

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

Date: 12 July 2023
My Ref:
Your Ref:

Committee:
Audit Committee

Date: Thursday, 20 July 2023
Time: 10.00 am
Venue: Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate,
Shrewsbury, Shropshire, SY2 6ND

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

There will be some access to the meeting room for members of the press and public, but this will be limited. If you wish to attend the meeting please email democracy@shropshire.gov.uk to check that a seat will be available for you.

Please click [here](#) to view the livestream of the meeting on the date and time stated on the agenda

The recording of the event will also be made available shortly after the meeting on the Shropshire Council Youtube Channel [Here](#)

Tim Collard
Assistant Director – Legal and Governance

Members of Audit Committee

Simon Harris (Vice Chairman)
Nigel Lumby
Brian Williams (Chairman)

Roger Evans
Rosemary Dartnall

Independent Member: Jim Arnold

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 meeting held on the 22 June 2023 (Pages 1 - 10)

The Minutes of the meeting held on the 22 June 2023 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 5pm on Friday 14 July 2023.

5 Member Questions

To receive any questions of which Members of the Council have given notice. The deadline for this meeting is 5pm on Friday 14 July 2023.

6 Second line assurance: Annual Treasury Report (Pages 11 - 22)

The report of the Assistant Director Finance and Technology (Deputy Section 151 Officer) is attached.

Contact: Ben Jay (01743) 250691

7 Third line assurance: Internal Audit Performance Report (Pages 23 - 40)

The report of the Head of Policy and Governance is attached.

Contact: Barry Hanson 07990 086409

8 Third line assurance: Annual Assurance report of Audit Committee to Council 2022/23 (Pages 41 - 56)

The report of the Section 151 Officer is attached.

Contact: James Walton (01743) 258915

9 Third line assurance: Internal Audit Annual Report 2022/23 (Pages 57 - 80)

The report of the Head of Policy and Governance is attached.
Contact: Barry Hanson 07990 086409

10 Third line assurance: Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2022/23 (Pages 81 - 92)

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

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

The Engagement Lead will give a verbal update.
Contact: Grant Patterson (0121) 232 5296

12 Third line assurance: Pension Fund Audit Plan (Pages 93 - 114)

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

13 First line assurance: Dog Wardens Management Update (Pages 115 - 138)

The report of the Interim Assistant Director, Highways and Transport is attached.
Contact: Andy Wilde (01743) 255472

14 Second line assurance: Annual Whistleblowing report (Pages 139 - 144)

The report of the Assistant Director of Workforce is attached.
Contact: Sam Williams (01743) 252817

15 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on Thursday 28 September 2023 at 10.00am.

16 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.

17 First line assurance: Highways Contract Management Update (Exempted by Category 5) (Pages 145 - 178)

The report of the Interim Assistant Director, Highways and Transport is attached.
Contact: Andy Wilde (01743) 255472

18 First line assurance: Payroll Management Update (Exempted by categories 2, 3 and 7) (Pages 179 - 184)

The report of the Assistant Director of Workforce is attached.
Contact: Sam Williams (01743) 252817

19 Third line assurance: Fraud, special investigation and RIPA updates (Exempted by Categories 1, 2, 3 and 7) (Pages 185 - 188)

The report of the Principal Auditor is attached.
Contact: Katie Williams 07584 217067



Committee and Date

Audit Committee

20 July 2023

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 JUNE 2023 10.00 AM - 12.10 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Brian Williams (Chairman)

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

1 Apologies for Absence / Notification of Substitutes

No apologies were received.

2 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.

3 Minutes of the previous meeting held on the 14 February 2023

RESOLVED:

That the Minutes of the meeting of the Audit Committee held on the 14 February 2023 be approved as a true record and signed by the Chairman.

Matters arising:

Dog Warden

In response to a query, the Internal Audit Manager explained that the Dog Warden Management update would be on the Agenda for the July meeting as this meeting was just for the Statement of Accounts.

Paragraph 67 – Second line assurance: Treasury Strategy 2023/24

Members sought reassurance on the statement made by the Executive Director of Resources (Section 151 Officer) that 'local authorities could not go bust as they were underwritten by Central Government'. In response, the Executive Director of Resources (Section 151 Officer) explained it was a statement of fact and he

explained the way in which local authorities were set up under statute which meant that if it looked like a local authority was going bust certain mechanisms would come in from Central Government to either make a special provision for the use of capital, provision for increasing Council Tax above referendum limits and other mechanisms to ensure that didn't happen. In relation to borrowing from other Local Authorities that security was underwritten on the above basis.

Paragraph 62 - Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2022/23

An update was requested about whether the internal audit plan would indeed be completed by year end. In response, the Head of Policy and Governance explained that the work being delivered by external contractors had been substantially completed and would be reported in the Internal Audit Performance Report and the Annual Audit Opinion report being presented to the July meeting.

Further to the explanation that there would be a point whereby the internal control environment became a Strategic Risk if Internal Audit fell below a certain level, the Executive Director of Resources (Section 151 Officer) gave an update. He explained that all of the strategic risks were reviewed on an annual basis and that the internal control environment was not currently below the level where it would be considered a strategic risk but this would be continually reviewed.

4 Public Questions

There were no questions from members of the public.

5 Member Questions

There were no questions from Members.

6 Overall assurance: Annual Governance Statement 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which set out the Annual Governance Statement (AGS) and a review of the effectiveness of the Council's Internal Controls and Shropshire Council's Code of Corporate Governance.

