee role. Awareness is worked on by key members and officers at every opportunity. Officers and Portfolio Holders are invited to Audit Committee to discuss major risks and control issues. Discussions take place between the Chairman, CEO, senior officers and Portfolio Holders as required.

⁶ Terms of reference

⁷ Induction presentations have been delivered on this topic

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>Member training is sometimes extended to a wider member audience, an example of which will be the Treasury Management training planned January 2022</p> <p>The annual report from Committee to Council informs all members of the Committee’s activities.</p> <p>Proposed Action: <i>Members continue to raise awareness as to the role and purpose of the Audit Committee and the value that can be added by all to improve governance, risk management and internal controls.⁸</i></p>
5.	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Partly	<p>ToR para 9-18.</p> <p>ToR Para 44.</p> <p>The Committee’s work plan identifies areas of governance that it provides support on, this is further demonstrated by Committee agendas.</p> <p>The Annual Assurance report to Council presented to the June/ July Committee confirms this and the Annual Governance Statement identifies significant areas for improvement which the Committee can focus on.</p> <p>Proposed Action: <i>Members continue to consider areas identified for improvement in the Annual Governance Statements against their work and training plans, to ensure coverage of all areas the committee requires assurances from.</i></p>

⁸ Blue italics proposed actions are picked up and formulate the improvement plan for the Audit Committee

	Good practice questions	Yes/ No/ Partly	Evidence
6.	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Yes	<p>No complaints from Council. Annual report to Council appears on July Audit Committee agenda allows members to comment and challenge the Committee’s work.</p> <p>Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council and the Annual Governance Statement action plans.</p> <p>Proposed Action: <i>An action to review this, to keep it current, is included in 5 above.</i></p>
	Functions of the committee		
7.	Do the committee’s terms of reference explicitly address all the core areas identified in CIPFAs 2018 Position Statement?	Yes	
	<ul style="list-style-type: none"> • Good governance 		ToR para 9+
	<ul style="list-style-type: none"> • Assurance framework including partnerships and collaboration arrangements 		ToR para 9+
	<ul style="list-style-type: none"> • Internal audit (IA) 		ToR para 19+
	<ul style="list-style-type: none"> • External audit 		ToR para 31+
	<ul style="list-style-type: none"> • Financial reporting 		ToR para 37+

	Good practice questions	Yes/ No/ Partly	Evidence
	<ul style="list-style-type: none"> • Risk management 		ToR para 13+
	<ul style="list-style-type: none"> • Value for money or best value 		ToR para 11+
	<ul style="list-style-type: none"> • Counter-fraud and corruption 		ToR para 16+
	<ul style="list-style-type: none"> • Supporting the ethical framework 		<i>ToR para 10+</i>
8.	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Yes	Evaluation is through the: <ul style="list-style-type: none"> • Self-assessment of compliance with this best practice document, reported in December. • Annual report to Council is written to map back to the terms of reference. • Annual work plan, reported to March Committee, which maps back to the ToR. • Agendas, minutes and reports of Committee support that all core areas are being reviewed.
9.	Has the audit committee considered the wider area identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	Yes	Wider areas are: <ul style="list-style-type: none"> • Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 6.

	Good practice questions	Yes/ No/ Partly	Evidence
			<ul style="list-style-type: none"> Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A separate Standards Committee which has this responsibility is held as and when required. <i>However, the Committee supports standards and ethics, para 10+.</i> Treasury Management – The Committee covers this responsibility as evidenced by its ToR para 41+.
10.	Where coverage of core areas has been found to be limited, are plans in place to address this?	Yes	<p>No limitations have been found; evidence is demonstrated openly on public forums in the:</p> <ul style="list-style-type: none"> Work plan Regular Committee reports ToR Annual report to Council Lack of negative feedback from Council and statutory officers <p>Proposed Action: <i>The proposed action at 5 above, will continue to ensure this.</i></p>
11.	Has the committee maintained its non-advisory role by not taking on	Yes	ToR, especially para 45, sets out decision making powers.

	Good practice questions	Yes/ No/ Partly	Evidence
	any decision-making powers that are not in line with its core purpose?		Review of work plans, agendas, reports and minutes demonstrate this, all are available publicly.
	Membership and support		
12.	Has an effective audit committee structure and composition of the committee been selected? This should include:	Partly	
	<ul style="list-style-type: none"> Separation from the executive 	Yes	ToR, para 1 Where it has been recognised at any time that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> An appropriate mix of knowledge and skills among the membership 	Partly	ToR, para 46+ <i>This is demonstrated by self-assessments completed by Members⁹ used to inform the training plans covered in publicly available reports on the Committee’s annual work plan (February) and the annual report to Council (June/ July).</i> Most members, whilst new to the Committee, have wide experience of public-sector organisations, private business knowledge, internal controls, risk management, financial, and governance awareness. Where members feel further knowledge or training is required, they can and do raise this, demonstrated through work, training plans and self-assessments.

⁹ Completed 2021 to provide a baseline for new members.

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>The Audit Committee meets the requirements of political balance and the Chairman has served for many years on this Committee.</p> <p>Proposed Action: <i>The Audit Committee structure provides representation from the three major political groups. New members are having knowledge of Audit broadened and enhanced by consideration of their relevant training requirements and the development of future training plans.</i></p> <p><i>Training planned December, January and February</i></p>
	<ul style="list-style-type: none"> A size of committee that is not unwieldy 	Yes	ToR, para 1
	<ul style="list-style-type: none"> Consideration has been given to the inclusion of at least one independent member (where this is not already a mandatory requirement). 	Yes	<p>There are currently no independent members on the Committee. Appointment would follow good recruitment processes including evaluation of the skills sets required, advertising, clear job specifications and descriptions, selection and awarding processes.</p> <p><i>Consideration has been given to such an appointment during training sessions and provision is made in the ToR, para 3.</i></p>
13.	Have independent members appointed to the committee been recruited in an open and	N/A	As above.

	Good practice questions	Yes/ No/ Partly	Evidence
	transparent way and approved by the full council?		
14.	Does the chair of the committee have appropriate knowledge and skills?	Yes	<p>Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance and behaviour at Committee and resulting recommendations and minutes, available publicly</p> <p>The Chair has extensive experience and works closely with the S151 Officer and Head of Audit to retain current knowledge and management of risks.</p> <p>The Chair can identify and influence future training requirements for all Committee members.</p>
15.	Are arrangements in place to support the committee with briefings and training?	Yes	<p>Demonstrated by:</p> <ul style="list-style-type: none"> • Completion of the skills assessment (completed Summer 2021). • Committee work plan (February/March Committee agenda) • Evidence of regular training including agendas, training documents etc. available on request. • CIPFA's Better Governance Framework provides members with briefing papers at least twice a year and all members can access the web site which provides weekly updates. Specialist training

	Good practice questions	Yes/ No/ Partly	Evidence
			<p>sessions are also accessible through this subscription.</p> <ul style="list-style-type: none"> External auditors provide regular updates to the Committee. <p>Proposed Action: <i>The proposed action at 12 above, will continue to ensure this.</i></p>
16.	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Yes	<p>Training self-assessments have been shared with members, summer 2021, and refreshes of the Audit Committee work plan and self-assessment inform the training plan looking forward. There are areas to build upon given the experience of members.</p> <p>Proposed Action: <i>The proposed action at 12 above, will continue to ensure this</i></p>
17.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	Yes	<p>Demonstrated by regular attendance at all Committees by these key stakeholders and the professional way the meetings are managed. Interviews with all parties would help to support this conclusion.</p>
18.	Is adequate secretariat and administrative support to the committee provided?	Yes	<p>Regular qualified and experienced secretarial support is provided to all Committee meetings.</p>
	Effectiveness of the committee	Not fully assessed.	<p>The Committee's structure, work plan and areas covered in training and committee support an effective committee.</p>

	Good practice questions	Yes/ No/ Partly	Evidence
			With mostly new members this year, the Committee needs to be operating for a minimum of a full year, seeing the full cycle of activity, before it can truly reflect its total effectiveness.
19.	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Partly	Committee receives verbal feedback from members, officers and external audit, but no formal feedback. Proposed Action: Members continue to seek ways of obtaining such feedback. This is seen as an ongoing theme
20.	Are meetings effective with a good level of discussion and engagement from all the members?	Yes	Demonstrated in minutes and by attendees at Committee and by clear requests for further information in a few high-risk areas.
21.	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Yes	Demonstrated in agendas, minutes and reports of the Committee. All unsatisfactory and limited audit areas are reported to Committee and members invite officers from such areas to provide management updates on progress against agreed control improvements.
22.	Does the committee make recommendations for the improvement of governance, risk and control and are these acted on?	Yes	Where there is a need to escalate such issues further, the Committee would do this through known member and officer channels. Clarity has been provided and explored at governance training sessions on how this works in practice.

	Good practice questions	Yes/ No/ Partly	Evidence
23.	Has the committee evaluated whether and how it is adding value to the organisation?	Partly	<p>Demonstrated by the year-end report sent to Council in September (agreed by Audit Committee in July) which sets out delivery in the following areas:</p> <ul style="list-style-type: none"> • Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively • Contributing to the development of an effective control environment • Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks • Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence • Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements • Supporting the development of robust arrangements for ensuring value for money

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

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee 22 nd February 2022 10.00 am	 <u>Public</u>

REVIEW OF THE AUDIT COMMITTEE'S ANNUAL WORK PLAN AND FUTURE LEARNING AND DEVELOPMENT REQUIREMENTS 2022/23

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

1. Synopsis

Audit Committee Members agree annually, a plan of work and appropriate learning and development to undertake their duties effectively and deliver them to a high standard. Therefore ensuring the integrity of the financial reporting and governance of the Council.

2. Executive Summary

- 2.1. 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.
- 2.2. Following membership changes, early training focus has been around the role of Audit Committee and bringing new members up to speed on the Committee's demands of them, this will be enhanced with more detailed training as the calendar of work progresses.

3. Recommendations

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

- 3.1. The Audit Committee work plan for 2022/23, **Appendix A**;
- 3.2. A learning and development plan for Members of the committee taking in to account information in Appendices A and B.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. 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.
- 4.2 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.

5. Financial Implications

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

6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation nor climate change adaptation. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7. Background

- 7.1. 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

- 7.2. 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.
- 7.3. There is a provisional date for the Committee in October, to accommodate any unforeseen slippage in delivering the Statement of Accounts, and one proposed change to the regular reports for which member approval is sought.
- 7.4. There will be a report to the June Audit Committee to consider the information provided on the national auditor appointment arrangements with PSAA Ltd, the Local Government Association National Sector Led Body. Procurement of the External Auditors is being conducted in the current year and the results of this will be reported back to the Committee for Members to consider and comment on the selection and rotation of the External Auditor. The details appear in **bold and are underlined** in the appendix.
- 7.5. The External Auditors, Grant Thornton will confirm their reports and timings at the meeting prior to any work plan approval.

Learning and Development

- 7.6. 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.
- 7.7. Members need to consider annually their learning and development plan to support them in delivery of their roles. During 2021/22 and following the establishment of the new committee after Elections last May, Members in addition to being offered the opportunity for a one-to-one training session with the Head of Audit, have received four half day sessions covering several topics in detail; i.e.
 - General Members Induction: The key role of Audit within the Council's governance framework
 - Role of Audit Committee members

- Self-assessment of Members
- Audit Committee
 - Terms of reference
 - Timetable and work plans
 - Member skills and experience
 - Self-assessment of the Committee
 - Independent member role
- Governance
 - Three lines of assurance
 - Shropshire Council's Governance framework
 - Annual Governance Statement
 - Internal Audit year end opinion
- Internal audit
 - What to expect from reports?
- External audit
- Counter fraud
- Treasury management
- Risk management
- Financial management
 - Revenue outturn
 - Capital outturn

7.8. Additional learning and documentation were also shared on:

- Annual fraud prevention training
- CIPFA Better Governance Forum updates covering
 - Supporting improvements to risk management arrangements
 - Defining the relationship between the audit committee and the scrutiny function
 - New consultation on local audit and audit committee arrangements
 - Regular briefing on new developments

Backdated updates were referenced for Members to access directly.

7.9. It is proposed that training is again provided in three half day sessions over the next twelve months. Sessions are proposed for the 16th June, the 8th September 2022 and the 9th February 2023.

7.10. **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.

7.11. 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)

Lezley Picton (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member

N/A

Appendices

Appendix A – Audit Committee Work Plan 2022/23 and Summary

Appendix B – Audit Committee Members development topics

Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Core business 30 June 2022		
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 to be brought to the attention of the Council.</p>

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Appendix A: Audit Committee Work Plan – 2022/23

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.	
<p>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>	<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>
<p>4. Section 151 Officer: Annual review of internal audit: quality assurance and</p>	<p>That Internal Audit complies with the Public Sector Internal Audit Standards and is effective in doing so.</p>	<p>To consider reports from the Head of Audit on Internal Audit's performance 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

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
improvement programme (QAIP).	That there is an improvement programme in place to ensure that any identified gaps are addressed.	<ul style="list-style-type: none"> 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 systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.</p>	<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 functions and financial reporting arrangements.</p> <p>To report to Council where the Audit Committee have added value, improved or promoted the control environment and</p>

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		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>
7. Assistant Director Workforce: 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.
<u>8. Section 151 Officer:</u>	<u>To consider the information provided on the national auditor appointment</u>	<u>To support the independence of the External Auditor through consideration</u>

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<u>Appointment of the External Auditors</u>	<u>arrangements with PSAA Ltd, the Local Government Association National Sector Led Body</u>	<u>of the External Auditor's annual assessment of its independence and review of any issues raised by the Public-Sector Audit Appointments (PSAA); consider and comment on the selection and rotation of the External Auditor</u>
9. 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.
10. 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>
11. 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.

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Appendix A: Audit Committee Work Plan – 2022/23

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		
12. 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.
13. Executive Director of Place update: Highway 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: 15 September 2022		
14. 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.
15. Final Statement of Accounts	Approve the final audited outturn position for the financial year and details of any	To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>amendments 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 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 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><i>Provisional date for an Audit Committee on the 27th October to accommodate any unforeseen delays.</i></p>	<p>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>16. 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</p>	<p>To monitor the effective development and operation of risk management in the Council.</p>

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	management systems / processes in place that enable decision makers to understand the level of risk being taken and the Council is prepared to accept.	
17. 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>
18. 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>	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.

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<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 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>
<p>19. 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 •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>

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
20. 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.
21. 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		
22. 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: 24 November 2022		
23. Internal Audit: Annual review of Audit Committee	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.

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Terms of Reference.		
24. 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.
25. 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</p>	To monitor the counter-fraud, bribery and corruption strategy, actions and resources.

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>corporate governance and internal control framework.</p> <p>Provides an update and assurances on the outcomes of the National Fraud Initiative.</p>	
<p>26. Internal Audit: Performance report and revised Annual Audit Plan.</p>	<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>

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
		To approve significant interim changes to the risk based internal audit plan and resource requirements.
27. 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>
28. 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.
29. 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>	To consider specific reports as agreed with the External Auditor and other inspection agencies.

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Appendix A: Audit Committee Work Plan – 2022/23

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 •challenge questions in respect of these emerging issues which the Committee may wish to consider. 	To comment on the scope and depth of external audit work and to ensure it gives value for money.
30. 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.
31. 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		
32. None planned.		
Core business: 14th February 2023		
33. Risk and Insurance	Assurances that the management of strategic risks which is a key process that underpins the	To monitor the effective development and operation of risk management in the Council.

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
Manager: Strategic Risks update.	successful achievement of the Council's priorities and outcomes is robust. Strategic risks are a key aspect of the Annual Governance Statement. 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.	
34. 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.
35. 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 / processes in place that enable decision makers to understand the level of risk	To monitor the effective development and operation of risk management in the Council.

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	being taken and the Council is prepared to accept.	
36. 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 – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
<p>37. Internal Audit: Draft Annual Internal Audit risk-based plan.</p>	<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 sufficient 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>
<p>38. Internal Audit: Draft Audit Committee annual work plan and</p>	<p>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</p>	<p>To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.</p>

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
future training requirements.	development to deliver their responsibilities effectively.	
39. 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.
40. 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.
41. External Audit: Informing the risk assessment.	<p>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:</p> <ul style="list-style-type: none"> • Fraud • Laws and regulations • Going concern • Related party transactions • 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</p>	To comment on the scope and depth of external audit work and to ensure it gives value for money.

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Appendix A: Audit Committee Work Plan – 2022/23

Report	Assurances Required / Being Sought	Relevancy – Terms of Reference
	<p>responses are consistent with its understanding and whether there are any further comments it wishes to make.</p>	
<p>42. 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>
Other assurance		
43. None planned		

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APPENDIX A

Audit Committee Work Plan 2022/23 Summary

Audit Committee Work Plan 2022/23	16 June 2022	30 June 2022	8 Sept 2022	15 Sept 2022	27 Oct 2022	24 Nov 2022	9 Feb 2023	14 Feb 2023	Report originator
Training Sessions	✓		✓				✓		
Regular Committees									
Internal Audit Annual Report		✓							Internal Audit
Statement of Accounts – preparation of draft and sign off (Statutory deadline 31 July 2022)		✓			✓				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
<u>Appointment of the External Auditors</u>		✓							<u>Section 151 Officer</u>
Annual Whistleblowing report		✓							Assistant Director Workforce
Audit Fee Letter		✓							External Audit

Audit Committee Work Plan 2022/23	16 June 2022	30 June 2022	8 Sept 2022	15 Sept 2022	27 Oct 2022	24 Nov 2022	9 Feb 2023	14 Feb 2023	Report originator
Audit Progress Report and Sector Update		✓		✓		✓		✓	External Audit
Fraud, special investigations and RIPA Updates (part 2)		✓		✓		✓		✓	Internal Audit
Audit Findings Report Shropshire Council as part of faster closedown processes. (Audit opinion complete and publication of final accounts, 30th November).						✓			External Audit
Final approval - Statement of Accounts						✓			Section 151 Officer
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

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Audit Committee Work Plan 2022/23	16 June 2022	30 June 2022	8 Sept 2022	15 Sept 2022	27 Oct 2022	24 Nov 2022	9 Feb 2023	14 Feb 2023	Report originator
Annual Audit Committee Self-Assessment						✓			Section 151 Officer
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
Training dates

Appendix B

Audit Committee Members development topics

Core areas of knowledge	Specialist knowledge that adds value to the Audit Committee	Core skills
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	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	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



<u>Committee and Date</u>
Audit Committee
22nd February 2022
10:00am

<u>Item</u>
Public

INTERNAL AUDIT QUALITY ASSURANCE – EXTERNAL ASSESSMENT OUTCOMES 2021/22

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

1. Synopsis

CIPFA conducted an external assessment and concluded that; 'Shropshire Council's Audit Services self-assessment is accurate and they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.

2. Executive Summary

- 2.1. Shropshire Council Internal Audit Service complies with the Public Sector Internal Audit Standards (PSIAS). As part of this process the service must develop and maintain a quality assurance and improvement programme (QAIP) that covers all aspects of the internal audit activity.
- 2.2. This programme is designed to enable an evaluation of the service's conformance with the definition of internal auditing, the standards and whether auditors apply the code of ethics (PSIAS). The programme assesses the efficiency and effectiveness of the internal audit activity and identifies opportunities for improvement. This quality assurance and improvement programme includes both internal and external assessments. An external assessment must be conducted every five years and this is only the second time for the assessment at Shropshire. The assessment reviewed the accuracy of the Audit Services' own self-assessment against the PSIAS. This report provides members with an update following the external assessment conducted by the Chartered Institute of Public Finance and Accountancy (CIPFA) in December 2021.
- 2.3. CIPFA concluded from the evidence reviewed as part of the external quality assessment that in their opinion,

'Shropshire Council's Audit Services self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note'.

- 2.4. There are no areas of non-compliance with the standards identified.

- 2.5. An advisory action to explore the merits of the 'Smartanalyser' add on tool for IDEA was made and responded to.

3. Recommendations

- 3.1. The Committee consider and endorse, with appropriate comment, the information set out in this report.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. It is a requirement of the PSIAS to have an external assessment, the results of which can be used to demonstrate the Service's quality to both its main customer, Shropshire Council, and other clients.
- 4.2. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and the Accounts and Audit Regulations 2015. There are no direct environmental or equalities consequences of this proposal.

5. Financial Implications

- 5.1. The cost of the review was met from existing budgets.

6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting and mitigation; or on climate change adaptation. However, the work of the Committee and the Internal Audit service will look at these aspects relevant to the governance, risk management and control environment.

7. Background

- 7.1. An external assessment of the Audit's team's compliance with the PSIAS must be completed every five years by a qualified, independent assessor or assessment team. Members will recall, as reported at their September meeting, that quotations were requested from two Internal Audit specialist bodies and the contract awarded to the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA set the internal audit standard within local government and have a deep knowledge of the impact of the PSIAS on the wider public sector. They are well placed to conduct such a review. CIPFA also have responsibility for setting accounting standards for a significant part of the economy and can therefore use this experience to provide pertinent feedback to the service and its clients. CIPFA is independent of the Council and Ray Gard, FCCA, CFIIA, CPFA, DMS, conducted the review in November/December 2021.

7.2. The review was carried out through a process of interviews with employees of Shropshire Council’s Audit Services (SCAS), key officers and members within the Council, and the main external clients, plus a document review. Internal Audit made a comprehensive range of documents available for examination during the review. This included their own robust self-assessment and quality assurance and improvement plan (QAIP); the audit manual and guidance for employees; individual audit reports; and a range of reports and communications that demonstrate the flow of information between Internal Audit and the audit committees of the Council and their main clients. The full CIPFA report is attached as **Appendix A**.

7.3. From the evidence reviewed, CIPFA found no areas of non-compliance with the standards:

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000	Fully Conforms
Attribute standard 1100	Fully Conforms
Attribute standard 1200	Fully Conforms
Attribute standard 1300	Fully Conforms
Performance standard 2000	Fully Conforms
Performance standard 2100	Fully Conforms
Performance standard 2200	Fully Conforms
Performance standard 2300	Fully Conforms
Performance standard 2400	Fully Conforms
Performance standard 2500	Fully Conforms
Performance standard 2600	Fully Conforms

7.4. CIPFA reported identifying many areas of notable good practice. In particular, highlighting the following as good examples of best practice that would benefit any modern internal audit function: -

- the comprehensive audit charter;
- detailed Pentana user guide, audit manual and procedure notes;
- full utilisation of the ‘three lines’ model of assurance that underpins the work of the Service;
- use of computer assisted audit techniques to audit large and complex data sets;
- the direction of travel box/table for audit assurance opinions included in audit reports; and

- the comprehensive audit control sheet and Pentana checklist.

7.5. CIPFA concluded that:

It is our opinion that Shropshire Council's Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

7.6. An advisory action to explore the merits of the 'Smartanalyser' add on tool for IDEA was made and responded to. In addition, the assessor asked if it was acceptable to the Head of Audit, to put another Audit service in touch with them where the service is in its infancy and looking for best practice and support from a well-established one. This was agreed and initial contact made by officers from a newly formed Unitary Council.

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

Public Sector Internal Audit Standards (PSIAS).
CIPFA's Local Government Application Note (LGAN)
Various internal documents supporting self-assessment against the PSIAS.
Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder) Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member N/A

Appendices

Appendix A: CIPFA's Final Report: External Quality Assessment of Conformance to the Public Sector Internal Audit Standards; Shropshire Council's Audit Service; Final Report, 9th December 2021

External Quality Assessment of Conformance to the Public Sector Internal Audit Standards

Shropshire Council's Audit Service

Final Report

Lead Associate: Ray Gard, CPFA, FCCA, CFIIA, DMS

Internal QA: Policy and Technical, CIPFA.

9th December 2021

1. Introduction

- 1.1 Internal audit within the public sector in the United Kingdom is governed by the Public Sector Internal Audit Standards (PSIAS), which have been in place since 1st April 2013 (revised 2016 and 2017). All public sector internal audit services are required to measure how well they are conforming to the standards. This can be achieved through undertaking periodic self-assessments, external quality assessments, or a combination of both methods. However, the standards state that an external reviewer must undertake a full assessment or validate the internal audit service's own self-assessment at least once in a five-year period.

2. Background

- 2.1 Shropshire Council Audit Services (SCAS) are based at Shire Hall in Shrewsbury and provide internal audit services to Shropshire Council, Shropshire Fire and Rescue Service, Shropshire Towns and Rural Housing Ltd, West Mercia Energy, Shropshire Pension Fund, and Oswestry Town Council. SCAS has 12 full time equivalent (FTE) posts in its establishment with 0.7 FTE posts currently being held vacant, and they have and access to the Staffordshire framework contract for internal audit, which is used to supplement the in-house resources as and when needed.
- 2.2 The members of the Internal Audit team are well qualified with five accountants, including the Head of Audit, one chartered member of the Institute of Internal Auditors, and one diploma level member of the Institute of Internal Auditors (equivalent to certified internal auditor status). The remainder of the team are either studying for a relevant professional qualification or have attained other relevant qualifications during their careers such as Chartered Bankers or Accounting Technician qualifications. Some members of the team also hold additional specialist qualifications in relevant disciplines such as IT audit and counter fraud. Several members of the team have extensive local government internal audit experience, including the Head of Audit, and some are able to bring knowledge and experience to the team that they have gained from working in other sectors. The Service is committed to developing its employees and has recently recruited two trainee auditors to the team.
- 2.3 From an operational perspective, SCAS reports directly to the executive teams and Audit Committees at their respective clients. These two bodies fulfil the roles of 'senior management' and 'the board', as defined by the Public Sector Internal Audit Standards. For Shropshire Council, the Head of Audit reports directly to the Executive Director of Resources (the Council's Section 151 Officer) and has direct access to the Council's Chief Executive Officer, the Chair and full membership of the Audit Committee (AC). Regular reports on the audit plan, progress on delivering the plan and the annual opinion and outturn are made to the Council's senior leadership team and the Audit Committee. Similar arrangements are in place for SCAS's other clients.
- 2.3 SCAS has been operating under PSIAS since its launch in 2013, and this is the second external quality assessment that they have commissioned, the previous one being in 2017.
- 2.4 SCAS has an audit manual that is clear and easy to follow and provides the auditors with a comprehensive guide to all aspects of performing an internal audit or consultancy assignment. Standard templates are used for the engagement working papers and testing schedules, engagement terms of references, action plans and audit reports. All these documents are held in SCAS's audit management application, Pentana.
- 2.5 The Pentana application is also used for managing the engagements with all staff recording time spent on the assignments in the application. Supervision of the engagements takes place at every stage of the process and is recorded in Pentana.

- 2.6 SCAS has a quality assurance process in place that feeds into its Quality Assurance and Improvement Programme (QAIP). There are five main elements to this process. The first element is a review of the live engagement by the supervising officer to ensure the audit has been performed properly and conforms to the PSIAS, and to ascertain whether there are any lessons to be learnt for future reviews or for the auditor. The second element comprises a customer satisfaction questionnaire and survey, with the third element being regular dialogue and liaison with senior managers at all of SCAS' clients. The fourth and fifth elements comprise a review of the Service's audit procedures and documents and an annual self-assessment of SCAS's overall conformity with the PSIAS. All the above processes are used to inform SCAS's QAIP.

3. Validation Process

- 3.1 The self-assessment validation comprises a combination of a review of the evidence provided by Shropshire Council's Audit Service; a review of a sample of completed internal audits, chosen by the assessor, covering all the Service's main clients; questionnaires that were sent to and completed by a range of stakeholders from SCAS's clients; and a series of (virtual) interviews using MS Teams with key stakeholders, again covering all SCAS's main clients. The questionnaire and interviews focussed on determining the strengths and weaknesses of SCAS and assessed the Service against the four broad themes of Purpose and Positioning; Structure and Resources; Audit Execution; and Impact.
- 3,2 SCAS provided a comprehensive range of documents that they used as evidence to support their self-assessment, and these were available for examination prior to and during this validation review. These documents included the:
- self-assessment against the standards;
 - quality assurance and improvement plan (QAIP);
 - evidence file to support the self-assessment;
 - the audit charters;
 - the annual reports and opinions for the main clients;
 - the audit plans and strategies for the main clients;
 - audit procedures manual;
 - a range of documents and records relating to the team members; and
 - progress and other reports to the respective Audit Committees.

All the above documents were examined during this EQA.

- 3.3 The main phase of the validation process was carried out from the 15th to the 19th of November 2021, and involved interviews with the key personnel from SCAS, plus a sample of key stakeholders from SCAS's customer base, made up of members of the senior management teams and chairs of Audit Committees. Overall, the feedback from the interviewees was positive with clients valuing the professional and objective way SCAS delivered services.
- 3.4 A questionnaire was sent to a range of other key stakeholders as part of the assessment process and the results analysed during the review. A summary of the survey results is shown at appendix A of the report. Overall, the analysis of the completed questionnaires showed that officers and members of the Council had a positive perception of SCAS with clients valuing the professional and objective way they delivered services.

- 3.5 The assessor also reviewed examples of completed audits, covering all SCAS's main clients, to confirm his understanding of the audit process used and how SCAS has applied the PSIAS in practice.

4. Opinion

It is our opinion that Shropshire Council's Audit Service's self-assessment is accurate and as such we conclude that they FULLY CONFORM to the requirements of the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note.

- 4.1 The table below shows Shropshire Council's Audit Service's level of conformance to the individual standards assessed during this external quality assessment:

Standard / Area Assessed	Level of Conformance
Mission Statement	Fully Conforms
Core principles	Fully Conforms
Code of ethics	Fully Conforms
Attribute standard 1000	Fully Conforms
Attribute standard 1100	Fully Conforms
Attribute standard 1200	Fully Conforms
Attribute standard 1300	Fully Conforms
Performance standard 2000	Fully Conforms
Performance standard 2100	Fully Conforms
Performance standard 2200	Fully Conforms
Performance standard 2300	Fully Conforms
Performance standard 2400	Fully Conforms
Performance standard 2500	Fully Conforms
Performance standard 2600	Fully Conforms

- 4.2 During this EQA of Shropshire Council's Audit Services we have identified many areas of notable good practice. In particular, we feel the following are good examples of best practice that would benefit any modern internal audit function:-
- the comprehensive audit charter;
 - detailed Pentana user guide, audit manual and procedure notes;

- full utilisation of the 'three lines' model of assurance that underpins the work of the Service;
- use of computer assisted audit techniques to audit large and complex data sets;
- the direction of travel box/table for audit assurance opinions included in audit reports; and
- the comprehensive audit control sheet and Pentana checklist.

5. Areas of full conformance with the Public Sector Internal Audit Standards

5.1 Mission Statement and Definition of Internal Audit

The mission statement and definition of internal audit from the PSIAS are included in the audit charter.

5.2 Core Principles for the Professional Practice of Internal Auditing

The Core Principles, taken as a whole, articulate an internal audit function's effectiveness, and provide a basis for considering the organisation's level of conformance with the Attribute and Performance standards of the PSIAS.

The clear indication from this EQA is that the Core Principles are embedded in the audit manual and the Pentana audit management application, and that Shropshire Council's Audit Services is a competent and professional service that conforms to all ten elements of the Core Principles.

5.3 Code of Ethics

The purpose of the Institute of Internal Auditors' Code of Ethics is to promote an ethical culture in the profession of internal auditing, and is necessary and appropriate for the profession, founded as it is on the trust placed in its objective assurance about risk management, control, and governance. The Code of Ethics provides guidance to internal auditors and in essence, it sets out the rules of conduct that describe behavioural norms expected of internal auditors and are intended to guide their ethical conduct. The Code of Ethics applies to both individuals and the entities that provide internal auditing services.

The clear indication from this EQA is that Shropshire Council's Audit Services conforms to the Code of Ethics, and this is embedded in their audit manual and the Pentana audit management application. It is part of their overarching culture and underpins the way the Service operates.

5.4 Attribute Standard 1000 – Purpose, Authority and Responsibility

The purpose, authority and responsibility of the internal audit activity must be formally defined in an internal audit charter, consistent with the Mission of Internal Audit and the mandatory elements of the International Professional Practices Framework (the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, the Standards, and the Definition of Internal Auditing). The internal audit charter must be reviewed regularly and presented to senior management and the audit panel for approval.

Shropshire Council's Audit Services has one uniform audit charter that applies to all its clients. We reviewed this document found the audit charter to be a comprehensive and well written document and a model example of how a good audit charter should look. We are therefore satisfied that SCAS conforms to attribute standard 1000 and the LGAN.

5.5 **Attribute Standard 1100 – Independence and Objectivity**

Standard 1100 states that the internal audit activity must be independent, and internal auditors must be objective in performing their work.

The need for independence and objectivity is covered in Shropshire Council's Audit Services' audit manual and is an integral part of their culture. The Service reports in its own name and directly to senior management and the Audit Committees at all its clients. All employees sign a declaration of interest each year and declare any potential impairment to independence or objectivity for each audit they undertake.

We have reviewed the Service's audit manual and their standard documentation, and their quality assurance and improvement plan and the sample of completed audit files used to support their self-assessment. We have also reviewed their reporting lines and SCAS' positioning in the organisations they work with. We are satisfied that Shropshire Council's Audit Services conforms with attribute standard 1100 and the LGAN.

5.6 **Attribute Standard 1200 – Proficiency and Due Professional Care**

Attribute standard 1200 requires Shropshire Council's Audit Services' engagements are performed with proficiency and due professional care, having regard to the skills and qualifications of the staff, and how they apply their knowledge in practice.

It is evident from this EQA that Shropshire Council's Audit Services has a professional and experienced, workforce who all either hold, or are working towards obtaining, relevant professional qualifications. The Head of Audit holds a CCAB qualification, and the three Principal Auditors are either accountants or chartered Internal Auditor.

The Service is fortunate in having two qualified IT auditors amongst the team members. These and other members of the team are experienced in analysing data by using the IDEA software application, and the Microsoft Power BI application. SCAS has produced a data analytics strategy and have made presentations to management on the use of data analytics, and all auditors are encouraged to consider the use of IDEA when planning their audit engagements. Whilst SCAS has made very good use of data analytics and the IDEA application, they are also keen to expand the range of systems and processes that can be audited by electronic means. This will require them to develop further IDEA test scripts which can be a timing consuming process. To facilitate this process and ease the pressure on staff resources we have made one suggestion for the Head of Audit to consider, and this is set out in the action plan at section 9 of the report.

It is evident from this review that the Service's employees are experienced and well qualified and perform their duties with due professional care. We are satisfied that Shropshire Council's Audit Services complies with attribute standard 1200 and the LGAN. We have made one suggestion to strengthen the services they provide to their clients that we have set this out in section 8 of this report.

5.7 **Attribute Standard 1300 – Quality Assurance and Improvement Programmes**

This standard requires the Head of Audit to develop and maintain a quality assurance and improvement programme that covers all aspects of the internal audit activity.

Shropshire Council's Audit Services has developed a robust and effective quality assurance process that ensures engagements are performed to a high standard within the available resources. It is effective and feeds into SCAS's quality assurance and improvement programme. We have examined the supporting evidence provided by SCAS during the EQA and are satisfied that Shropshire Council's Audit Services conforms to attribute standard 1300 and the LGAN.