The Executive Director of Resources (Section 151 Officer) gave a brief introduction and explained that the AGS sat alongside the Statement of Accounts and it provided assurance that the appropriate governance had been undertaken over the last financial year. The Executive Director of Resources (Section 151 Officer) went on to explain how the AGS was produced and confirmed that once signed off by the Chief Executive and Leader of the Council, the AGS was published on the website and presented to the Audit Committee along with the Financial Outturn Report and Statement of Accounts so that overall assurance could be considered.

In response to a query about the enforcement notice received by the Council from the Information Commissioners Officer (ICO) in relation to Freedom of Information (FOI) response times, the Executive Director of Resources (Section 151 Officer) explained that whilst adhering to the relevant legislation, the timescales for delivering

responses (20 days) had been breached due to a number of issues in relation to the capacity of staff being able to pull together responses from across the organisation.

In direct response to the levels of FOI response rates that failed to meet the deadline, the Council have looked to restructure the Information Governance Team and the entire approach and processes for FOI responses across the organisation and would be discussed at an information governance review meeting scheduled for the following day to which the Executive Directors and senior officers would attend.

The Executive Director of Resources (Section 151 Officer) confirmed that the visibility for this was known across the organisation and that the enforcement notice had been issued on the basis of the information available to the ICO at that point in time and was part of the reason for the creation of the new post of Head of Policy and Governance. He assured the Committee that the Council was well on its way to ensuring it met FOI response times in future.

In response to further comments, the Head of Policy and Governance explained that this issue had been a keen focus since he took on the role in April and he had been in direct contact with the ICO since then and had agreed the Action Plan with them. The Action Plan set out the measures that the Council would take to ensure it complied with the legislation. The ICO were comfortable with the actions being proposed and the timescales for which they would be implemented although it was hoped to accelerate that process to ensure that the Council were following up on it.

A brief discussion ensued and the Head of Policy and Governance responded to a number of queries and explained how the action plan addressed how FOI requests were to be handled and managed within the timeframes. Members requested an update report at the next meeting to assure the Committee what action was being taken.

In response to a query about the various references throughout the AGS to Peer Reviews, the Executive Director of Resources (Section 151 Officer) reported that there had been three LGA (Local Government Association) Peer Reviews undertaken the previous year for Finance, Communications and Scrutiny and that reports for all three were available on the website. In response to a further query, the Executive Director of Resources (Section 151 Officer) reported that the Council had asked the LGA to consider the governance arrangements across the authority. He explained that the Peer Review undertaken within the People Directorate had been very specific and related to a benchmarking review of the financial position and costs of Children's Services and there were no governance issues to consider.

The Executive Director of Resources (Section 151 Officer) responded to a number of concerns from Members in relation to the content of the AGS including LED lights, Fix My Street and staff appraisals. It was confirmed that reference to LJC's would be removed from Appendix B.

The Executive Director of Resources (Section 151 Officer) explained that the outcomes identified on page 20 of the report formed part of the Performance Management Framework which was a set of indicators across the authority that worked their way through to giving overall assurance and overall performance management information in relation to the Shropshire Plan. In relation to a healthy

and happy workforce, this would be measured via sickness statistics, regular staff surveys etc.

A brief discussion ensued in relation to the move away from staff appraisals and toward personal development plans (PDP) and the Executive Director of Resources (Section 151 Officer) explained that PDPs would not just be about appraising how well staff had done in the previous 12 months, but also about understanding the development needs that would be necessary to resolve whatever that appraisal had told them. He explained that the focus of the Getting Leadership Right programme had been about setting that 'golden thread' through the organisation and creating a new personal development appraisal process that was being implemented and rolled out across the authority and as they were being completed, they were being recorded in ERP.

An update on progress in relation to the governance issues raised during the meeting was requested for the September meeting.

RESOLVED:

1. To note the content of the Annual Governance Statement 2022/23.
2. To note the Internal Audit conclusion that the Council has reasonable evidence of compliance with the Code of Corporate Governance.
3. To note the progress made on the actions identified in the 2021/22 Annual Governance Statement.

7 Second line assurance: Financial outturn report 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which provided details of Shropshire Council's 2022/23 financial performance for revenue and capital. The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He explained that the report had already been to Cabinet and would be going to Council in July and sat alongside the Statement of Accounts. The report provided a suite of information in relation to the financial position and the overall assurance that could be taken in relation to the last financial years' accounts and followed the format of the quarterly monitoring reports which were considered by Cabinet and Scrutiny.

The Executive Director of Resources (Section 151 Officer) informed the Committee that the Council had ended the financial year better than expected with an overspend of £8.5m, which was £1.5m better than previous estimates and although not ideal, showed that the underlying control framework demonstrated a strong grip on the projections for the Council's financial position which showed a strong governance approach and showed that the estimates being used were based on a solid foundation. He then drew attention to the appendices to the report which set out the detail of the under/overspends, levels of reserves etc.

In response to an earlier query, the Executive Director of Resources (Section 151 Officer) explained that reserves were used to cover any overspend in order to ensure

there was not a negative balance sheet. The overspend in 2022/23 had depleted the reserves significantly however that was the position as at 31 March 2023 and on the 1 April 2023 the new budget kicked in and as part of that there was an inbuilt allocation to the general fund balance which became £23m a day later.

In response to a query the Executive Director of Resources (Section 151 Officer) explained the approach taken to setting a balanced budget and what the consequences would be of not doing so, as set out in statute, including stopping all discretionary spending. The Government could also take over the running of the authority and could use special powers such as being able to use capital for revenue purposes, increasing Council Tax above the referendum level, in order to bring the budget back into balance, however that was extreme and had not happened in many cases and was not something that was considered relevant to Shropshire Council.

In response to a query, the Executive Director of Resources (Section 151 Officer) confirmed that the £51m savings was a base budget reduction, it was not about transferring money into reserves although there were a number of elements that had been transferred into reserves but fundamentally, the budget was built up around a plan based on assumptions around government funding and any increase in that government funding would be put into reserves. The £1.965m were the savings that were rated as Red and had been carried forward into 2023/24.

In response to a query in relation to whether the slippage in the capital programme had led to any savings in interest, the Executive Director of Resources (Section 151 Officer) explained that there would be a series of capital projects to be delivered in the year which often took a number of years to deliver however the Council did not constantly borrow money as it was spent but would look at the overall cash position and as some borrowing became due to be paid off, the Council would decide whether it required to borrow more money now or not. The Council had recently had a period of really high cash balances with no need to borrow. Moving forward however, if the capital programme was delivered in line with the assumptions, there would be no need to borrow unless the overall programme was expected to cost more, in which case Full Council would be asked to approve the additional expenditure.

The Executive Director of Resources (Section 151 Officer) explained that Shire Services had a trading account that had to balance to £0 every year however if they made a deficit in one year, they would have to make a surplus in future years to repay it. The deficit was therefore charged to the General Fund until due to be repaid by Shire Services to bring it back into balance over time.

The Executive Director of Resources (Section 151 Officer) explained that a review of the capital programme had been discussed by the Transformation and Improvement Overview and Scrutiny Committee. He informed the Committee that a briefing was being prepared and task and finish groups being set up over the summer to consider the capital strategy where a review of all the schemes would be undertaken. An update report was due to the Transformation and Improvement Overview and Scrutiny Committee in October/November to which all Members were able to attend and ultimately to Full Council for approval in March 2024.

In response to a query, the Executive Director of Resources (Section 151 Officer) explained the updated financial management training being arranged for budget holders.

RESOLVED:

In respect of the revenue budget:

- a) Note that the outturn is an overspend of £8.499m.
- b) Note the consequent level of the General Fund balance is £7.093m.
- c) Note the service-related use of £33.192m of Earmarked Reserves & Provisions.
- d) Note that the combination of earmarked and un-earmarked (General) reserves is below a level that would be regarded as safe, taking into account local circumstances. The MTFS sets out an agreed plan to restore these balances to safer levels.

Relating to ringfenced funding:

- e) Note the performance of the Housing Revenue Account (HRA) – £0.768m (4%) surplus outturn for 2022/23 on £19m turnover, and the resulting level of the HRA reserve of £12.359m. The level of the accumulated surpluses held as a reserve should be reviewed and an appropriate action plan brought forward.
- f) Note that the level of school balances has increased by £2.296m, from £8.191m in 2021/22 to £10.487m. The level of accumulated net surpluses in schools' balances is considerable, and schools should identify the rationale for holding balances at those levels.

In respect of the capital programme:

- g) Approve net budget variations of -£4.007m to the 2022/23 capital programme (in Appendix 11) and the re-profiled 2022/23 capital budget of £111.112m.
- h) Approve the re-profiled capital budgets of £26.575m for 2023/234, including slippage of £10.747m from 2022/23, £110.787m for 2024/25 and £56.264m for 2025/26 as detailed in Appendix 15.
- i) Accept the outturn expenditure set out in Appendices 12 and 13 of £100.365m, representing 90.3% of the revised capital budget for 2022/23.
- j) Approve retaining a balance of capital receipts set aside of £17.465m as at 31st March 2023 to generate a one-off Minimum Revenue Provision saving of £0.572m in 2023/24.

8 Second line assurance: Approval of the Council's Draft Statement of Accounts 2022/23

The Committee received the report of the Executive Director of Resources (Section 151 Officer) – copy attached to the signed Minutes – which provided an overview of the Accounts for the year 2022/23 and details of the reasons for the most significant changes between the 2021/22 Accounts and the 2022/23 Accounts.

The Executive Director of Resources (Section 151 Officer) introduced and amplified his report. He drew attention to the table of deadlines and confirmed that the draft Accounts had been produced by the 31 May 2023, out of line with other Local Authorities who had not yet completed theirs. He explained that the External Audit work would take place between 19 June and 30 September by which time the

Accounts had to be published and the External Auditor would provide his opinion and certificate. Members of the Committee congratulated the team on all their hard work in producing the draft Accounts by the deadline and within two months of the year end.

The Executive Director of Resources (Section 151 Officer) explained that the Analytical Review (Appendix 2) set out the most significant changes between the 2021/22 Accounts and the 2022/23 Accounts ie a variance of either 10% or £8m.

In relation to reserves, a query was raised that in paragraph 2.3 of the report it stated that 'the Authority's earmarked reserves and provisions had decreased by £31.697m, however, on page 117 of the accounts under reserves, it said 'earmarked reserves have decreased by £37.05m'. In response, the Head of Finance Management and Reporting explained that paragraph 2.3 referred to 'Reserves and provisions' which included things like bad debt provision and other provisions they had to make during the course of the year, whereas the accounts refer specifically just to reserves.

A query was raised in relation to those area referred to in Appendix 2 as having decreased in income following removal of a Covid-19 uplift and whether there had been an increment in those grants based on eg 2018/19, or was there actually a reduction in 'real' terms based on the pre-covid period. In response, the Executive Director of Resources (Section 151 Officer) explained that covid funding was provided for specific purposes over a period of time however it was not ring-fenced and provided that the pressures added up to the amount that was provided, that was fine, however this meant that once the covid uplift was taken away you were suddenly exposed to the underlying issues leading to some areas shifting incrementally in a direction that was not so visible, given the covid funding and the uncertainty about how long the pandemic would continue and how long the funding would continue. During the budget setting process when those areas were considered, a decision was made to build growth into these areas because they had shifted in a different way that had been hidden.