5.8 **Performance Standard 2000 – Managing the Internal Audit Activity**

The remit of this standard is wide and requires the Head of Audit to manage the internal audit activity effectively to ensure it adds value to its clients. Value is added to a client and its stakeholders when internal audit considers their strategies, objectives, and risks; strives to offer ways to enhance their governance, risk management, and control processes; and objectively provides relevant assurance to them. To achieve this, the Head of Audit, Anti-Fraud and Assurance must produce an audit plan for each client, and communicate this and the Service's resource requirements, including the impact of resource limitations, to senior management and the Audit Committees at each client for their review and approval. The Head of Audit must ensure that SCAS's resources are appropriate, sufficient, and effectively deployed to achieve the approved plan.

The standard also requires the Head of Internal Audit, Anti-fraud and Assurance to establish policies and procedures to guide the internal audit activity, and to share information, coordinate activities and consider relying upon the work of other internal and external assurance and consulting service providers to ensure proper coverage and minimise duplication of efforts.

Last, but by no means least, the standard requires the Head of Audit to report periodically to senior management and the Audit Committees on internal audits activities, purpose, authority, responsibility, and performance relative to its plan, and on its conformance with the Code of Ethics and the Standards. Reporting must also include significant risk and control issues, including fraud risks, governance issues and other matters that require the attention of senior management and/or the audit panels.

Shropshire Council's Audit Services has a comprehensive range of procedures in place, including an audit manual, procedure notes, a detailed Pentana user guide, supervision and quality assurance processes that are easily accessible by the staff and fully meet the requirements of the PSIAS. They have developed comprehensive planning processes that follow best practice and the "three lines model" by taking into consideration the client's known risks and objectives; and their risk management and governance frameworks; any other relevant and reliable sources of assurance that are available to the client; any key issues identified by the client's managers; SCAS's own risk and audit needs assessments; emerging risks identified through horizon scanning and networking; and the resources that are available to undertake the audits. From this information, SCAS produces risk-based audit plans that are designed to enhance the client's risk management, governance and control frameworks; objectively provide them with relevant assurance and add value to their operations. These audit plans are reviewed and approved by the senior management and the Audit Committees at each client.

Details of the completed audits and the risk and control issues found, together with the progress being made on delivering the audit plans and the performance of SCAS, is regularly reported to the relevant Audit Committees, with an annual report and opinion being issued for each client at the end of the year.

The clear indication from this EQA is that Shropshire Council's Audit Services is effectively managed and conforms to standard 2000 and the LGAN.

5.9 Performance Standard 2100 – Nature of Work

Standard 2100 covers the way the internal audit activity evaluates and contributes to the improvement of the organisation's risk management and governance framework and internal control processes, using a systematic, disciplined and risk-based approach.

This is the approach adopted by Shropshire Council's Audit Services and is set out in their audit manual, the Pentana audit management system, and their working methodologies. During this EQA, we reviewed the sample of audits used to support SCAS' self-assessment and examined them to see if they conformed to standard

2100 and the Service's own methodologies. We found that all the evidence that we examined complied with both.

Internal audit's credibility and value is enhanced when auditors are proactive, and their evaluations offer new insights and consider future impact on the organisation. Overall SCAS's clients value the work the Service does in this area and often turn to them for advice and guidance when faced with emerging risks or are developing or changing systems. Several clients confirmed to us that they valued the support provided by SCAS during the early phases of the COVID-19 pandemic.

The clear indication from this EQA is that Shropshire Council's Audit Services conforms to performance standard 2100 and the LGAN.

5.10 Performance Standard 2200 – Engagement Planning

Performance standard 2200 requires internal auditors to develop and document a plan for each engagement, including the engagement's objectives, scope, timing and resource allocations. The plan must consider the organisation's strategies, objectives, and risks relevant to the engagement.

As mentioned in section two of this report, Shropshire Council's Audit Services has an audit manual, supervision and quality assurance processes in place that covers engagement planning in detail and meets the requirements of the PSIAS. We found that all the evidence that we examined during this EQA conformed to standard 2200, the LGAN, and the Service's own audit procedures, and therefore we conclude that Shropshire Council's Audit Services conforms to performance standard 2200 and the LGAN.

5.11 Performance Standard 2300 – Performing the Engagement

Performance standard 2300 seeks to confirm that internal auditors analyse, evaluate and document sufficient, reliable, relevant, and useful information to support the engagement results and conclusions, and that all engagements are properly supervised.

As mentioned above, Shropshire Council's Audit Services has an audit manual, Pentana user guides, supervision and quality assurance processes in place that meets the requirements of the standards. During this EQA, we reviewed the evidence provided in support of the Service's self-assessment to see if they conformed to the standards. We found that all the evidence conformed to the standards and Service's own audit manual and methodologies, and therefore we conclude that Shropshire Council's Audit Services conforms to performance standard 2300 and the LGAN.

5.12 Performance Standard 2400 – Communicating Results

This standard requires internal auditors to communicate the results of engagements to clients and sets out what should be included in each audit report, as well as the annual report and opinion. When an overall opinion is issued, it must take into account the strategies, objectives and risks of the clients and the expectations of their senior management, the audit panels and other stakeholders. The overall opinion must be supported by sufficient, reliable, relevant, and useful information. Where an internal audit function is deemed to conform to the PSIAS, reports should indicate this by including the phrase "conducted in conformance with the International Standards for the Professional Practice of Internal Auditing".

The audit manual, Pentana user guides, supervision and quality assurance processes cover the communication of results in detail and meet the requirements of the PSIAS. During this EQA, we reviewed the evidence provided in support of the Service's self-assessment to see if they conformed to the standards. We found that all the evidence conformed to the standards and Service's own audit manual and methodologies.

We also reviewed the progress and annual reports to the Audit Committees and found that these also conformed to the standards and SCAS's own internal procedures.

We therefore conclude that Shropshire Council's Audit Services conforms to performance standard 2400 and the LGAN.

5.13 **Performance Standard 2500 – Monitoring Progress**

There is a comprehensive follow-up process in place at all SCAS's clients, the objective of which is to monitor the client's progress towards the implementation of agreed actions. The results of the follow-up reviews are reported to the relevant Audit Committees. From this EQA, it is evident that Shropshire Council's Audit Services conforms to performance standard 2500 and the LGAN.

5.14 **Performance Standard 2600 – Communicating the Acceptance of Risk**

Standard 2600 considers the arrangements which should apply if the Head of Audit has concluded that a client's management has accepted a level of risk that may be unacceptable to the organisation. Situations of this kind are expected to be rare, consequently, we did not see any during this EQA. From this external quality assessment, it is evident that Shropshire Council's Audit Services conforms to performance standard 2600 and the LGAN.

6. Areas of partial conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

6.1 There are no areas of partial conformance with the Public Sector Internal Audit Standards.

7. Areas of non-conformance with the Public Sector Internal Audit Standards and the CIPFA Local Government Application Note

7.1 There are no areas of non-conformance with the Public Sector Internal Audit Standards.

8. Survey results

8.1 The results of the survey of key stakeholders from SCAS' clients are shown in appendix A of the report. The number of returned questionnaires was twenty which is a reasonable response rate and sufficient to provide a meaningful analysis. Overall, most of the responses were positive with respondents valuing the services provided by SCAS. There are however a small number of negative responses to some questions that the Head of Audit may wish to explore further to establish if there are any underlying issues that may need to be addressed.

9. Action Plan

1. Explore the merits of the 'SmartAnalyser' add on tool for IDEA (Advisory)	
Rationale	Agreed Action
<p>Whilst SCAS has made very good use of data analytics and the IDEA application, they are also keen to expand the range of systems and processes that can be audited by electronic means. This will require them to develop further IDEA test scripts which can be a timing consuming process. To facilitate this process and ease the pressure on staff resources we suggest that the Head of audit looks at the 'SmartAnalyser' add-on tool for IDEA. This tool comprises a collection of pre-written test scripts covering the core financial, HR and asset management processes found in any large organisation that could be applied to the corresponding processes within the Council.</p>	<p>Internal Audit upgraded to IDEA Version 11 in July 2020 and within this release the scripts available in the Smart Analyser tool are included. In addition, this version also includes IDEA Lab where further IDEA related resources are available. We have developed bespoke testing scripts covering elements based around some of our fundamental systems in place at SC, to inform our audit programmes. This is an ongoing piece of work which is being rolled out as part of our delivery of the Data Analytics Strategy as audit areas come up in the plan. Future developments identified include experimenting with some of the AI (artificial intelligence) tools available in the IDEA Lab and implement these where they add value to Internal Audit client activities.</p>
Action Responsibility	Head of Audit
Deadline	March 2024

10. Definitions

Fully Conforms	The internal audit service complies with the standards with only minor deviations. The relevant structures, policies, and procedures of the internal audit service, as well as the processes by which they are applied, at least comply with the requirements of the section in all material respects.
Partially Conforms	The internal audit service falls short of achieving some elements of good practice but is aware of the areas for development. These will usually represent significant opportunities for improvement in delivering effective internal audit and conformance to the standards.
Does Not Conform	The internal audit service is not aware of, is not making efforts to comply with, or is failing to achieve many/all of the elements of the standards. These deficiencies will usually have a significant adverse impact on the internal audit service's effectiveness and its potential to add value to the organisation. These will represent significant opportunities for improvement, potentially including actions by senior management or the board.

Action Priorities	Criteria
High priority	The internal audit service needs to rectify a significant issue of non-conformance with the standards. Remedial action to resolve the issue should be taken urgently.
Medium priority	The internal audit service needs to rectify a moderate issue of conformance with the standards. Remedial action to resolve the issue should be taken, ideally within six months.
Low priority	The internal audit service should consider rectifying a minor issue of conformance with the standards. Remedial action to resolve the issue should be considered but the issue is not urgent.
Advisory	These are issues identified during the course of the EQA that do not adversely impact the service's conformance with the standards. Typically, they include areas of enhancement to existing operations and the adoption of best practice.

The co-operation of the Head of Audit and the Principal Auditor at SCAS in providing the information requested for this EQA, is greatly appreciated. Our thanks also go to the chairs of the Audit Committees and the key stakeholders from SCAS's clients that made themselves available for interview during the EQA process and/or completed questionnaires.

Ray Gard, CPFA, FCCA, FCIIA, DMS

9th December 2021

This report has been prepared by CIPFA at the request of the Shropshire Council's Audit Services' Head of Audit, the terms for the preparation and scope of the report have been agreed with him. The matters raised are only those that came to our attention during our work. Whilst every care has been taken to ensure that the information provided in this report is as accurate as possible, we have only been able to base findings on the information and documentation provided. Consequently, no complete guarantee can be given that this report is necessarily a comprehensive statement of all the issues that exist with their conformance to the Public Sector Internal Audit Standards that exist, or of all the improvements that may be required.

The report was prepared solely for the use and benefit of the Shropshire Council's Audit Services, including the senior management and boards of Shropshire Council's Audit Services' clients, and to the fullest extent permitted by law, CIPFA accepts no responsibility and disclaims all liability to any other third party who purports to use or rely, for any reason whatsoever on the report, its contents, conclusions, any extract, and/or reinterpretation of its contents. Accordingly, any reliance placed on the report, its contents, conclusions, any extract, reinterpretation, amendment and/or modification by any third party is entirely at their own risk.

Summary of Survey Results

As part of the EQA process, CIPFA used a questionnaire to obtain the views of the key stakeholders from Shropshire Council's Audit Services' main clients. A total of twenty completed questionnaires were returned.

Customer Survey – Shropshire Council's Internal Audit Service

1. Standing and Reputation of Internal Audit: The internal audit service is seen as a key strategic partner throughout the organisation.

[More Details](#)

[Insights](#)

● Agree	14
● Partially agree	4
● Do not agree	1
● Not applicable	1

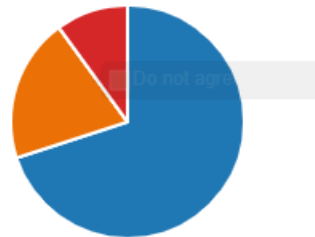


2. Standing and Reputation of Internal Audit: Senior managers understand and fully support the work of internal audit.

[More Details](#)

[Insights](#)

● Agree	14
● Partially agree	4
● Do not agree	0
● Not applicable	2



3. Standing and Reputation of Internal Audit: Internal audit is valued throughout the organisation.

[More Details](#)

[Insights](#)

● Agree	9
● Partially agree	9
● Do not agree	1
● Not applicable	1



4. Standing and Reputation of Internal Audit: The internal audit service is delivered with professionalism at all times.

[More Details](#)

● Agree	20
● Partially agree	0
● Do not agree	0
● Not applicable	0



5. Impact on Organisational Delivery: The internal audit service responds quickly to changes within the organisation

[More Details](#)

[Insights](#)

● Agree	15
● Partially agree	3
● Do not agree	0
● Not applicable	2



6. Impact on Organisational Delivery: The internal audit service has the necessary resources and access to information to enable it to fulfil its mandate.

[More Details](#)

[Insights](#)

● Agree	10
● Partially agree	7
● Do not agree	1
● Not applicable	2

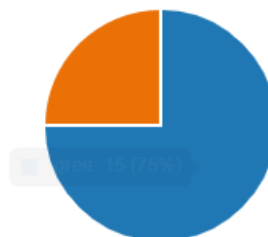


7. Impact on Organisational Delivery: The internal audit service is adept at communicating the results of its findings, building support and securing agreed outcomes.

[More Details](#)

[Insights](#)

● Agree	15
● Partially agree	5
● Do not agree	0
● Not applicable	0



8. Impact on Organisational Delivery: The internal audit service's findings and recommendations consider the wider impact on the organisation.

[More Details](#)

[Insights](#)

Agree	13
Partially agree	6
Do not agree	0
Not applicable	1



9. Impact on Organisational Delivery: The internal audit service ensures that recommendations made are proportionate, commercial and practicable in relation to the risks identified.

[More Details](#)

[Insights](#)

Agree	9
Partially agree	10
Do not agree	0
Not applicable	1

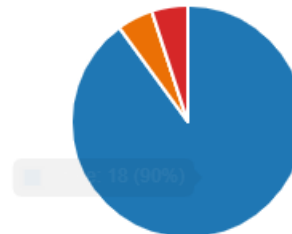


10. Impact on Organisational Delivery: There have not been any significant control breakdowns or surprises in areas that have been positively assured by the internal audit service.

[More Details](#)

[Insights](#)

Agree	18
Partially agree	1
Do not agree	0
Not applicable	1



11. Has Internal Audit had a positive impact on Governance, Risk and Control? The internal audit service includes consideration of all risk areas in its work programme.

[More Details](#)

[Insights](#)

Agree	18
Partially agree	1
Do not agree	0
Not applicable	1



12. Has Internal Audit had a positive impact on Governance, Risk and Control? Internal audit advice has a positive impact on the governance, risk management, and the system of control of the organisation.

[More Details](#)

[Insights](#)

● Agree	18
● Partially agree	1
● Do not agree	0
● Not applicable	1



13. Has Internal Audit had a positive impact on Governance, Risk and Control? Internal audit activity has enhanced organisation-wide understanding of governance, risk management, and internal control.

[More Details](#)

[Insights](#)

● Agree	15
● Partially agree	3
● Do not agree	1
● Not applicable	1



14. Has Internal Audit had a positive impact on Governance, Risk and Control? The internal audit service asks challenging and incisive questions that stimulate improvements in key risk areas.

[More Details](#)

[Insights](#)

● Agree	16
● Partially agree	3
● Do not agree	0
● Not applicable	1



15. Has Internal Audit had a positive impact on Governance, Risk and Control? The internal audit service raises significant control issues at an appropriate level and time in the organisation.

[More Details](#)

[Insights](#)

● Agree	16
● Partially agree	2
● Do not agree	0
● Not applicable	2



16. Has Internal Audit had a positive impact on Governance, Risk and Control? The organisation accepts and uses the business knowledge of internal auditors to help improve business processes and meet strategic objectives.

[More Details](#)

[Insights](#)

● Agree	15
● Partially agree	5
● Do not agree	0
● Not applicable	0



17. Has Internal Audit had a positive impact on Governance, Risk and Control? Internal audit activity influences positive change and continuous improvement to business processes, the management of risks and accountability within the organisation.

[More Details](#)

[Insights](#)

● Agree	17
● Partially agree	3
● Do not agree	0
● Not applicable	0



18. Has Internal Audit had a positive impact on Governance, Risk and Control? Internal audit activity promotes appropriate ethics and values within the organisation.

[More Details](#)

[Insights](#)

● Agree	16
● Partially agree	2
● Do not agree	2
● Not applicable	0



Below are some comments extracted from completed surveys that management may wish to consider:

- Overall, I am very happy with the level of service provided by Ceri and her team.
- The Audit is a positive experience and is used to generate improvement activity.
- Internal audit have a better understanding of the governance of the Council than any other part of the organisation.
- The whole of the audit team have professional integrity and are prepared to raise contentious issues even when this is difficult to do. The audit team are always fair but thorough in their work.

- The audit team provides a highly professional service and delivers insightful commentary and useful recommendations to help identify and clarify risks and set out mitigations. In a couple of cases relating to the Culture, Leisure, Tourism team the findings and recommendations have not fully reflected issues with IT, which impact on the way in which CLT can deliver and monitor its services. It is important that such realities of each situation are understood and acknowledged in reaching a judgement on performance. The teams dealing with service delivery are not always as fully in control of all variables as they would like to be.
- Internal Audit provide a valuable and professional service across the Organisation.
- Experience of some very positive and helpful audits, but also some which have had a very risk averse approach/not understood the area being audited which has given rise to challenge on some recommendations. Overall though the audit team are professional and very approachable to discuss issues.
- Where I have put "partially agree" to other questions it is because many members, especially those new to the Council in May this year, simply do not understand the role of Audit nor are sufficiently concerned to make themselves familiar with the principles of Audit. There is still a widespread perception that Audit is solely about money and the understanding that Audit is about risk and governance is only appreciated by few members.
- As s151 Officer for the authority I have great confidence in the Internal Audit Team under the leadership of the Head of IA. The Audit Cttee is very well served by the team and similarly valued. The wider organisation is supportive of the team and generally have a good understanding of their remit and purpose, which is improving under Ceri's guidance.
- On occasion the audit programme will place pressure on service delivery with a significant number of audits on one area. It may be beneficial to review the forward plan programme to ensure there is not a continued pressure on one particular area.