Turning to page 149 of the draft Accounts, concern was raised that cashflow at the end of the period 2021/22 had dropped from £27m to £6m. In response it was explained that the cashflow statement referred to cash but also cash equivalents which included any short-term investments that was technically cash held by the authority, so the level was not as low as it appeared, and cash balances were still around the £100m level.

A query was raised in relation to the amount of debt/borrowing which appeared to be down from £521m to £491m and whether it was declining or was just an anomaly compared to where it was 3 or 4 years ago. In response, the Executive Director of Resources (Section 151 Officer) informed the Committee that levels of borrowing had generally fallen and that the only borrowing he was aware of during the last decade was for the Housing Revenue Account, it also included things like PFI and finance leases, but that the authority had not borrowed any money for general fund purposes for a decade. He went on to explain how the overall cashflow of the authority was managed and how funding decisions were made including the Treasury Advisor giving an overview on a monthly basis in terms of whether they felt that the Council was over/under borrowing. In response to a further query he confirmed that long-term debt was coming down and the debt that the Council did have was fixed so not exposed to interest rate changes. As these loans matured and were paid off a

question was asked whether to replace this debt but for the last decade this had not been replaced.

In response to a query about whether it would make monetary sense to repay any debt early due to the rise in interest rates or would there still be a charge. In response the Executive Director of Resources (Section 151 Officer) explained that the Council's Advisors kept this under consideration, and he agreed to check the position with them. However, if interest rates went up, this reduced cash balances so there was no point paying debt off to borrow at a higher rate.

The Executive Director of Resources (Section 151 Officer) answered a further query in relation to usable capital receipts reserve and whether this could be spent because of the savings that would be accrued. He explained that capital receipts could be used to fund capital expenditure and reduce the need for borrowing and it was explained why the position was zero. The Head of Finance Management and Reporting explained that usable capital receipts could be set aside and used against the MRP so rather than hold them in a reserve, that was how they were treated for the following year. The Strategic Management Accountant gave more detail and explained that it was an accounting adjustment that allowed the authority to make a revenue saving in the following year until the capital receipts were required to fund new expenditure.

Concern was raised that External Audit had not yet started their work on the Accounts despite them being produced by the deadline of 31 May 2023 and assurance was sought on whether External Audit would complete its audit in time for them to be published on 30 September 2023. In response, the External Auditor explained that the planning work for the 2022/23 accounts had been undertaken and they were awaiting some responses from the Council but that their formal plan would be presented to the July meeting of the Audit Committee. They were however hoping to get some testing underway prior to that. He explained some of the reasons for the delay including a resourcing issue which it was hoped would be resolved following the recruitment of a number of new starters. He felt that the substantive audit work would be completed by the end of September 2023 and he would be in a position to produce the Audit Findings report within two months of that.

Turning to the 2021/22 audit, this was substantially complete apart from an outstanding issue in relation to the biannual valuation of the Pensions Fund which may be materially misstated. He hoped to issue an opinion on the 2020/21 accounts by the end of the month. The Committee felt that as the Council had completed its accounts in time it should be given priority over others who had not done so, in response, the External Auditor explained that the work for Shropshire Council had been brought forward for that very reason and would be undertaken in the early tranche. He assured the Committee that they would work closely with the Council and possibly work on site in order to make some efficiency gains.

Members felt it was not acceptable that accounts going back to 2020/21 had not been signed off. In response the Executive Director of Resources (Section 151 Officer) expressed his concern that the authority was progressing into the 2023/24 financial year with the biggest savings plan the authority had ever had, and yet the basis on which that was set had no independent assurance. The External Auditor explained that the statutory framework required the accounts to be published by 30

September and if they were not completed then a note had to be included stating why the audit was not complete.

RESOLVED:

To note the content of the 2022/23 Draft Statement of Accounts.

9 Date and Time of Next Meeting

The next meeting of the Audit Committee would be held on the 20 July 2023 at 10.00am.

10 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.

11 Exempt minutes of the previous meeting held on the 14 February 2023

RESOLVED:

That the Exempt Minutes of the meeting of the Audit Committee held on the 14 February 2023 be approved as a true record and signed by the Chairman.

Signed (Chairman)

Date:

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	Committee and Date Audit Committee 20 th July 2023	Item
	Cabinet 6 th September 2023	Public
		
		

Annual Treasury Report 2022/23

Responsible Officer:	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258915
Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

1. Synopsis

During 2022/23 the Council stayed within all required indicators for managing its financing arrangements, including day to day cashflow, short term investments and longer term borrowings. Additional income of £2.5m was secured.

2. Executive Summary

- 2.1 During 2022/23, the Council complied with its legislative and regulatory requirements. The key actual prudential and treasury indicators detailing the impact of capital expenditure activities during the year, with comparison to the target set in the Treasury Strategy, are detailed in Appendix C.
- 2.2 The internal treasury team outperformed their investment benchmark by 0.03% in 2022/23 achieving a return of 1.81%. Treasury activities during the year have been within approved prudential and treasury indicators set and have complied with the Treasury Strategy.

3. Recommendations

The Council is recommended to:

- 3.1. Approve the actual 2022/23 prudential and treasury indicators in this report
- 3.2. Note the annual treasury management report for 2022/23

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. The Audit Committee will consider the report and appendices on 20 July before approval is sought at Full Council on 21 September.

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 2022/23 performance is above benchmark for the reasons outlined in paragraph 2.2 of this report and has delivered additional income of £2.546 million which has been reflected in the Financial Outturn report for 2022/23.

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 is required by regulations issued under the Local Government Act 2003 to produce an annual treasury management review of activities and the actual prudential and treasury indicators for 2022/23. This report meets the requirements of both the CIPFA Code of Practice on Treasury Management, (the Code), and the CIPFA Prudential Code for Capital Finance in Local Authorities, (the Prudential Code).
- 7.2 During 2022/23 the minimum reporting requirements were that the full Council should receive the following reports:
- an annual treasury strategy in advance of the year
 - a mid-year treasury update report
 - an annual review following the end of the year describing the activity compared to the strategy, (this report)
- 7.3 In addition, Cabinet has received quarterly treasury management update reports during the course of the year.
- 7.4 The regulatory environment places responsibility on members for the review and scrutiny of treasury management policy and activities. This report is, therefore, important in that respect, as it provides details of the outturn position for treasury activities and highlights compliance with the Council's policies previously approved by members.
- 7.5 The Council has complied with the requirement under the Code to give prior scrutiny to all of the above treasury management reports by Cabinet before they were reported to the full Council.
- 7.6 The Council's treasury management debt and investment position is organised by the treasury management service in order to ensure adequate liquidity for revenue and capital activities, security for investments and to manage risks within all treasury management activities. Procedures and controls to achieve these objectives are well established both through member reporting detailed in the summary, and through officer activity detailed in the Council's Treasury Management Practices.

8. Borrowing Strategy and Outturn for 2022/23

- 8.1. The Council's Borrowing Strategy and Outturn position for 2022/23 can be found in Appendix A.

9. Investment Strategy and Outturn for 2022/23

- 9.1. The Council's Investment Strategy and Outturn position for 2022/23 can be found in Appendix B.

10. Compliance with Treasury Limits and Prudential Indicators

10.1. Compliance with the Council's Treasury Limits and Prudential Indicators can be found in Appendix C.

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

Council, 24 February 2022, Treasury Strategy 2022/23.

Council, 15 December 2022, Treasury Strategy 2022/23 Mid-Year Review.

Council, 2 March 2023, Treasury Strategy 2023/24.

Cabinet, 7 September 2022, Treasury Management Update Quarter 1 2022/23.

Cabinet, 14 December 2022, Treasury Management Update Quarter 2 2022/23.

Cabinet, 15 February 2023, Treasury Management Update Quarter 3 2022/23.

Cabinet, 7 June 2023, Treasury Management Update Quarter 4 2022/23.

Local Member: All

Appendices

Appendix A - Borrowing Strategy and Outturn 2022/23

Appendix B - Investment Strategy and Outturn 2022/23

Appendix C – Prudential Indicators 2022/23

APPENDIX A - BORROWING STRATEGY AND OUTTURN 2022/23

Borrowing Strategy for 2022/23

The Council's borrowing requirement identified within the capital programme 2022/23 to 2024/25 was self-financing prudential borrowing of £65.228m therefore no external borrowing was required but based on the prospects for interest rates outlined in the treasury strategy, the council would adopt a pragmatic approach if circumstances changed when considering any new borrowing.

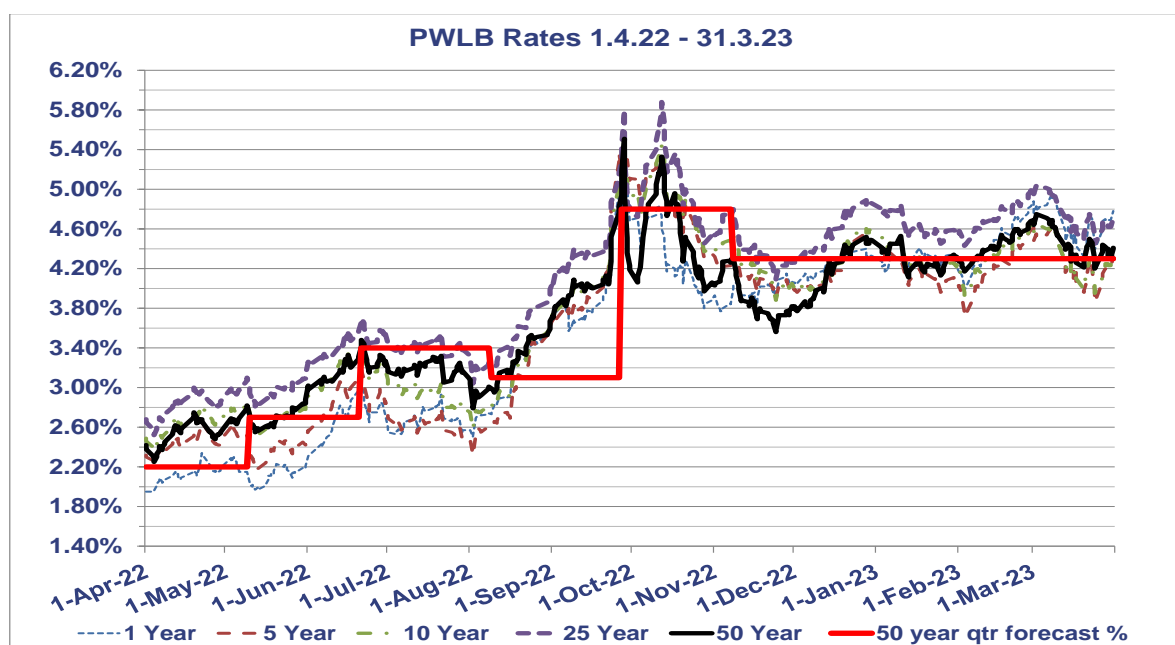
Short term Public Works Loan Board (PWLB) rates were expected to be significantly cheaper than longer term borrowing rates during the year therefore borrowing in the under 10 year period early on in the financial year when rates were expected to be at their lowest would be considered. Variable rate borrowing was also expected to be cheaper than long term fixed rate borrowing throughout the year.