<u>Committee and Date</u>	<u>Item</u>
<p><u>Committee and Date</u></p> <p>Audit Committee</p> <p>22 February 2022</p> <p>10 am</p>	<p><u>Public</u></p>

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski

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

1. Synopsis

The Charter demonstrates how Internal Audit complies with Public Sector Internal Audit Standards. The Audit Committee approves the Charter which incorporates the mission, code of ethics, definition and core principles of Internal Audit. There are no significant changes.

2. Executive Summary

2.1. The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis; for 2021 there is one update, the addition of Senior Management and Board details in **Appendix A, Annex B** to reflect a new client.

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

4.1. Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function and complies with the Public Sector Internal Audit Standards.

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

5. Financial Implications

- 5.1. There are no direct financial implications from adopting the Charter.

6. Climate Change Appraisal

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

7. Background

- 7.1. The Public Sector Internal Audit Standards (PSIAS) 2017 are mandatory for internal audit in public services, including local government. They reflect and are based upon the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors. In addition, amendments were made to the public-sector requirements and public-sector interpretations which form part of the PSIAS. The Internal Audit Charter continues to reflect the standards.
- 7.2. Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Audit's reporting relationship with the Audit Committee; authorises access to personnel, records, and physical properties relevant to audit work; and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in **Annex B** of the Charter and there has been an addition made here to reflect a new client, details of which appear in **bold, underlined and italic** font.
- 7.3. The Internal Audit Charter refers to;
- The nature of assurance services provided to the Council.
 - Organisational independence
 - Individual objectivity
 - Impairment to independence or objectivity
 - Proficiency and due professional care
 - Continuing professional development
 - Quality assurance and improvement programme – internal and external.

7.4. The Charter will communicate the contribution that Internal Audit makes to the Council and includes:

- Internal Audit’s mission
- Purpose, principles and responsibilities
- Independence and objectivity
- Competencies and standards
- Planning
- Nature of work
- Reporting
- Quality assurance
- Fraud and corruption
- Rights of access.

7.5. Final approval of the Internal Audit Charter resides with Shropshire Council’s Audit Committee.

8. Additional Information

8.1. During 2021/22 Cornovii Developments Limited have engaged Shropshire Internal Audit to complete a programme of audits for them. To reflect this engagement and the responsibility and roles of the two parties, **Annex B** of The Charter, that sets out the senior management and board representatives for Internal Audit’s client organisations has been updated. Please see the **bold, underlined and italic font** in the Annex.

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

Accounts and Audit Regulations 2015

Public Sector Internal Audit Standards 2017

Internal Audit Quality Assurance Improvement Programme – External Assessment, February 2017

CIPFA Statement on the role of the head of internal audit in public service organisations, 2019 edition

CIPFA Local government application note for the United Kingdom Public Sector Internal Audit Standards 2019 edition

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of Audit Committee

Local Member N/A

Appendix A: Internal Audit Charter with annexes A and B



INTERNAL AUDIT CHARTER

MISSION STATEMENT

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

INTERNAL AUDIT CHARTER

INTRODUCTION

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

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

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

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

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

and information and explanations as are considered necessary by the internal auditors.

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

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

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

Principles

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

Objectives

9. Internal Audit's objective is to give assurance and an opinion to the Section 151 Officer, Audit Committee and the Council, on the adequacy of the Council's risk management, governance and control

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

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

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

⁸ Assurance opinions and recommendation categories are defined in Annex A

environment and the extent to which it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015.

Responsibilities

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

INDEPENDENCE AND OBJECTIVITY

14. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.
15. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not allow their judgement on audit matters to be influenced, distorted, or subordinated by others.
16. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.
17. Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal Audit is free to plan, undertake and report on its work as the Head of Internal Audit deems appropriate, in consultation with relevant managers. Counter fraud is a responsibility of the Head of Internal Audit but remains independent of the services from where counter fraud controls are operating.
18. The Head of Internal Audit has direct access to the Section 151 Officer, the External Auditor, senior managers, the Leader, Audit Committee and other members as required.
19. The Head of Internal Audit fosters constructive working relationships and mutual understanding with management, external auditors and with other review agencies.
20. Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, although the internal auditor does not allow their objectivity or impartiality to be impaired.
21. Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit reviews are planned to ensure potential conflicts are avoided. To ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended. Auditors should not allow external factors to compromise their professional judgement and must maintain confidentiality in their work.
22. The Head of Internal Audit cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully

responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate risk management processes, control systems, accounting records, financial processes and governance arrangements i.e. the control environment, exist without depending on internal audit activity to identify weaknesses.

23. The Head of Internal Audit is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and shall make recommendations on the standards of control to be applied. This need not prejudice the audit objectivity when reviewing the systems later.

COMPETENCIES AND STANDARDS

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

INTERNAL AUDIT PLANNING

27. The Head of Internal Audit produces the Council's annual risk-based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan considers the Accounts and Audit (England) Regulations 2015, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
28. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are

approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget⁹ and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.

29. The Internal Audit team has retained a suitable mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. To help supplement the internal resources and respond to demand during periods of change, additional audit time will be purchased from external contractors to deliver the plan.

NATURE OF WORK

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

Governance

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

Risk Management

32. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- organisational objectives support and align with the organisation's mission;
 - significant risks are identified and assessed;

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

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

Control

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

INTERNAL AUDIT REPORTING

38. Internal Audit findings are reported in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The Head of Internal Audit sets standards for reporting, review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
 - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
 - state scope, purpose and extent of conclusions;
 - make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
 - acknowledge the action taken or proposed by management; and
 - ensure that appropriate risk-based arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not acting.
39. The Head of Internal Audit reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Head of Internal Audit produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. The annual report:
- includes an opinion on the overall adequacy and effectiveness of the Council's control environment (definitions in Annex A);
 - discloses any qualifications to that opinion, together with the reasons for the qualification;
 - presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
 - draws attention to any issues the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement;
 - compares the work undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
 - comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

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

FRAUD AND CORRUPTION

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

RIGHTS OF ACCESS

45. Under the Council's Financial Rules, internal auditors have the authority to:
- access at reasonable times, premises or land used by the Council;

¹⁰ Qualified independent assessor or assessment team

¹¹ For both internal and external reviews

- access all assets, records, documents, correspondence and control systems except for those from which they are statutorily prevented;
- require and receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the Council to account for cash, stores or any other Council property under his/her control and produce supporting evidence and assets for inspection if required;
- access records belonging to third parties, such as contractors, when required.

Reviewed October 2021

Public Sector Internal Audit Standards

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

Overall Assurance Opinion

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

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

Overall Assurance Opinion	Indication of when this type of opinion may be given**	Traditional Opinion
	<p>are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or</p> <p>Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and</p> <p>More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk</p>	
No Assurance	<p>High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or</p> <p>Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or</p> <p>More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk</p> <p>Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk</p>	Qualified
Disclaimer	<p>An opinion cannot be issued because insufficient internal audit work has been completed due to either:</p> <ul style="list-style-type: none"> -restrictions in the agreed audit programme, which means that audit work would not provide sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control, or - unable to complete enough reviews and gather sufficient evidence to conclude on the adequacy of arrangements for governance, risk management and control 	Qualified

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

Audit assurance Opinions for engagements are graded as follows

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

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

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

Consultancy Activity

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

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

The nature and scope of the work may include:

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

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

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

Code of Ethics

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

There are four principles in the code of ethics:

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

4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

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

Annex B

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

Cornovii Development Ltd

<i>Senior Management</i>	<i>Managing Director</i>
<i>Board</i>	<i>Cornovii Development Board</i>

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council

Shropshire and Wrekin Fire and Rescue Authority

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

Shropshire County Pension Fund

Senior Management	Pension Fund Administrator
Board	Pensions Committee

STaRH

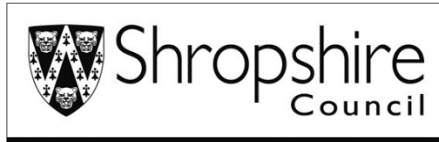
Senior Management	Managing Director and direct reports
Board	Finance, Audit and Risk Sub Committee

West Mercia Energy

Senior Management	Treasurer Managing Director
Board	Joint Committee

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

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee 22 nd February 2022 10:00am	 <u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2021/22

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

1 Synopsis

This report summarises Internal Audit’s 2021/22 work to date. Delivery is slightly behind previous years; the plan is adjusted to reflect the ongoing impact of COVID and changes to risks. Lower assurances are highlighted, providing members with an opportunity to challenge.

2. Executive Summary

- 2.1 This report provides members with an update of work undertaken by Internal Audit in the five months since the September Audit Committee.
- 2.2 Seventy three percent of the revised plan has been completed (**see Appendix A, Table 1**). Two good, seven reasonable, five limited and three unsatisfactory assurance opinions have been issued. The 17 final reports contained 181 recommendations, three of which were fundamental.
- 2.3 This report proposes significant revisions in the coverage of planned activity for Shropshire Council with minor change in resources from the 1,797 days reported in September 2021 to 1,708 days. Changes to planned activity reflects the impact of Omicron on Council activities, from mid-December to the time of writing this report, non-essential services were paused at the Council and focus was on supporting the multi-agency response to Omicron, Bird flu and statutory services, this impacted on Audit resources directly and auditee availability. The resulting changes to plans and resources have been discussed with, and agreed by, the Section 151 Officer.
- 2.4 Internal Audit continues to add value to the Council in supporting its business continuity processes and the delivery of bespoke pieces of work, including sharing best practice and providing advice on system developments.

3 Decisions

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

- 3.1 The performance to date against the 2021/22 Audit Plan.
- 3.2 The adjustments required to the 2021/22 plan to take account of changing priorities set out in **Appendix B** and to,
- 3.3 Identify any action(s) it wishes to take in response to any low assurance levels and fundamental recommendations, brought to Members' attention, especially where they are repeated.

REPORT

4 Risk Assessment and Opportunities Appraisal

- 4.1 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.
- 4.2 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'.
- 4.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 4.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental or equalities consequences of this proposal.

5 Financial Implications

5.1 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.

6 Climate Change Appraisal

6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7 Background

7.1 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.

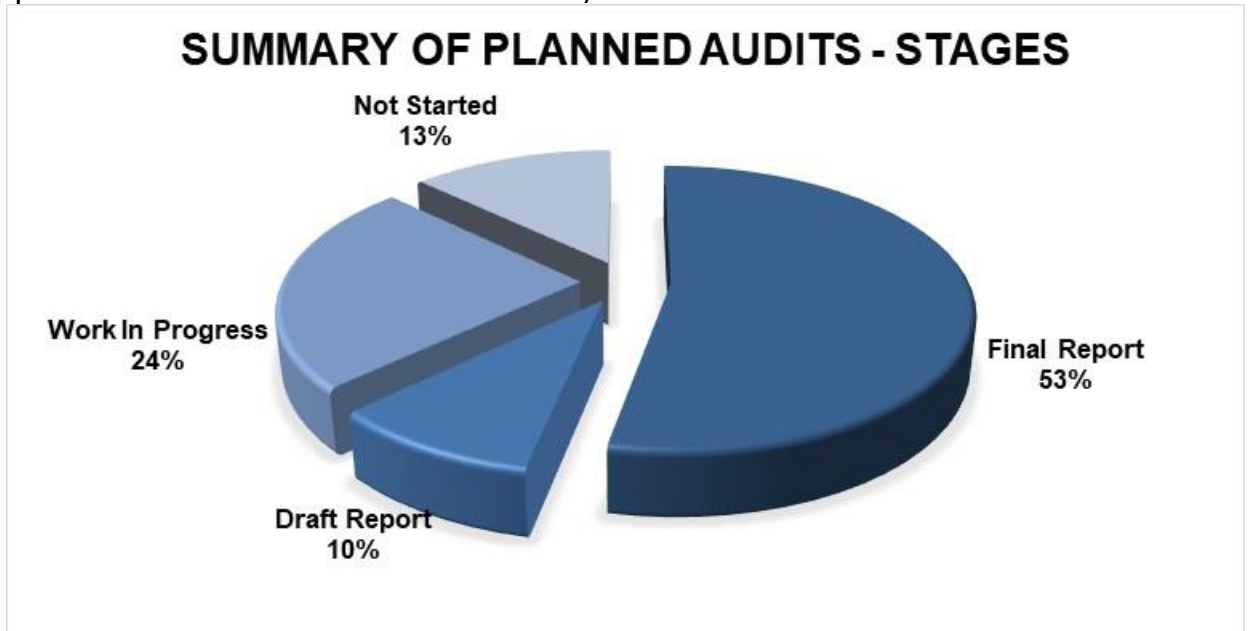
7.2 The 2021/22 Internal Audit Plan was presented to, and approved by, members at the 4th March 2021 Audit Committee, with adjustments being approved in September. This report provides an update on progress made against the plan up to 14th January 2022 and includes revisions to the plan.

8 Performance against the plan 2021/22

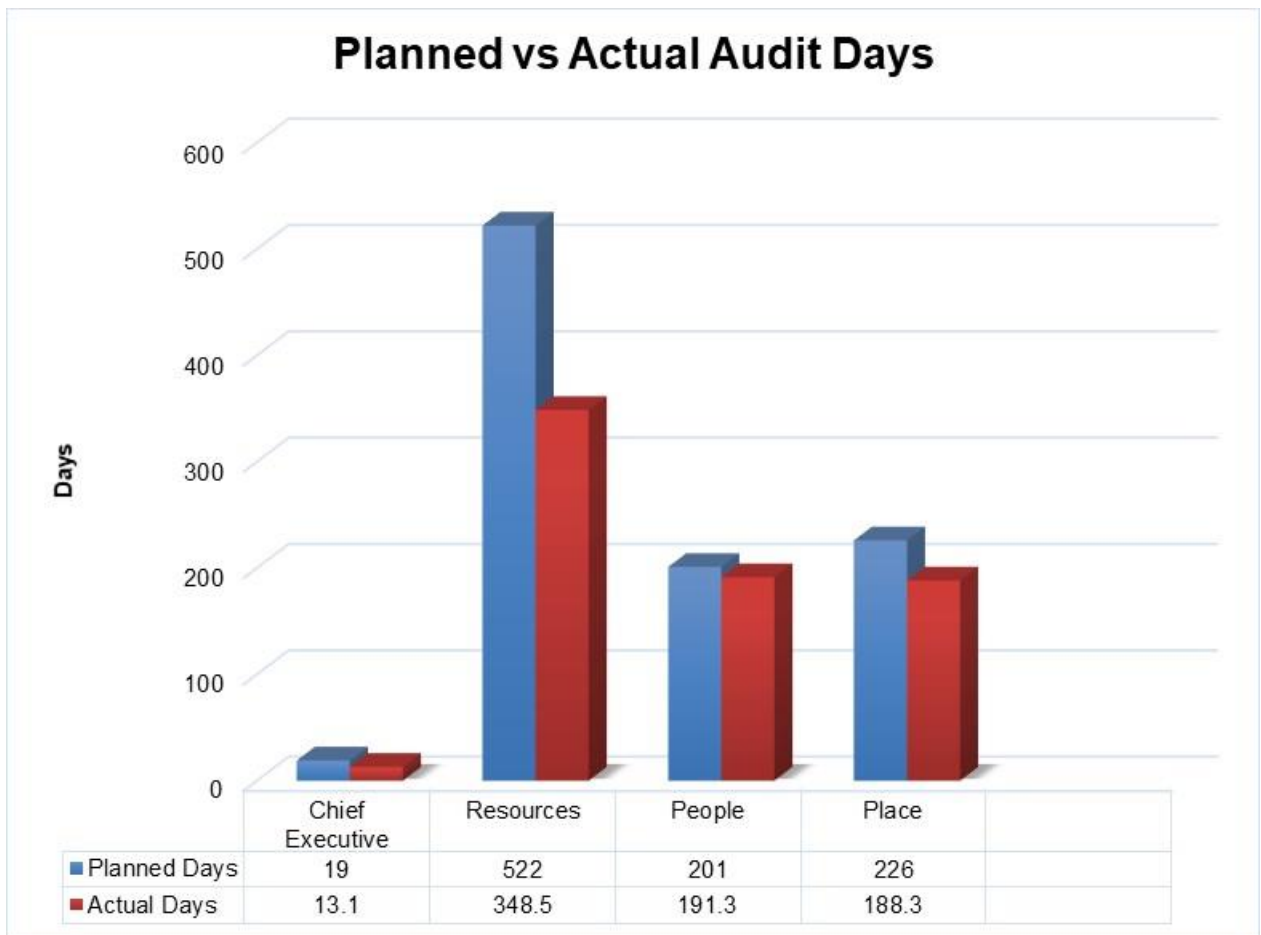
8.1 Revisions to the 2021/22 plan provide for a total of 1,708 days. There have been significant changes in planned audit activity which has been adjusted to reflect changes in resources and risks, as the Service delivers in an agile way. Performance to date is slightly below previous delivery records at 73% (79% 2020/21), the team is on track to deliver a minimum of 90% of the revised annual plan by the year end. An increase in non-chargeable time from 233 to an estimated 378 days reflects in part the impact of recruitment, personal bereavements and long term sickness, which on a small team has been significant. Chargeable unplanned work has seen an increase, supporting the Council's response to Omicron and other business continuity demands; completing the Internal Audit External Assessment; and provision of Chair and Secretarial support to the Midland Heads of Audit group and their IT subgroup.