An alternative strategy was to defer any new borrowing as long term borrowing rates were expected to be higher than investment rates during the year. This would maximise savings in the short term and also have the added benefit of running down investments which would reduce credit risk.

Consideration of changing strategy would be taken 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.

Borrowing Outturn for 2022/23

The Treasury Team take advice from its external treasury advisor, Link Asset Services, on the most opportune time to borrow. Movements in rates during 2022/23 are shown in the graph below.



Members have previously been advised of the unexpected change of policy on PWLB lending arrangements in October 2010 following the Comprehensive Spending Review. In addition, in October 2019, the Treasury and PWLB announced an increase in rates of 1% across all borrowing periods. This made new borrowing more expensive and repayment relatively less attractive. That increase was then, at least partially, reversed for some forms of borrowing on 11th March 2020, but not for mainstream non-HRA capital schemes. A consultation was then held with local authorities and on 25th November 2020, the Chancellor announced the conclusion to the review of margins over gilt yields for PWLB rates; the standard and certainty margins were reduced by 1% but a prohibition was introduced to deny access to borrowing from the PWLB for any local authority which had purchase of assets for yield in its three year capital programme.

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

	1 Year	5 Year	10 Year	25 Year	50 Year
As at 1/4/22	1.95%	2.32%	2.49%	2.68%	2.42%
As at 31/3/23	4.78%	4.31%	4.33%	4.70%	4.41%
Low	1.95%	2.18%	2.36%	2.52%	2.25%
Date	01/04/2022	13/05/2022	04/04/2022	04/04/2022	04/04/2022
High	5.11%	5.44%	5.45%	5.88%	5.51%
Date	28/09/2022	28/09/2022	12/10/2022	12/10/2022	28/09/2022
Average	3.57%	3.62%	3.76%	4.07%	3.74%
Spread	3.16%	3.26%	3.09%	3.36%	3.26%

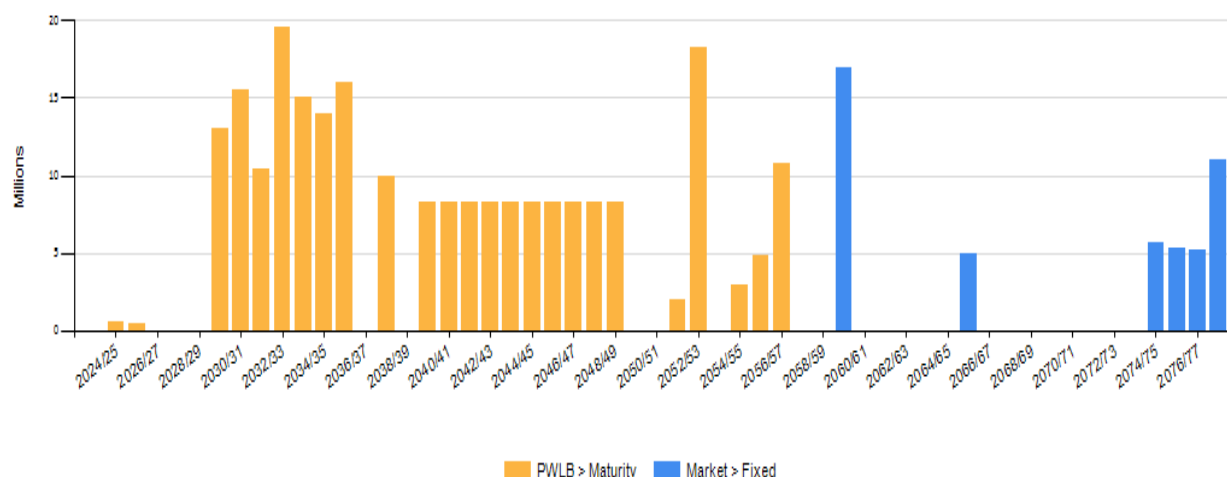
Following discussions with Link, as general fund borrowing rates were significantly higher than investment rates during the year it was agreed that if any new borrowing was required during the year it would be deferred in order to maximise

savings in the short term and reduce credit risk by reducing investments. No new external borrowing was required in 2022/23. The council’s total debt portfolio at 31 March 2022 is set out below:-

Type of Debt	Balance £m	Average Borrowing Rate 2022/23
General Fund Fixed Rate – PWLB	153.52	4.86%
HRA Fixed Rate - PWLB	83.35	3.51%
Fixed Rate - Market	49.20	4.10%
Variable Rate	0	N/A

The maturity profile of the debt is evenly spread to avoid large repayments in any one financial year. The average debt period for PWLB loans is 16 years, market loans have an average debt period of 48 years. The total debt portfolio has a maturity range from 1 year to 55 years.

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



Debt Rescheduling

No debt restructuring was undertaken during 2022/23. The introduction of a differential in PWLB rates on the 1 November 2007, which was compounded further following a policy change in October 2010 and subsequent changes in 2019 and 2020, as outlined above has meant that large premiums would be incurred if debt restructuring was undertaken, which cannot be justified on value for money grounds.