8.2 In total, 17 final reports have been issued in the period from 9th August 2021 to 14th January 2022. All are listed with their assurance rating and broken down by service area at **paragraph 8.4**, the year to date position is show at

Appendix A, Table 2. The following chart shows performance against the approved Internal Audit Plan for 2021/22:



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



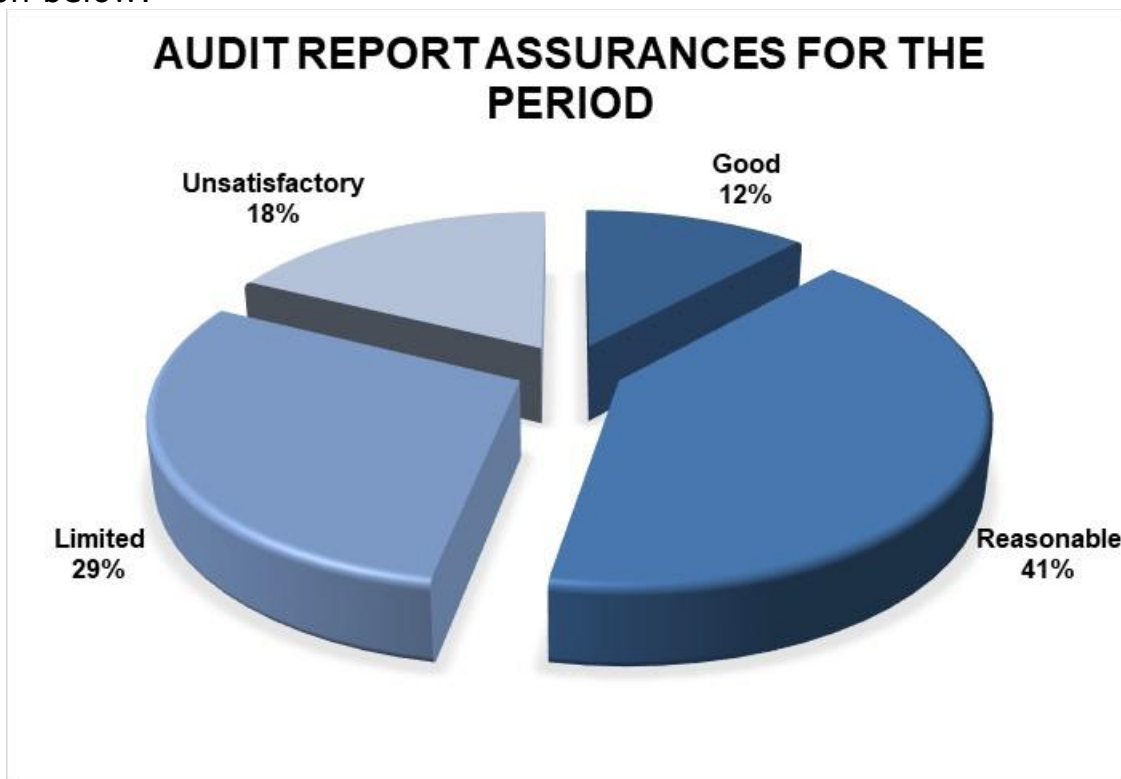
8.4 The following audits have been completed in the period:

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
People - Adults								
Appointeeships and Deputyships		1				4	13	
ASC Management Controls Audit (Safeguarding)		1				5	5	
Adult Social Care Assessments		1				1	1	
	0	3	0	0	0	10	19	0
People - Children								
Bishops Castle Community College			1			13	15	
Brockton Primary School				1	1	27	11	
	0	0	1	1	1	40	26	0
Place								
Housing Provision - Development Cornovii	1						1	
Smallholdings Estate		1				2	1	
Local Transport Plan (LTP)		1					2	
Repurposing Project, Pride Hill 2020/21			1			8	3	
Highways Term Maintenance - Kier Contract			1			14	7	
Registrars Service - Income Collection				1		7	1	
Dog Warden's Follow Up				1	1			
Other, including added value and briefing notes						2	2	
	1	2	2	2	1	33	17	0
Resources - Finance (Finance, Revenues & Benefits, Procurement and Treasury)								
Procurement Arrangements		1						
	0	1	0	0	0	0	0	0
Resources - Workforce and Development (HR, Risk & Insurance and Health & Safety)								
Risk Management		1				1	4	
	0	1	0	0	0	1	4	0
Resources - Business Intelligence (Information & Insight, IT, Communications and Information Governance)								
Equitrac ¹	1					1	1	

¹ Equitrac Office is an intelligent print management solution that provides end users with a secure mobile print workflow while controlling costs and simplifying administration

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Encryption 20/21			1			4	3	
Microsoft Dynamics CRM ² Application (Hosted in Azure)			1			2	7	
Other, including added value and briefing notes					1	2	8	
Total	2	7	5	3	3	93	85	0
	12%	41%	29%	18%	2%	51%	47%	0%

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



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

² Customer relationship management is a process in which the Council administers its interactions with customers, using data analysis to study large amounts of information



- 8.7 In the period 9th August 2021 to 14th January 2022, nine reports have been issued providing good or reasonable assurances and accounting for 53% of the opinions delivered. This represents a decrease in the higher levels of assurance for this period, compared to the previous year outturn of 57%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 47% compared to the previous year outturn of 43%.
- 8.8 Details of control objectives evaluated and not found to be in place as part of the planned audit reviews that resulted in limited and unsatisfactory assurances, appear 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**.
- 8.9 Six draft reports, awaiting management responses, will be included in the next performance report. Work has also been completed for external clients in addition to the drafting and auditing of financial statements for several honorary funds and the certification of grant claims.
- 8.10A total of 181 recommendations have been made in the 17 final audit reports issued during this period; these are broken down service area at **paragraph 8.4**, the year to date position is show at **Appendix A, Table 2**. Three fundamental recommendations have been identified which are detailed below:
- 8.11 **Brockton CE Primary School**
 Catering and cleaning contracts have not been subject to tender, the cost exceeds £100,000 and the issue was raised in two previous audits.

Recommendation - Expenditure over £50,000 should be subject to formal tender. The cost of the contract over its whole term should be included when

calculating the value. In addition, and as agreed with the school in the Autumn Term 2018, expenditure over £5,000 should be approved by the Governing Body. Evidence of this should be clearly noted in the Governing Body minutes. The school should ensure that Contract Rules are adhered to with any future contracts. **(Updated from recommendation made and agreed in 2017/18 and 2018/19).**

Proposed Management Action³- Tender process for catering and cleaning services to be commenced in Autumn 2021 for services from September 2022.

Date to be Actioned – From September 2021

8.12 **Power Platform Briefing Note**

Findings - Power Platform Administration responsibilities have been allocated however, the basis of individual allocation and responsibilities and overall management are unclear.

Risk - Without an underlying management structure in place the proposed governance arrangements cannot be adequately implemented.

Recommendation - An agreed management structure and staff responsibilities are defined for the Administration of the Power Platform. In addition, a training strategy should be developed.

Proposed Management Action - ICT leadership has reviewed the recommendation and will define the roles and responsibilities. A business case may be needed if additional staff or duties are required that cannot be resourced with current resources.

Date to be Actioned – November 2021⁴

8.13 **Dog Warden's Follow Up**

Recommendation - A full management review of the Dog Warden service should be undertaken to ensure that there are appropriate policies and working practices in place to comply with legislation. This should include a review of the arrangements with the external service provider to ensure that value for money is obtained and an adequate service is provided. **(As recommended and agreed in 2019/20 and 2020/21).**

³ An Acting Head was appointed immediately prior to the start of the current audit. They have provided assurance that the issues identified in the unsatisfactory audit will now be addressed.

⁴ Interim Head of ICT update provided: Pending any authorised restructure, current line management has continued to take collective responsibility for Power Platform administration and are maintaining service and functional-level responsibility via identified roles covering key areas. Further work has been undertaken to determine the basis for the individual allocation of responsibilities and overall management on a longer-term basis. A workshop is planned for Feb to finalise remaining actions to agree a proposed structure, which will sit within the context of the whole-department restructure recommended in the upcoming ICT and Digital Strategy, at which stage the Business Case for additional resources (if required) will be drafted. Key staff involved in this process are investigating recommended best practice from Microsoft and other partners. Departmental staff have also attended training which covers relevant governance arrangements and will be asked to update ICT management on how these measures can be adopted in our future service delivery.

Proposed Management Action - A full management review is in progress. Some staffing and procedural changes have been made and implemented since April 2021. The review is ongoing and will include actions to ensure all working practices comply with policy, legislation and financial rules in accordance with the recommendations made in the report.

Date to be Actioned – December 2021

Audit comment: *The date to be actioned was queried as there did not appear to be sufficient time to complete the proposed management action. An update was requested but no alternative date was provided. Due to the time elapsed in receiving further management comments, the date to be actioned has been updated to March 2022 to allow three months for implementation.*

8.14 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 7 sets out the approach adopted to following up recommendations** highlighting Audit Committee's involvement.

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

- **Purchase to pay data analytics:** Following the enforcement of the No purchase order no pay policy, a review was undertaken of the requisitions and orders raised to identify where the system controls are being bypassed by raising requisitions once the order has been placed and the invoice received. This information was shared with the Finance team to enable the Finance Business Partners to support those not using the system correctly.
- **Power Platform Briefing note:** 'Power Platform' is a collective term for three Microsoft products: Power BI, PowerApps and Power Automate. They provide the means to help people easily manipulate, surface, automate and analyse data and can be used with Office365 and Dynamics 365. This review was to ensure that usage of the Power Platform complies with both internal policies such as the Corporate Information Security Policy, the Access Control Policy and external legislation such as the Data Protection Act 2018. Governance controls were recommended for improvement and a fundamental recommendation appears earlier in this report.
- **Shropshire Council land transfers:** An independent review of the controls and processes around the transfer of land from Shropshire Council to a development company; to allow both parties to reach a better understanding of the process, who has or needs to take on which responsibilities, what went right or wrong in respect of the transfer, and how future transfers can be streamlined. An action plan was delivered for consideration between all parties.

- **Access Control System Data Analytics:** Data was extracted from both the access control system and Human Resources system and compared. To identify where there had been new staff or leavers and establish a future reporting tool for this.
- **Fix My Street Project:** Project assurance and advice for an on-line portal and mapping tool which allows the public to register details of defects including a photograph in the highways. The information is provided to highways engineers who provide a response to the user telling them how the issue will be dealt with and when dealt with the user will receive an update that the problem has been solved as well as a photograph. The public will become our eyes on the ground.
- **Flexi route Implementation Project:** Project assurance and advice on a database of all pupils and other service users who require Council transportation to access education and other services. The software is an automated routing scheduling system which produces the most efficient and effective routes based on the needs of the service users and transport available. There is functionality which allows the software to consider the specific transport needs of each service user.
- **Head of IT Recruitment:** The IT Auditor provided support to the Executive Director of Resources in the recruitment process for the Interim Head of IT post.
- **IT Governance:** Working with the newly appointed SIRO⁵ on governance arrangements within IT, providing advice, consultancy and best practice feeding into reshaping the processes.
- **LGS Action Plan:** Support in the form of consultancy advice to the Executive Director of Place on the Children's Local Government Association Test of Assurance action plan.
- **Cyber Strategic Risk Consultancy:** Consultancy input and guidance, through meetings, for splitting the Cyber related strategic risk to better represent the current position and the mitigating controls.
- **Microsoft Defender Sophos replacement:** Consultancy, advice and guidance for the IT Service and Support Manager and Infrastructure, Security and Innovation Manager in relation to the decommissioning of the Sophos products and the implementation of the Microsoft Defender tools under the Microsoft E5 licensing arrangements.
- **Interim Head of IT update meetings:** IT Audit specific meetings in relation to planned works, consultancy, findings, action tracking, report finalisation with the newly appointed Interim Head of IT.

⁵ Senior Information Risk Officer

- **ISIGIT⁶ meetings** - Attendance at the governance meetings and input into the set-up of the newly formed group. Providing assurance, advice, guidance and reviewing internal controls.
- **Digital Skills Programme Grant Funding:** Consultancy and advice on allocation and management of funding to private charity organisations and libraries to build on the work their volunteers are already carrying out to improve the digital skills of people who have come forward to improve their skills and confidence. As the Council moves to providing more services on-line this funding will help to address the needs of those who are at risk of becoming excluded because of their lack of digital skills.
- **NFI (National Fraud Initiative) Business grants – mismatch on Company Numbers:** The Internal Audit Team have completed a piece of counter fraud assurance work in respect of the bank account verification work undertaken for Local Restrictions Support Grants (LRSG) as part of the Governments response to the COVID pandemic.

Applications received for the LRSG scheme (2,287) were submitted to the NFI to run checks upon as part of the Council's assurance approach. Sixty three percent (1,447) were automatically matched of the applications submitted, providing complete assurance that the Council paid the grants to the correct recipient.

Of the remaining 840 accounts, there were seven categories of potential discrepancy and these have been reviewed as part of the verification process put in place by the Council.

Below is a note of the seven categories.

New accounts opened after the 1st January 2020 – May demonstrate not trading at the time of the grant.

Mismatch to the Consumer Record - This indicator reflects applications that did not match the data held by the NFI.

Mismatch on Company Name -This indicator reflected a mismatch between the company name provided and the bank account.

Mismatch on Company Number - This report identified incorporated business where the company number did not match the company name.

Prepaid High Risk Accounts - The report identified high risk accounts; new internet based account providers. There is nothing in the grant rules that prevents applicants maintaining accounts with these providers.

Accounts not valid - This part of the report identifies applications containing invalid account numbers or invalid sort codes

Accounts not Matched - The NFI report was unable to match 524 accounts (23%). Where an account cannot be matched it does not mean there has been an error, not all banks participate in the scheme, and banks can only

⁶ Information Security, Information Governance and IT

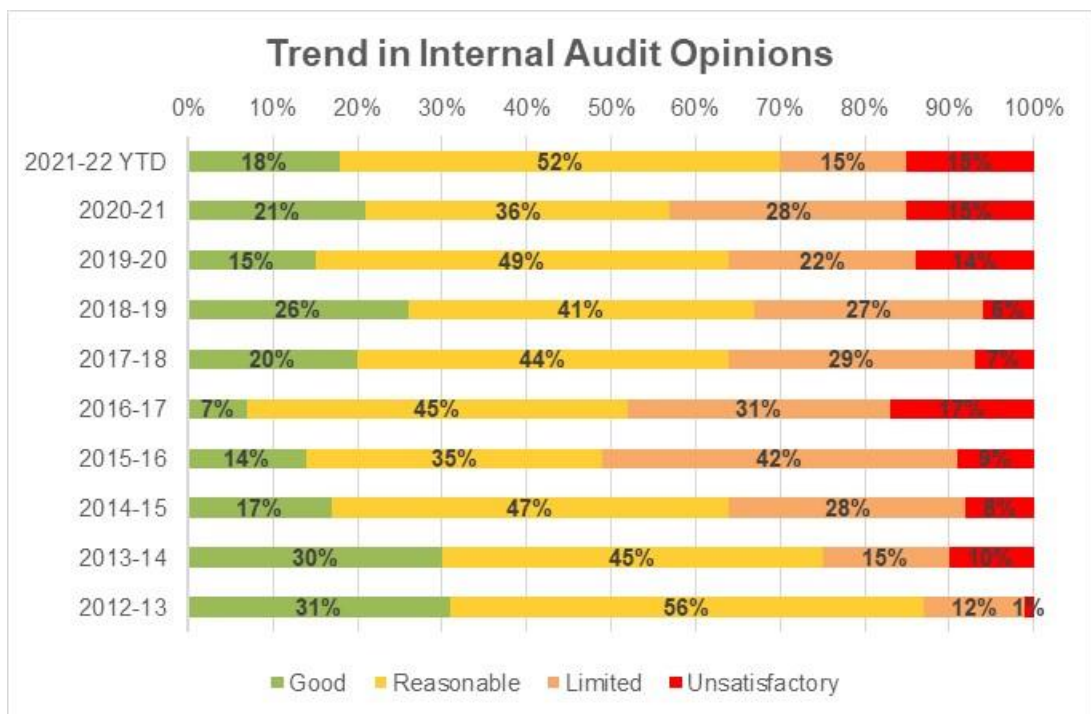
submit details where customers have given express permission for data to be shared.

This review found no discrepancies that would cast doubt on the verification process and provided positive assurance that the verification process had picked up errors on the applications submitted at source and in advance of any payments being issued.