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

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

APPENDIX B - INVESTMENT STRATEGY AND OUTTURN 2022/23

Investment Strategy 2022/23

When the Treasury Strategy was approved in February 2022, our treasury advisor had outlined how difficult it would be to forecast Bank rate increases during 2022/23 due to the uncertainty around the inflation rate although it was anticipated that the bank rate would incrementally increase through 2022.

The below forecast table was included in the Treasury Strategy report 2022/23.

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

Given significant increases in the Bank Rate during the early part of the year, the below forecast table was included in the Mid-Year Treasury Strategy report 2022/23.

Link Group Interest Rate View	08.11.22													
	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Dec-25
BANK RATE	3.50	4.25	4.50	4.50	4.50	4.00	3.75	3.50	3.25	3.00	2.75	2.50	2.50	2.50
3 month ave earnings	3.60	4.30	4.50	4.50	4.50	4.00	3.80	3.30	3.00	3.00	2.80	2.50	2.50	2.50
6 month ave earnings	4.20	4.50	4.60	4.50	4.20	4.10	3.90	3.40	3.10	3.00	2.90	2.60	2.60	2.60
12 month ave earnings	4.70	4.70	4.70	4.50	4.30	4.20	4.00	3.50	3.20	3.10	3.00	2.70	2.70	2.70
5 yr PWLB	4.30	4.30	4.20	4.10	4.00	3.90	3.80	3.60	3.50	3.40	3.30	3.20	3.10	3.10
10 yr PWLB	4.50	4.50	4.40	4.30	4.20	4.00	3.90	3.70	3.60	3.50	3.40	3.30	3.20	3.20
25 yr PWLB	4.70	4.70	4.60	4.50	4.40	4.30	4.10	4.00	3.90	3.70	3.60	3.50	3.50	3.50
50 yr PWLB	4.30	4.40	4.30	4.20	4.10	4.00	3.80	3.70	3.60	3.40	3.30	3.20	3.20	3.20

In 2022/23 investment of surplus cash continued to be managed by the internal treasury team. The investment priorities are the security of capital and the liquidity of its investments. The Council also aims to achieve the optimum return on its investments commensurate with proper levels of security and liquidity. Investments are made in line with the Council's policy on creditworthiness which was approved in the Annual Investment Strategy.

Investment Outturn 2022/23

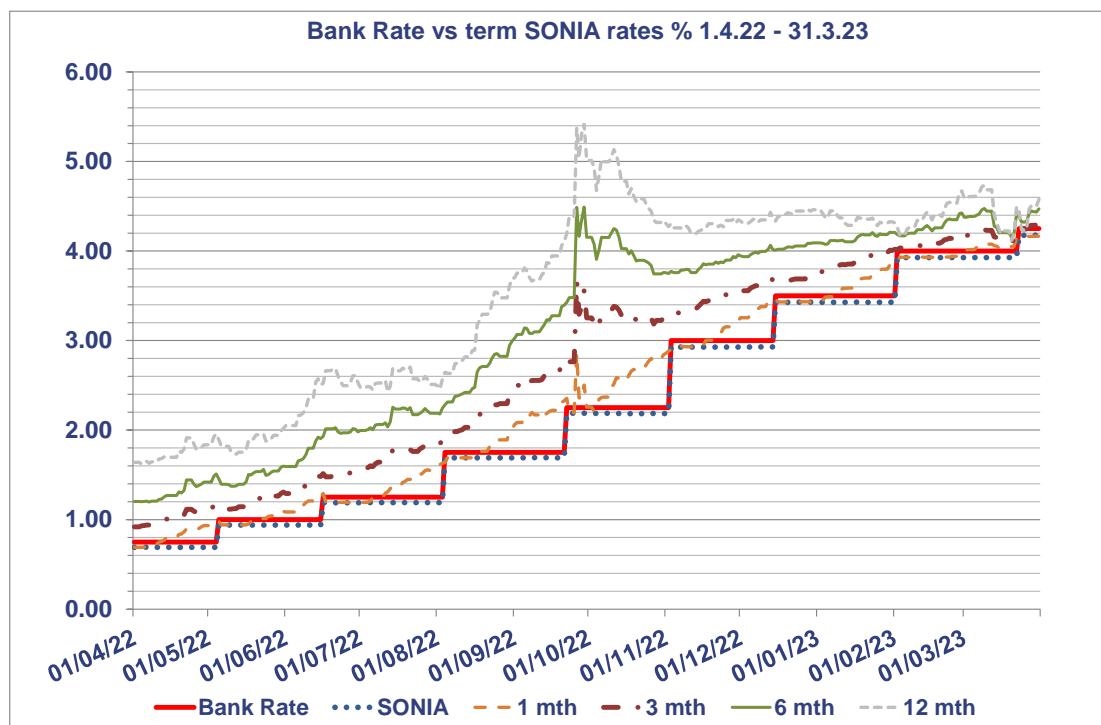
Investment returns picked up throughout the course of 2022/23 as central banks, including the Bank of England, realised that inflationary pressures were not transitory, and that tighter monetary policy was called for.

Starting April at 0.75%, Bank Rate moved up in stepped increases of either 0.25% or 0.5%, reaching 4.25% by the end of the financial year, with the potential for a further one or two increases in 2023/24.

The sea-change in investment rates meant local authorities were faced with the challenge of pro-active investment of surplus cash for the first time in over a decade, and this emphasised the need for a detailed working knowledge of cashflow projections so that the appropriate balance between maintaining cash for liquidity purposes, and "laddering" deposits on a rolling basis to lock in the increase in investment rates as duration was extended, became an on-going feature of the investment landscape.

Meantime, through the autumn, and then in March 2023, the Bank of England maintained various monetary policy easing measures as required to ensure specific markets, the banking system and the economy had appropriate levels of liquidity at times of stress.