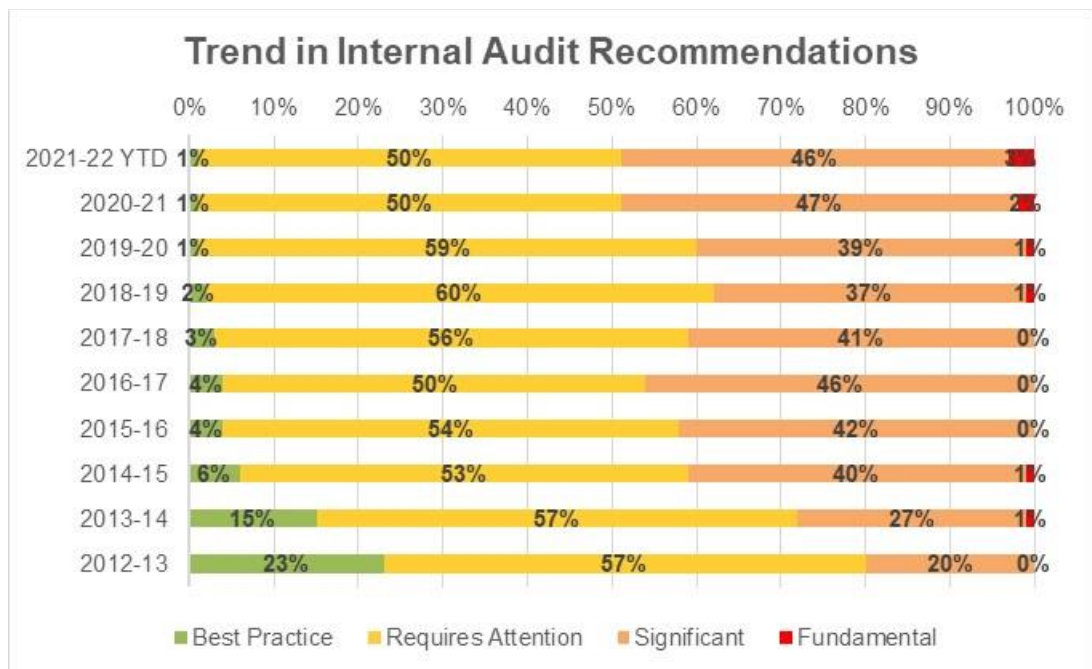
Direction of travel

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

Comparison of Assurance Levels (where given)



Comparison of recommendation by categorisation



8.17 The number of lower-level assurances, 30%, is significantly lower than the outturn for 2020/21 of 43%, which looks promising. It is important to note that audit reviews for fundamental systems are yet to be completed and there are some significant areas of risk in draft that may impact upon this. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 9th August 2021 to 14th January 2022.

Performance measures

8.18 All Internal Audit work has been completed in accordance with agreed plans 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 2021/22 – Audit Committee 16th September 2021
 Draft Internal Audit Risk Based Plan 2021/22 - Audit Committee 4th March 2021
 Public Sector Internal Audit Standards (PSIAS)
 Audit Management system
 Accounts and Audit Regulations 2015

Cabinet Member (Portfolio Holder)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 1st April to 14th January 2022

Table 2: Final audit report assurance opinions and recommendation summary 1st April to 14th January 2022

Table 3: Unsatisfactory and limited assurance opinions in the period 9th August 2021 to 14th January 2022

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Recommendation follow up process (risk based)

Appendix B - Audit plan by service 1st April to 14th January 2022

APPENDIX A**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st April to 14th January 2022**

	Original Plan	Revised Plan	14th Jan 2022 Actual	% of Original Complete	% of Revised Complete
Chief Executive	36	19	13.1	36%	69%
Resources	769	522	348.5	45%	67%
Finance	512	315	220.3	43%	70%
Workforce and Development	68	52	25.3	37%	49%
Business Intelligence	189	155	102.8	54%	66%
Legal and Democratic	0	0	0.1	0%	0%
People	285	201	191.3	67%	95%
Adult Social Care	95	77	75.7	80%	98%
Public Health	19	0	0	0%	0%
Public Protection	8	10	9.8	123%	98%
Bereavement	38	16	15.7	41%	98%
Children's Services	83	23	18.1	22%	79%
Schools	42	75	72.0	171%	96%
Place	195	226	188.3	97%	83%
S151 Planned Audit	1,285	968	741.2	58%	77%
Contingencies and other chargeable work	493	483	377.6	77%	78%
Total S151 Audit	1,778	1,451	1,118.8	63%	77%
External Clients	222	257	130.4	59%	51%
Total	2,000	1,708	1,249.2	62%	73%

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

Table 2: Final audit report assurance opinions and recommendation summary - 1st April to 14th January 2022

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Chief Executive								
Corporate Governance 2020/21		1						
	0	1	0	0	0	0	0	0
People - Adults								
CM2000 Decommissioning	1							
Parking Cash Collection 20/21		1				3	5	
Appointeeships and Deputyships		1				4	13	
ASC Management Controls Audit (Safeguarding)		1				5	5	
Adult Social Care Assessments		1				1	1	
Other, including added value and briefing notes					1	11		
	1	4	0	0	1	24	24	0
People - Children								
Supporting Families Grant	1						1	
Trinity Primary School		1				5	11	1
Bishops Castle Community College			1			13	15	
Brockton Primary School				1	1	27	11	
	1	1	1	1	1	45	38	1
Place								
Housing Provision - Development Cornovii	1						1	
Housing Strategy		1				1		
Smallholdings Estate		1				2	1	
Local Transport Plan (LTP)		1					2	
Repurposing Project PH 2020/21			1			8	3	
Highways Term Maintenance - Kier Contract			1			14	7	
Tree Safety 20/21				1	1			
Registrars Service - Income Collection				1		7	1	
Dog Warden's Follow Up				1	1			
Other, including added value and briefing notes					1	4	2	

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
	1	3	2	3	3	36	17	0
Resources - Finance (Finance, Revenues & Benefits, Procurement and Treasury)								
COVID Test and Trace Grants	1						1	
Comino Application 20/21		1				1	4	
Adobe Sign		1				2	4	
Procurement Arrangements		1						
Other, including added value and briefing notes						3	2	
	1	3	0	0	0	6	11	0
Resources - Workforce and Development (HR, Risk & Insurance and Health & Safety)								
Covid PPE procurement and allocation	1						3	
Apprenticeship Levy 20/21		1				2	6	
Risk Management		1				1	4	
	1	2	0	0	0	3	13	0
Resources - Business Intelligence (Information & Insight, IT, Communications and Information Governance)								
Equitrac	1					1	1	
Digital Mailroom Project		1				1	1	
IT Change Management		1					3	
Encryption 20/21			1			4	3	
Microsoft Dynamics CRM Application (Hosted in Azure)			1			2	7	
Internet Security 20/21				1	2	2	8	
Other, including added value and briefing notes					1	2	8	
	1	2	2	1	3	12	31	0
Resources - Legal and Democratic								
Members Allowances 20/21		1				3	7	
	0	1	0	0	0	3	7	0
Total	6	17	5	5	8	129	141	1
	18%	52%	15%	15%	3%	46%	50%	1%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 9th August 2021 to 14th January 2022⁷

Unsatisfactory assurance

People: Brockton Primary School (Unsatisfactory 2018/19, 2017/18 and 2015/16)

- Previous audit recommendations have been implemented.
- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- The school fund is operated in accordance with the school fund notes of guidance.
- Regular budget monitoring is performed and any significant variations are investigated.

Place: Dog Warden's Follow Up (Unsatisfactory 2019/20 and 2020/21)

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

Place: Registrars Income Collection (Limited 2018/19 and 2015/16)

- Previous audit recommendations have been implemented.
- Policies and procedures are in place for the income collection function which ensure compliance with legislation and internal regulations.

⁷ 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.

- There are appropriate controls in place for receipt of income in respect of copy repository certificates.
- There are appropriate controls in place for receipt of income in respect of marriage ceremonies.
- There are appropriate controls in place in respect of the reconciliation of income received directly by registrars.

Limited assurance

People: Bishops Castle Community College (Unsatisfactory 2019/20)

- Previous audit recommendations have been implemented.
- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected, and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly, and comply with Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- The school fund is operated in accordance with the school fund notes of guidance.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

Place: Repurposing of Pride Hill Project

- An approved project plan has been formally documented.
- A governance structure, that meets the needs of the project is in place.
- The financial model set out in the approved project plan has been revisited and a revised project budget is in place.

Place: Highways Term Maintenance – Kier Contract (Unsatisfactory 2019/20 and 2020/21)

- The recommendations made and agreed in the previous audit have been implemented as expected.
- The Council have appropriate arrangements in place for the management of the Highways Term Maintenance Contract.
- The data fields in the Confirm system are complete and accurate before payment to the Term Maintenance Contract provider is authorised.
- There is readily available evidence to verify that payment requests by the Term Maintenance Contract provider are accurate and as expected before they are authorised.
- There are procedures to ensure that the Term Maintenance Contract provider completes jobs, logs the job status, and submits the final payment requests on a timely basis.
- There are systems and controls regarding the management of reactive works.
- There is performance management and consideration of the overall efficiency and effectiveness of the contract to deliver services.

Resources: Encryption

- To ensure that end user/manager training is provided on encryption.
- To ensure that the organisation routinely reviews its use of encryption and associated risks.
- To ensure that responsibilities for monitoring file transfers have been defined and that mechanisms/tools exist to ensure encryption is being used where appropriate.
- To ensure that mechanisms are in place to protect all “mobile” devices.

Resources: Microsoft Dynamics CRM Application

- To ensure the system and administrative processes are adequately documented.
- To ensure that the application authentication and authorisation mechanisms are secure.
- To ensure that data is accurately input and the authenticity of the data input is subject to validation processes.
- To ensure that cloud (Software as a Service) contract performance and security management arrangements are in place.

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: 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.

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL to 14th JANUARY 2022

	Original Plan Days	August Revision	January Revision	Revised Plan Days	14th January 2022 Actual	% of Original Complete	% of Revised Complete
CHIEF EXECUTIVE							
Governance	36	-6	-11	19	13.1	36%	69%
CHIEF EXECUTIVE	36	-6	-11	19	13.1	36%	69%
RESOURCES							
Finance							
Finance Transactions	66	1	2	69	17.1	26%	25%
Finance and S151 Officer	265	-108	-45	112	97.3	37%	87%
Financial Management	88	-45	-10	33	20.6	23%	62%
Procurement	48	4	-5	47	41.5	86%	88%
Revenues and Benefits	45	6	2	53	42.3	94%	80%
Treasury	0	1	0	1	1.5	0%	150%
	512	-141	-56	315	220.3	43%	70%
Workforce and Development							
Risk Management and Insurance	7	2	2	11	11.2	160%	102%
Human Resources	56	-5	-15	36	8.9	16%	25%
Occupational Health and Safety	5	0	0	5	5.2	104%	104%
	68	-3	-13	52	25.3	37%	49%
Business Intelligence							
Corporate Performance Management	0	20	0	20	19.9	0%	100%
ICT	171	-14	-40	117	73.2	43%	63%
Information Governance	18	0	0	18	9.7	54%	54%
	189	6	-40	155	102.8	54%	66%

	Original Plan Days	August Revision	January Revision	Revised Plan Days	14th January 2022 Actual	% of Original Complete	% of Revised Complete
Legal and Democratic Committee Services	0	0	0	0	0.1	0%	0%
RESOURCES	769	-138	-109	522	348.5	45%	67%
PEOPLE							
Adult Social Care							
Social Care Operations	73	-32	3	44	41.9	57%	95%
Social Care Efficiency and Improvement	22	11	0	33	33.8	154%	102%
	95	-21	3	77	75.7	80%	98%
Public Health	19	-12	-7	0	0.0	0%	0%
Public Protection							
Environmental Protection and Prevention	0	10	0	10	9.8	0%	98%
Community Safety	8	-8	0	0	0.0	0%	0%
	8	2	0	10	9.8	123%	98%
Bereavement							
Bereavement	15	-15	0	0	0.0	0%	0%
Superintendent Registrar	23	0	-7	16	15.7	68%	98%
	38	-15	-7	16	15.7	41%	98%
Children's Safeguarding							
Children's Placement Services & Joint Adoption	40	-15	-25	0	0.6	2%	0%
Safeguarding	20	0	-6	14	10.0	50%	71%
	60	-15	-31	14	10.6	18%	76%

	Original Plan Days	August Revision	January Revision	Revised Plan Days	14th January 2022 Actual	% of Original Complete	% of Revised Complete
Learning, Employment and Training	8	-8	0	0	0.0	0%	0%
Learning and Skills							
Business Support	8	0	-7	1	0.8	10%	80%
Education Improvements	7	4	-3	8	6.7	96%	84%
Primary/Special Schools	32	1	23	56	53.3	167%	95%
Secondary Schools	10	0	9	19	18.7	187%	98%
	57	5	22	84	79.5	139%	95%
PEOPLE	285	-64	-20	201	191.3	67%	95%
PLACE							
Business, Enterprise and Commercial Services							
Housing Services	13	-5	2	10	9.5	73%	95%
Property and Development	31	3	2	36	32.9	106%	91%
	44	-2	4	46	42.4	96%	92%
Economic Development							
Business Growth and Investment	13	7	-5	15	15.3	118%	102%
Environment and Sustainability	0	1	0	1	0.8	0%	80%
	13	8	-5	16	16.1	124%	101%
Infrastructure and Communities							
Highways	76	-13	23	86	69.9	92%	81%
Library Services	6	0	25	31	27.4	457%	88%
Public Transport	12	2	3	17	7.7	64%	45%
	94	-11	51	134	105.0	112%	78%

	Original Plan Days	August Revision	January Revision	Revised Plan Days	14th January 2022 Actual	% of Original Complete	% of Revised Complete
Culture and Heritage							
Theatre Severn and OMH	8	0	-8	0	0.0	0%	0%
Leisure Services	32	-6	4	30	24.8	78%	83%
Visitor Economy	4	0	-4	0	0.0	0%	0%
	44	-6	-8	30	24.8	56%	83%
PLACE	195	-11	42	226	188.3	97%	83%
Total Shropshire Council Planned Work	1,285	-219	-98	968	741.2	58%	77%
CONTINGENCIES							
Advisory Contingency	60	-10	-15	35	30.3	51%	87%
Fraud Contingency	150	-20	-60	70	60.7	40%	87%
Unplanned Audit Contingency	50	-41	-9	0	0.0	0%	0%
Other non-audit Chargeable Work	233	58	87	378	286.6	123%	76%
CONTINGENCIES	493	-13	3	483	377.6	77%	78%
Total for Shropshire	1,778	-232	-95	1,451	1,118.8	63%	77%
EXTERNAL CLIENTS	222	29	6	257	130.4	59%	51%
Total Chargeable	2,000	-203	-89	1,708	1,249.2	62%	73%



<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
22 nd February 2022	
10:00am	<u>Public</u>

INTERNAL AUDIT RISK MANAGEMENT REPORT 2021/22

Responsible Officer Katie Williams

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

Telephone: 01743 257737

1 Synopsis

*Following a recent Internal Audit review of the Risk Management system, the overall control environment is assessed as **Reasonable**, with minor control weaknesses identified. The focus of the review was on user compliance with processes around operational and project risks.*

2 Recommendations

The Committee is 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 adaptation. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

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 September 2020 as a self-assessment control questionnaire.

6.3 The current review differed slightly from previous audits. During the Covid-19 pandemic focus for the Risk and Insurance team shifted towards business continuity, however, it is acknowledged that the team continued with its business as usual activities during this time. The current audit set out to ascertain the processes around the updating and review of operational risk registers and to ensure that projects risks are captured and risks are reported to Senior Management on a regular basis in line with the Opportunity Risk Management Strategy.

Internal Audit Risk Management Report – Executive Summary

6.4 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 **Reasonable**. Whilst the Assurance level has reduced from the Risk Management Audit undertaken in 2020/21 it should be noted that the scope of the audit for 2021/22 has been changed to look at the system with a more *user compliance focus*. Four of the five recommendations raised relate directly to actions required by service areas.

6.5 Evaluation and testing confirmed that there is generally a sound system of control in place but there is evidence of non-compliance with some of the controls.

Control Objective: Conclusion and Summary of Findings

6.6 The following table shows the audit opinion against each of the four control objectives.

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
1.	To confirm there is a robust system in place for the identification, assessment, recording and control and monitoring of operational risk.	<p>This control objective is partially achieved.</p> <p>There is an Opportunity Risk Management Strategy (ORMS) in place which was approved by the Chief Executive in January 2021. The strategy clearly defines roles and responsibilities in relation to risk management.</p> <p>Risks registers demonstrate the link between risks and the outcomes identified in the Shropshire Plan. Work is underway to ensure the process for recording opportunities aligns with the ORMS.</p> <p>Operational risks are recorded within SharePoint with service areas responsible for updating these as part of their normal management activities. Review of a sample of operational risk registers identified instances where the risk registers required updating, particularly in relation to the impact of COVID.</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 ORMS.</p>
3.	Ongoing monitoring activities are conducted to periodically reassess risk and the	<p>This control objective is partially achieved.</p> <p>Operational risks are reviewed bi-annually in line with the ORMS and reported to Senior Management.</p>

	AUDIT OBJECTIVE	CONCLUSION AND SUMMARY OF FINDINGS
	effectiveness of controls to manage risk.	All risks are recorded in SharePoint as live documents, they can be updated by Managers at any time. Work is underway to further develop Power BI reporting for operational risks.
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.</p>

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)

Lezley Picton, Leader of the Council and Brian Williams, Chairman of the Audit Committee

Local Member: N/A

Appendices

None



<u>Committee and Date</u>
Audit Committee
22 nd February 2022
10 am

<u>Item</u>
<u>Public</u>

DRAFT INTERNAL AUDIT ANNUAL PLAN 2022/23

Responsible Officer Ceri Pilawski
 e-mail: Ceri.pilawski@shropshire.gov.uk Tel: 01743 257737

1. Synopsis

The risk based Internal Audit Plan, 2022/23 is presented to Audit Committee for approval. It will evaluate the effectiveness of the Council’s risk management, internal control and governance processes across all Directorates and report this in the Annual Governance Statement.

2. Executive Summary

- 2.1. This report provides Members with the proposed risk based Internal Audit Plan for 2022/23. The annual plan will provide coverage across the high risk areas of the Council and delivers internal audit services to a range of external organisations. 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.

- 2.2. Given the need to respond flexibly to both the Council’s demands and the available resources in the team, at different times throughout the year, the plan is designed to ensure that all external contracts are completed and for Shropshire Council, must do areas of work are delivered alongside an element of high risk audits. This leaves an unplanned element to be allocated as resources become available. Allocations will be made on risk priority matched to auditor skill sets from high risk areas within the Council not covered in the planned element. The Internal Audit plan is set out in **Appendix A** and the call off list of high risk areas for unallocated work, **Appendix B**. Delivery outcomes will continue to

be reported to Audit Committee through the standard performance reports.

3. Recommendations

- 3.1. The Committee are asked to consider and endorse, with appropriate comment, the approach taken to create the proposed Internal Audit Plan for 2022/23 and approve its adoption.

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. 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.
- 4.2. Areas to be audited within the plan have been considered using risk register information both operational and strategic.
- 4.3. 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.
- 4.4. 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.'

5. Financial Implications

- 5.1. 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 will continue to be used to offset costs.

6. Climate Change Appraisal

6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation or climate change adaptation. However, the work of the Audit Team will look at these aspects relevant to the governance, risk management and control environment of the Council.

7. Background

7.1. 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.

7.2. The 2022/23 Internal Audit year has and continues to be impacted on by the Covid pandemic and the future has more unknowns. Adjustments to the 2021/22 plan have been updated in separate performance reports to Audit Committee Members. In planning for 2022/23, 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.

7.3. 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.

7.4. When considering the risks affecting audit areas, account has been taken of:

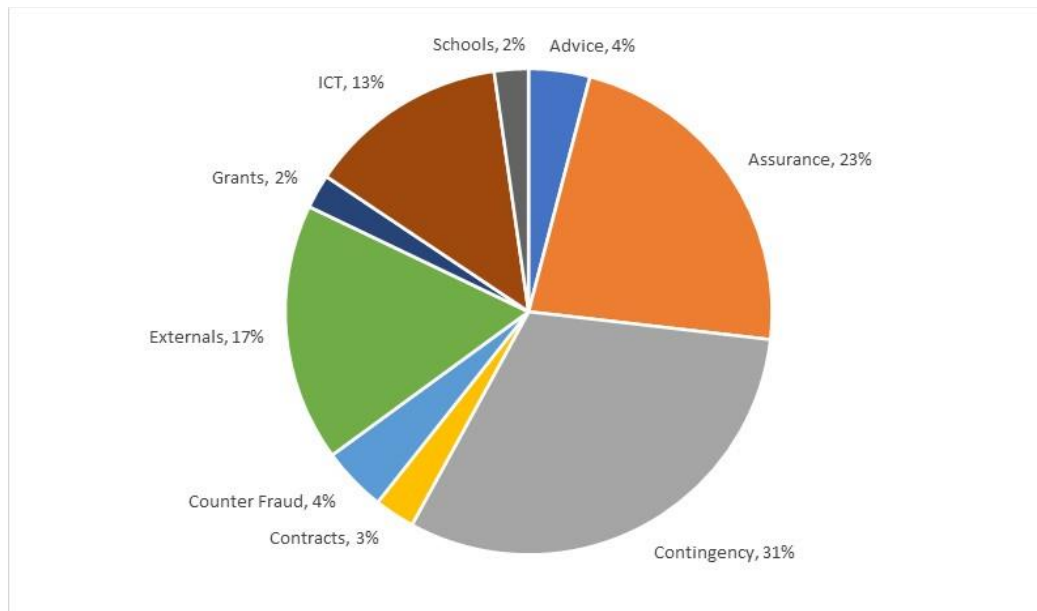
- changes to and the introduction of new services;
- the refocus programme, refined principles and business plans of the Council;

- 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.

7.5. Top risks facing councils include responding to the pandemic and other emergency situations; continuing pressures on finance and therefore financial resilience; the changing high street; income collection and problem debt; commercialism; supply chains and third party risks; increasing demand on services; growth and complexity demands on social care functions; environmental, social and governance issues; cyber security and digital services; attraction of and retention of staff with enough experience, knowledge and capacity to manage risks and reduce the potential for waste, losses or inefficiencies. all of which have been considered when formulating the plan.

7.6. The Council continues to respond to the impact of COVID and has a refocus programme underway, all 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.

7.7. **Appendix A** provides the summarised Internal Audit plan and identifies a planned day requirement of 1,019 days for Shropshire Council audit work and 211 days of work for external clients, broken down by type in the chart:



Resources

- 7.8. The team has provision for posts for just short of 12 full time equivalents with a mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. At the time of writing this report resignations of two full time and a part time Auditor are expected; two Auditors are brand new to the team and a third is a continuing trainee, leaving a current vacancy and four and a half experienced Auditors and Principals in addition to the Head of Audit. Resources are low and recruitment is planned, the impact on the team's availability to deliver cannot be underestimated at this stage. Given the mix of the remaining team there will be continuing mentoring, coaching and supervision demands alongside delivering audits to ensure the sustainability of the service looking forward. Skills continue to be developed across the wider team and funding for external contractors from any vacancy monies will be considered if recruitment is unsuccessful.
- 7.9. The Audit Plan for 2022/23 has been subjected to a radical review to ensure maximum benefit to the Council with available resources. Based on a risk analysis approximately 3,705 days are required to review all high-risk areas. With current resources it would take four years to cover all high risk areas. Review areas attracting a lower risk have not been considered in this year's planning process and are noted in **Appendix C**. 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 1,230 days of which 211 are to be used on providing services to customers other than Shropshire Council leaving a balance of 1,019 days. A prudent estimate given recruitment challenges.

7.10. To respond to the unknown availability of resources for the year as recruitment is undertaken, the plan has been designed in two parts; Planned audits (62%) that need to be delivered and a contingency for unplanned audits (38%). As audit resources become available, reviews off a call off list will be identified for completion dependent on the skill set of the Auditor. The call off list of audit areas is prioritised based on risk and will ensure high risks are focused on; it removes the need to spend time replanning as new resources become available and work can be assigned almost immediately by any Principal Auditor. **Appendix A** provides details of the areas that Audit will review during 2022/23 and **Appendix B**, the call off list for currently unplanned work that will be prioritised.

7.11. Members are reminded that where Audit cannot provide independent assurance, they can at any time, request Managers for any of the areas identified to provide assurances directly to them; this should be considered by Members especially for items listed in **Appendix B** that are not guaranteed an audit in the next twelve months.

7.12. Contingencies for fraud and advice, if not required in full this year, can be re-allocated and higher priority reviews brought back into the plan.

7.13. In considering the plan for 2022/23 the key items to note are:

- Included in the plan are several key partnerships and fundamental systems including the Payroll system, which is of a high material value to the Council's operations and requires regular review.
- 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.
- Time has not been allocated to respond to COVID or other business continuity pressures, these will be met from the unplanned audit contingency if required. Auditors at the time of writing this report are supporting business grants and hardship assessments for the Council due to demand following the Omicron strain, but it is hoped that there will be little or no further involvement in the future.
- The counter fraud contingency is reduced to 50 days to accommodate the current resource levels. Based on experience

this is tight and will need readjustment of other plan pressures if demands in this area are higher.

- 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.
- To accommodate new recruits; establishment audits and compliance testing are built into plans to support their training and development. This includes audits of schools; comfort funds; parks and countryside sites; procurement cards; travel and subsistence claims. Analysis at this level will inform the counter fraud control environment and offset the reduced fraud contingency risks. Selection of specific establishments will be based on knowledge of the risks; responses to self-assessments; follow a direct request from an Executive Director or senior manager with a validated concern; be a response to where there is suspicion of wrongdoing; where there are known concerns around the financial management of the establishment; or where a senior statutory officer raises concerns in respect of processes that need to be reviewed. In the case of schools, 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.
- Procurement, commissioning and contract management continue to be priority areas and, as such, there are planned initiatives in these areas and additional work will be prioritised from the call off plan. Work is planned on financial evaluations of companies tendering for work.
- The unplanned contingency additionally provides an opportunity to respond to new initiatives that may arise during the year, for example, 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; where new systems or processes are being designed or established, advice will be provided at development and testing stages; in addition to being able to respond flexibly once new recruits are employed. This is increased this year to reflect the high level of vacancies expected and flexibility of approach required.
- 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 already in place which has been used to add value to finance and payroll work practices to date.
- Resources are allocated to provide internal audit services to external clients: Shropshire Towns and Rural Housing, Shropshire Pension Fund, Comovii, 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.

7.14. 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.

7.15. 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

8. Conclusions

8.1. The plan is designed to allow for appropriate coverage aligned to the PSIAS and to be flexible enough to respond to the changing risk environment of the Council.

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
Horizon Scanning Challenges and Opportunities in 2022, Mazars
Risk in Focus – Hot topics for Internal Auditors ECIIA 2022
CIPFA BGF Internal Audit Open Engagement June 2021
IIA Tone at the Top Dec 2021

Cabinet Member (Portfolio Holder)

Lezley Picton (Leader of the Council) and Brian Williams (Chairman of Audit Committee)

Local Member N/A

Appendices

Appendix A: Summary of Draft Internal Audit Plan by Service,
Appendix B: Unplanned Call Off List: Audit areas of high priority for which no dedicated provision is made in this year's Internal Audit plan.
Appendix C: De Minimis Audit areas: Where managers will be able to provide any necessary assurance.

APPENDIX A**2022/23 SUMMARY OF DRAFT INTERNAL AUDIT PLAN BY SERVICE**

	Days
CHIEF EXECUTIVE	
Governance	14
Total Chief Executive	14
RESOURCES	
Finance, Governance and Assurance	133
HR	57
ICT	104
Information Governance	24
Total Resources	318
HEALTH AND WELLBEING	
Public Health	10
Total Health and Wellbeing	10
PEOPLE	
Adult Social Care	15
Children's Social Care	8
Safeguarding	14
Schools	28
People	65
PLACE	
Bereavement	15
Culture and Heritage	58
Business Enterprise and Commercial Services	10
Economic Development	5
Infrastructure and Communities	41
Total Place	129
CONTINGENCIES	
ICT Contingency	20
Advisory Contingency	30
Fraud Contingency	50
Unplanned Audit Contingency	383
Other non-audit chargeable work	199
Total Contingencies	682
Total Shropshire Council	1,218
External Clients	211
Total Audit Plan	1,429

Appendix B

Unplanned Call Off List: Audit areas of high priority for which no dedicated provision is made in this year's Internal Audit plan.		
Adaptations	ERDF Grant Claims	Patch Management
Adoption Process including allowances	Ethics/ Culture	Payroll - Self Service Facility
Adult Day Centre and Trading Unit reviews e.g. Acton	External Catering Contracts	Payroll - verification to establishment
Scott, Greenacres Rural Unit	Facilities Management & Security	PC Replacement Programme
Adult Placements /Care Assessments	Financial Rules	PCI Compliance
Adult Services Management Controls (Safeguarding)	Flexi/ Annualised Time System	Performance Management & PI's
Adult Social Care: Financial Assessments	Flood Risk Management Arrangements	Performance Plus Online Register
Adult Social care budget management	Food Safety	Personal Allowances
Adult Social care caseload management	Foster care	Personal Budgets - Deferred Payments
Agency and Consultancy Staff	Free Bus Entitlement Process	Personal Budgets / Direct Payments Finance Team- Adults
Anti-Money Laundering arrangements	Free School Meals	Personal Budgets / Direct Payments Support Services (POhWER replacement)
Antivirus Controls	Funding & Programmes	Pest Control
Application Development Management Arrangements	Galaxy - Libraries System	PFI
Appointeeships/ Court of Protection and Deputyships	GDPR / DPA / Freedom of Information	Physical & Environmental Controls
ARIS	General Ledger	Planning
Assessments and looked after children	Gladstone - Leisure Centre system	Plans & Deeds- Security
Asset Management Strategy	Grey Fleet	Primary School Income Collection
Assistive Technologies including BOTS	Hardware Inventories	Private Water Supplies
Back-up arrangements	Hardware Replacement Programme	Privileged User Security
Bacstel-IP	Health & Safety	Procurement Arrangements
Bank Contract	Highways Development Control	Procurement Strategy
Bankline	Highways Land Search	Project Management Adequacy of Arrangements
Benefit Options Team	Highways Maintenance - Bridges	Property Maintenance Select Lists
Benefits Administration Grant	Highways Maintenance - In house	Property Sales and Acquisitions
Bereavement Services Contract	Highways Maintenance - Term Maintenance -Kier	Property Services
Bio Digester	Highways Other Major Contracts	PSG Portal (SFG20)
Blue Badge Scheme	Highways Permits	PSN (public sector network)
Bring Your Own Device (BYOD)	Highways Specialist Contracts	Public Health Contracts
Broadband Contract / Grant	Highways Transfer of Maintenance Contracts to Town and Parishes	Public Health Funding /cross over & supporting processes
BT Contract Monitoring	Holiday Pay HR	Public Health Projects (Include CCG links)
Budget Management and Control - Shire Services	Home and Lone Working Arrangements	Public Health Risk Awareness Self-Assessment Tool
Building Control	Homepoint IT System	Public Transport - Concession Fares
Business Continuity and Disaster Recovery	Host Operator Processing System (HOPS)	Pump House
Business Continuity and Disaster Recovery - non IT	Housing & Planning Delivery Grant	Purchase Ledger P2P
Business Parks - Investment and Infrastructure	Housing Benefits	Purchasing & Contract Arrangements
Business Rates / NDR	Housing Capital Client	Purchasing Domiciliary, Residential and Nursing Care: Adults, ALD, Mental Health
CALM	Housing Client ALMO / STAR	Recharges - Internal Market
Capital Accounting System	Housing Options / Homelessness	Refocus Programme
Carbon Emissions (NI 185) and Trading	Housing Provision - Development Cornovii	Registrars Booking System Zipporah Application
Care Bill / Better Care Fund / Public Health Plans	Housing Rents Client Side	
Case Management IKEN court bundling		

Unplanned Call Off List: Audit areas of high priority for which no dedicated provision is made in this year's Internal Audit plan.		
Cash Offices - Regularity Audits	Housing Strategy	Regulation of Investigatory Powers Act (RIPA)
CASPAR	HR Policies	Remote Access, Citrix & VPN
Central Customer Services	Human Resources - JD's, PS's and Contracts, Leavers	Remote Support
CHARMS Adoption Service (IT)	Guidance for PT Workers	Rent of Council Owned Property (building and room lettings)
Children's Residential Care - contract management	Human Resources / Workforce Planning	Respite Care
Children's Social Care budget management	ICT Governance Process / Approvals	Safeguarding Support
Children's Social Care case management	ICT Project Financing and Recharges	Sales Ledger-Periodic Income
Children's social care workers - recruitment and retention	Imprest Administration System	School Planning & Transport Arrangements
Chipside Parking System Application Review	Income Collection	Secondary School Income Collection
CIPFA Financial Mgmt. Self-Assessment	Individual Service Funds	Section 106 Agreements
Civica Icon Income Management Application	Insourcing	Section 11 Arrangements
Code of Conduct - Gifts & Hospitality	Insurance	Section 17 Payments Children
Commercial Strategy and Plans	Insurance of IT Facilities	Section 38 Road Adoption
Communications	Intranet and Website	Security of Council Buildings H&S
Community Infrastructure Levy	IT Code of Practice	SEN Hubs e.g. Kettlemere Centre
Community Mental Health Team	IT Information Security Management	Service Desk Procedures and Business Administration
Community Safety	IT Registration & Deregistration Procedures	Sharepoint
Complaints and Compliments	IT Security Policy	Shire Services Purchasing & Procurement
Construction Industry Tax Deduction Scheme	IT Service Delivery Management IL	Shirehall Refurbishment / Maintenance
Contaminated Land	IT Strategy / Digital Strategy	Shrewsbury Shopping Centre
Continuing Health Care Funding	Job Evaluation	Shropshire Children's Trust
Contracts and Tendering - Corporate	Key Supply Contracts	Shropshire Partners in Care (SPIC)
Contracts and Tendering - Property	Land Charges	Sickness Monitoring and Other Leave
Coroners and Mortuary Service	Leaving Care	SIMS - Schools Use & Control Arrangements
Corporate Landlord (Estate Management)	Legacy Infrastructure and Systems	Sixth Form Schools Calculation
Corporate Networking - Active Directory	Leisure Centres/ Facilities and Swimming Pools	SLA's & Invoicing Arrangements
Corporate Plan - delivery	Licensing	Smallholdings Estate
Council Tax Collection	Liquid Logic Application (Adults & Children's)	Social Care & Health Training
Counter Fraud Work	Local Government Pension Pool (LGPS)	Social Enterprises
Counter Fraud Work Housing Tenancy	Local Joint Committee (LJC)	Social Media
Covenants	Local Transport Plan (LTP)	Solar Winds Network Monitoring
COVID Business Grants - Follow Up Review	Mail Room - Manual	Special Transport Contract Arrangements
COVID Grants - Bus subsidies	Management & Control of CCTV Operations	Staff training
COVID PPE procurement and allocation	Medium Term Financial Strategy	START
Culture & Leisure Grants	Members Allowances	Street Works
Customer First Points	Mental Health across all service areas	Supported Living - Perthyn Contract
Database Access / Admin / Management	Microsoft Applications - Deployment and Control	Sustainability and Transformation Plan (STP)
Decommission Shirehall Data Centre Project	Microsoft Dynamics CRM Application	Teachers' Pension Scheme
Design Team	Microsoft Endpoint Manager	Theatre Ticketing & Online Booking Application
Digital Customer Services	Microsoft Mobile Applications	Third Party Audits for Hosted Systems
Digital Mailroom Project	MiPermit App	Third Party Contractor Access Controls
Direct Payments Children	Mobile Device Management - Intune	TOG (Transport Operations Group)
Disability Facility Grants	Mobile Devices - Phones and Tablets Including Billing	TOMS-ITU
Diversity Arrangements	Modern.Gov	Trading Standards
DOLS Deprivation of Liberty Safeguards	Monitoring of Schools Deficit/Surplus Budgets	

Unplanned Call Off List: Audit areas of high priority for which no dedicated provision is made in this year's Internal Audit plan.		
Domestic Abuse Domiciliary & Respite Services Economic Growth Projects Economic Growth Strategy / Big Plan EDRM Sharepoint Education Access Service Education Admission Policy Education Management System Elections Administration & Charging Grant Claim Electoral Registration System Emergency Planning Employee Authentication Service Energy Efficiency Energy Grants Enterprise and Business Grants Environmental Enforcement & Byelaws Environmental Maintenance Grants Environmental Service Environmental, Social and Governance (including Climate Change Strategy)	Multi Agency Teams Museums (including regimental) Network Perimeter Defences Network Routing Northwest Relief Road NRSWA - Road Openings & S278 Nursery Grants 3 to 5 years Nursing Home Reviews Occupational Health Occupational Therapy Old Market Hall, Shrewsbury One App Online Planning Portal Application On-line payments Out of County Education / Placements PAMs Assessments Parking - Enforcement and issue of NPOs & Fixed Penalty Notices Parking - Income Collection Partnership with Severnside & Shropshire Council Partnerships Passenger Transport Compliance Arrangements Passenger Transport Procurement Arrangements	Transforming Care Partnerships (TCP) Treasury Management 2ForU Education Places for 2 Year Olds Unit4 BusinessWorld (Enterprise Resource Planning- ERP) University UNIX VAT Vice Versa Pro (Backup for Digital Images) Waste - Non Veolia contracts Waste - Policy & Management Arrangements Waste - Veolia Contract Web Self-Serve CRM Application Wide area network WSP Contract Youth Activities / Community Hubs and Commissioning

Appendix C

Appendix C: De Minimis Audit areas: Where managers will be able to provide any necessary assurance.

Academy Exit Process Accountable Bodies Adobe Sign Animal Health & Welfare AONB (Areas of Outstanding Natural Beauty) - Craven Arms Apprenticeship Levy ArcView GIS Application Asbestos BluPrint Cardholder Management System for Blue Badges (CMS) Cleaning Services Review Community Car Scheme Disposal of IT Equipment Document Management System Application Enable Fishing and Sporting Rights Health Visiting Services Historic Environment & Listed Buildings Homepoint Contract IDOX Planning, Building Control & Gazetteer Management System Integration Hub Inventories Management IT Change Management Ivanti Service Desk Land Drainage Leasing Arrangements Legionella	Libraries Establishment Audit Man-8Man (Permissions Reporting) Nutanix Data Centre Solution PLUMS - Planning Policy Control Private Sector Housing Property Repair and Maintenance Public access mapping server/e-planning Recruitment & Management of Volunteers Redundancy Process Register of Electors Remote Servers Road Safety Salary Sacrifice Schemes (Childcare, AL etc) School Census Schools Business Support Services Shropshire Archives and records management Shropshire Music Service Shropshire Youth - Central Administration/activities SKYPE SMR - Sites & Monuments Record Special Transport/ Routing Arrangements Street Lighting Technology Forge Application Tell Us Once Processes Traffic Schemes Voluntary Car Scheme Wireless Networking
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<u>Committee and Date</u>	<u>Item</u>
Audit Committee 22 nd February 2022	Public

Third line assurance: External Audit, Audit Progress Report and Sector Update

Responsible Officer

James Walton

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

1. Synopsis

This report provides Audit Committee with an update on progress by Grant Thornton in delivering their responsibilities as External Auditors for Shropshire Council, and other relevant updates and emerging issues.

2. Executive Summary

2.1. Grant Thornton is responsible for providing external audit services for Shropshire Council. During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. They are contracted to provide the following services:

- 2.1.1. Audit of Statement of Accounts (SoA)
- 2.1.2. Reporting on Value for Money (VfM) arrangements in place during a financial year
- 2.1.3. Other audit roles and responsibilities under the NAO Code of Audit Practice and the Local Audit and Accountability Act 2014
- 2.1.4. Other paid for services (e.g. grant certification work which is undertaken under separate terms of engagement.)

2.2. The document attached at Appendix 1 covers the following areas:

- 2.2.1. 2020-21 SoA Audit progress
- 2.2.2. VfM progress
- 2.2.3. Progress regarding grant claims
- 2.2.4. Sector update

3. Recommendations

It is recommended that Members:

- 3.1. Receive and comment on this report and the attached External Audit, Audit progress report and sector update

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. Details of any risk assessment undertaken in the approach to the work undertaken, and any significant risks identified are contained within the attached appendix.

5. Financial Implications

- 5.1. Proposed External Audit fees by Grant Thornton in their Audit Plan for the financial year 2020-21 are £167,061.
- 5.2. Details of any review or amendment to audit fees will be discussed with the relevant responsible officer and reported to this committee.
- 5.3. Funding for the fees listed above is provided for within the Council's budget.

6. Climate Change Appraisal

- 6.1. There are no direct implications for Climate Change contained within this cover report or attached documents.
- 6.2. At the present time there is no specific requirement for external auditors to take climate change implications into account within their work or to report this within Value for Money judgement.

7. Background

- 7.1. Grant Thornton have substantially completed the audit of the 2020/21 financial statements. There are a couple of areas where Grant Thornton are still seeking reasonable and appropriate audit evidence to resolve final queries and one material audit finding to bring to the Audit Committee's attention.
- 7.2. These are:
 - 7.2.1. Gross Internal Areas (GIAs) - Evidence to support property GIAs was an outstanding item reported to the November

Audit Committee. This evidence has now been provided. This has resulted in a £12.1m adjustment to the financial statements and a £4.5m extrapolated error which has not been adjusted for.

- 7.2.2. The Controc¹ system administers payments to care providers of approximately £125m for adult services. Grant Thornton's testing is focussed on the evidence underpinning the approvals within Controc itself, specifically evidence to support both the Occurrence and Accuracy of transactions. Despite several attempts, including officers contacting care homes directly Grant Thornton has not yet been provided with appropriate evidence to support the transactions selected. On this basis they are currently unable to conclude on this area of the audit.
- 7.2.3. Exit packages – Grant Thornton's work in this area continues.
- 7.3. The Council's Housing Benefit Certification grant claim is now complete however work continues in relation to the Pooling of Housing Capital Receipts and Teachers Pensions returns.
- 7.4. Sector updates are included in relation to:
- 7.4.1. Supporting local economic growth: Department for Levelling up, Housing & Communities
- 7.4.2. Consultation - Changes to the capital framework: Minimum revenue Provision

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

Cabinet Member (Portfolio Holder)

Brian Williams, Chair of Audit Committee

Local Member

All

Appendices

Appendix 1 - External Audit, Audit progress report and sector update

¹ System supports adults' and children's social care finance teams with the process of managing contracts and budgets, making payments and collecting contributions. It is designed to integrate with case management systems, such as Liquidlogic, and the corporate finance system

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Shropshire Council Audit Progress Report and Sector Update

**Audit years ending 31 March 2021 and
31 March 2022**

11th February 2022

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Authority or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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

The paper also includes:

- a summary of emerging national issues and developments that may be relevant to you as a local authority; and
- 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)

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.

Summary of Progress at February 2022

Financial Statements Audit 2020/21– Delay in audit completion

We undertook our initial planning for the 2020/21 audit in February 2021, the results of which formed the basis for our Audit Plan which was reported to the Audit Committee on 30th July 2021. Our planning work started later than last year as a result of the pandemic .

We received draft financial statements on 31st July 2021 and we began our audit work on your draft financial statements on 2nd August 2021.

The Accounts and Audit (Amendment) Regulations 2021 push back the date by which principal authorities need to publish their draft financial statements to the first working day of August. In 2020 this date was pushed back to 31st August. The date by which authorities are required to publish audited financial statements is 30th September. In 2020 this date was pushed back to 30th November.

We have substantially completed our audit of your financial statements. There are however a couple of areas where we are still seeking reasonable and appropriate audit evidence and to resolve final queries and one material audit finding to bring to your attention since the last Audit Committee.

Gross Internal Areas (GIAs)

Evidence to support property Gross Internal Areas (GIA's) was an outstanding item reported to the November Audit Committee. This evidence has now been provided and our audit of this information is complete.

The evidence provided highlighted that the GIA's for 4 assets in particular provided to the valuer were not accurate. The valuer has since updated the valuation of the assets identified resulting in a £12.1m decrease in the value of assets held by the Council. This adjustment has been made to the financial statements. As our testing is completed on a sample basis any unadjusted errors identified are extrapolated across the untested population. This indicates a further potential misstatement of £4.5m which is an extrapolated misstatement and as such is not adjusted for in the financial statements.

Work in progress

At the time of writing the following items remain outstanding:

- **Operating expenditure (Controc system payments)** – As part of our testing of the Council's expenditure we have selected a sample of items which relate to the Controc system. Controc administers payments to care providers of approximately £125m for adult services. Once payments have been approved within Controc they are posted to the General Ledger. Internal audit has reviewed the reconciliation between Controc and the General Ledger and we have not identified any matters in that respect. Our testing is focussed on the evidence underpinning the approvals within Controc itself, specifically evidence to support both the Occurrence and Accuracy of the sample items selected for testing. Despite several attempts, including officers contacting care homes directly we have not yet been provided with appropriate evidence to support the transactions selected. On this basis we are currently unable to conclude on this area of the audit.
- **Exit packages** – Our work in this area continues. We have met with the S151 officer and Monitoring Officer in order to discuss this further.

Summary of Progress at February 2022

Accounts closedown procedures. This includes:

- Update our assessment of subsequent events up to the date of audit opinion being issued
- Receipt of the Council's WGA pack and completion of our procedures thereon. (At the time of writing WGA instructions have not yet been released)
- Obtaining and reviewing the management letter of representation
- Updating our post balance sheet events review, to the date of signing the opinion
- Final manager and engagement lead review of the financial statements and audit procedures
- Update and re-issue Audit Findings Report to Those Charged With Governance

Audit Findings Report

Upon completion of our audit work we will re-issue a revised Audit Findings report. We are meeting regularly with Finance Officers to ensure audit queries are resolved as soon as possible. This will enable us to move forward with the 2021/22 financial statements audit programme of work.

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

The new approach is more complex, more involved and is planned to make more impact.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies auditors are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office has updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible could be issued in line with national timetables and legislation. The extended deadline for the issue of the Auditor's Annual Report is now no more than three months after the date of the opinion on the financial statements.

Progress at February 2022 (continued)

Other areas

Certification of claims and returns

We certify the Authority's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions (DWP). The certification work for the 2020/21 claim began in September 2020 with DWP extending the deadline for completion to 28th February 2022. Our work in this area is now complete. We issued our report on 1st February 2022. Our report was qualified but the nature of the findings are consistent with those found elsewhere in the sector.

We certify the Authority's Annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2020/21 return began in October and is now substantially complete. We do have some outstanding queries which need to be resolved to enable us to complete our work. These have been communicated to the Council but at the time of writing we have not received responses to these requests.

We also certify the Authority's Annual Pooling of Housing Capital Receipts return in accordance with procedures agreed with the Ministry of Housing, Communities & Local Government, now the Department for Levelling Up, Housing and Communities. The certification work for the 2020/21 return began in December with our initial information request. We have not yet received this information and as such we are unable to progress our work.

Meetings

We met with Finance Officers in March, June, September and December as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and the clearance of outstanding audit queries.

Events

We provide a range of workshops, along with network events for members and publications to support the Authority. Your officers will be invited to attend our Financial Reporting Workshop in January and February 2022, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Authority are set out in our Sector Update section of this report.

Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2021/22 is the fourth year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 and 2019/20 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited, and have communicated fully with the Audit Committee.

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

Audit Deliverables

2020/21 Deliverables	Planned Date	Status
<p>Audit Plan</p> <p>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 Authority's 2020/21 financial statements and the Auditor's Annual Report on the Authority's Value for Money arrangements.</p>	July 2021	Complete
<p>Progress report</p> <p>We will report to you the progress made to date</p>	September 2021 December 2021 February 2022	Complete
<p>Audit Findings Report</p> <p>The Audit Findings Report will be reported to the Audit Committee.</p>	October 2021, deferred to December 2021	Complete
<p>Auditors Report</p> <p>This is the opinion on your financial statements.</p>	December 2021, deferred to March 2022	Not yet due
<p>Auditor's Annual Report</p> <p>This Report communicates the key issues arising from our Value for Money work.</p>	December 2021, deferred to February 2022	Not yet due

2020/21 Audit-related Deliverables	Planned Date	Status
<p>Teachers Pensions Scheme – certification</p> <p>This is the report we submit to Teachers Pensions based upon the mandated agreed upon procedures we are required to perform. Further to review we are waiting for a response from the Council regarding outstanding queries</p>	30 November 2021, deferred to March 2022	Overdue
<p>Housing Benefit Subsidy – certification</p> <p>This is the report we submit to Department of Work and Pensions based upon the mandated agreed upon procedures we are required to perform.</p>	31 January 2022 (DWP deadline moved to 28 February 2022)	Complete
<p>Pooling of housing capital receipts - certification</p> <p>This is the report we submit to Ministry of Housing, Communities and Local Government based upon the mandated agreed upon procedures we are required to perform – we have not received information to progress our work</p>	4 February 2022, deferred to March 2022	Overdue

Sector Update

Authorities 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

Supporting local economic growth: Department for Levelling up, Housing & Communities

The NAO has published its report Supporting local economic growth which considers lessons the Department for Levelling Up, Housing & Communities (the Department) has learned from implementing local growth policies, and how it has applied them.

It examines how it has applied these lessons to the one-year UK Community Renewal Fund and the following place-based interventions:

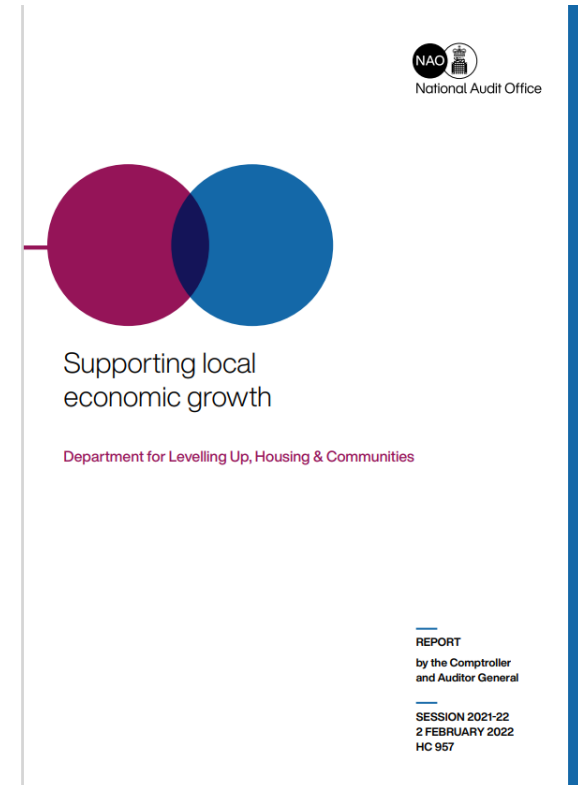
Levelling Up Fund;
UK Shared Prosperity Fund;
Towns Fund; and
Freeports

The NAO comment *'the Department for Levelling Up, Housing and Communities has not consistently evaluated its past interventions to stimulate local economies, so it doesn't know whether billions of pounds of public spending has had the impact intended.'*

'With its focus on levelling up, it is vital that the Department puts robust evaluation arrangements in place for its new schemes to promote local growth'

The report can be found here:

[Supporting local economic growth \(nao.org.uk\)](https://nao.org.uk)



Consultation - Changes to the capital framework: Minimum Revenue Provision

The Department for Levelling Up, Housing and Communities consultation seeks views on proposed changes to regulations to better enforce the duty of local authorities to make prudent Minimum Revenue Provision each year.

Local authorities can freely borrow and invest under legislation and guidance known as the Prudential Framework.

Notwithstanding these freedoms, authorities must make sure borrowing is affordable. Where capital expenditure is financed by borrowing, authorities have a statutory duty to set aside revenue funds to repay the principle of the debt; this is known as Minimum Revenue Provision (MRP).

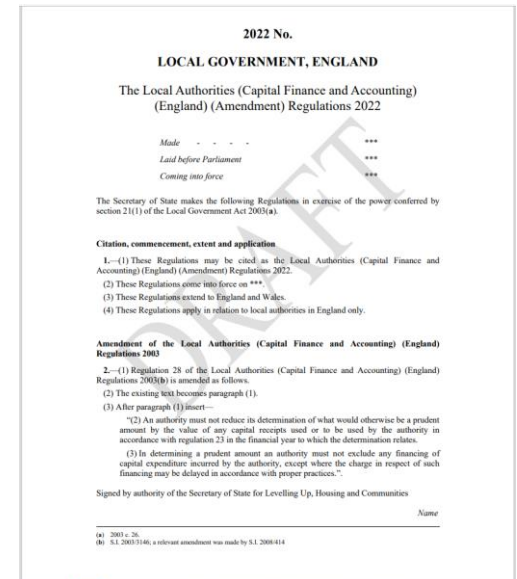
The government is proposing to make changes to the Local Authorities (Capital Finance and Accounting) (England) Regulations 2003 (the 2003 Regulations) to address the issue that some authorities are not adequately complying with the duty to make Minimum Revenue Provision.

The behaviours the government is seeking to address are:

- -Local authorities using sales from assets (capital receipts) in place of a charge to revenue. Authorities may use capital receipts to reduce overall debt and thereby reduce MRP through the calculation. Capital receipts may not, however, be used in lieu of a prudent charge to revenue.
- Local authorities are not charging MRP on debt related to certain assets. The evidence is that while some authorities are making MRP for commercial investments funded by borrowing, some are still not paying MRP in relation to borrowing associated with investment assets or capital loans. The statutory guidance is clear that financing for investment assets and capital loans requires provision to be made.

A link to the consultation and draft guidance can be found here:

[Consultation on changes to the capital framework: Minimum Revenue Provision - GOV.UK](https://www.gov.uk/consultation-on-changes-to-the-capital-framework-minimum-revenue-provision)
[www.gov.uk]





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of the Local Government Act 1972.

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