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



At 31 March 2023 the allocation of the cash portfolio was as follows:

Maturity Date	£m
Under 1 month	46.4
1-3 months	8.0
3-6 months	23.0
6-9 months	0
9-12 months	7.0
TOTAL	84.4

The average return on cash investments for the internal treasury team during the year was a return of 1.81%. Recognising the need to manage short term cash flow requirements, the target for the internal team is the 3 Month SONIA rate (1.78%). Therefore the internal treasury team have outperformed the benchmark by 0.03%.

APPENDIX C – PRUDENTIAL INDICATORS 2022/23

The Prudential Code requires the Council to set Prudential Indicators in the Treasury Strategy and report performance against those indicators in the Annual Treasury Report.

As can be seen from the table below, with the exception of Indicator 2, all of the actual indicators are below the targeted level that was set out in the Treasury Strategy for 2022/23. Prudential Indicator 2 states that gross external borrowing should not exceed the capital financing requirement, so whilst the actual net borrowing (£208m) is in excess of the target (£198m), the borrowing is still less than the total capital financing requirement (£486m) and so meets the requirements of the indicator.

PRUDENTIAL INDICATORS	2022/23	2022/23
	Indicator	Actual
1. Ratio of financing costs to net revenue stream	%	%
Non - HRA	9.9	7.6
Non HRA (net of investment income)	9.5	8.8
HRA	37.9	27.4
2. Net Borrowing & Capital Financing Requirement (CFR)	£m	£m
Non – HRA	431	417
HRA	95	92
Commercial activities/non-financial investments	19	8
TOTAL CFR	545	517
Movement in CFR	36	38
Gross Borrowing (including HRA)	348	292
Investments	150	84
Net Borrowing	198	208
3. Capital Expenditure	£m	£m
Non - HRA	159.4	77.7
HRA (applies only to housing authorities)	16.5	13.5
Commercial activities /non-financial investments	13.0	9.2
TOTAL	188.9	100.4
Financing of capital expenditure	£m	£m
Capital receipts	27.0	9.0
Capital grants	69.9	34.2
Other contributions	23.0	14.3
Major Repairs Allowance	3.8	4.2
Alternative Funding Options	3.3	0.9
Revenue	3.4	1.4
Net financing need for the year	58.5	36.4
Commercial activities/non-financial investments	£m	£m
Capital expenditure	13.0	9.2
Financing costs	0.4	0.4
Net financing need for the year	12.6	8.6
Percentage of total net financing need	97%	96%

4. Authorised Limit for External Debt		£m	£m
Borrowing		528	292
Other long term liabilities (PFI)		92	91
Commercial activities/non-financial investments		13	0
TOTAL		633	383
5. External Debt - Operational Boundary:		£m	£m
Borrowing		460	292
Other long term liabilities (PFI)		92	91
Commercial activities/non-financial investments		13	0
TOTAL		565	383
6. External Debt:		£m	£m
Borrowing		298	292
Other long term liabilities (PFI)		96	94
TOTAL		394	386
7. Borrowing Limits	Lower Limit	Upper Limit	£m
	£m	£m	
Fixed Interest Rate Exposure	264	528	292
Variable Interest Rate Exposure	0	264	0
8. Investment Limits	Lower Limit	Upper Limit	£m
	£m	£m	
Fixed Interest Rate Exposure	0	250	84
Variable Interest Rate Exposure	0	250	0
9. Maturity Structure of Fixed /Variable Rate Borrowing During 2022/23	Upper Limit	Lower Limit	%
	%	%	
Under 12 mths	15	0	2
12 mths & within 24 mths	15	0	0
24 mths & within 5 years	45	0	0
5 years & within 10 years	75	0	20
10 years & within 20 years	100	0	30
20 years & within 30 years	100	0	24
30 years & within 40 years	100	0	12
40 years & within 50 years	100	0	2
50 years and above	100	0	9
10. Investment Limits		£m	£m
Upper Limits for Total Principal Sums Invested for over 365 days:			
Externally Managed		50	0
Internally Managed		70	0



Committee and Date

Audit Committee

20th July 2023

10:00am

Item

Public



Internal Audit Performance 2022/23

Responsible Officer:	Katie Williams		
email:	katie.williams@shropshire.gov.uk	Tel:	07584 217067
Cabinet Member (Portfolio Holder):	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder – Finance and Corporate Resources		

1. Synopsis

This report summarises Internal Audit's work in the final quarter of 2022/23 to inform the year end opinion. Progress was slightly behind target. Where reviews identified lower assurances, these 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 final two and a half months of the 2022/23 Internal Audit Plan. The team has achieved the target to deliver a minimum of 90% of the revised annual plan by the year end with 94% percent of the revised plan having been completed (**see Appendix A, Table 1**), slightly below previous delivery records (97% 2021/22 and 2020/21).
- 2.2. Three good, six reasonable, five limited and two unsatisfactory assurance opinions have been issued. The 16 final reports contained 126 recommendations, five of which were fundamental.

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

3. Decisions

- 3.1. The Committee is asked to consider and endorse, with appropriate comment
- a) the performance of Internal Audit against the 2022/23 Audit Plan.
 - b) Identify any action(s) it wishes to take in response to any low assurance levels and fundamental recommendations, brought to Members' attention, especially where they are repeated.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. 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 (delivery risks) 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). Vacancy management and recruitment, whilst an ongoing risk, is being managed proactively and activities undertaken to mitigate and manage this going forward.
- 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 with delegated authority under the Constitution to monitor progress on the work of Internal Audit.

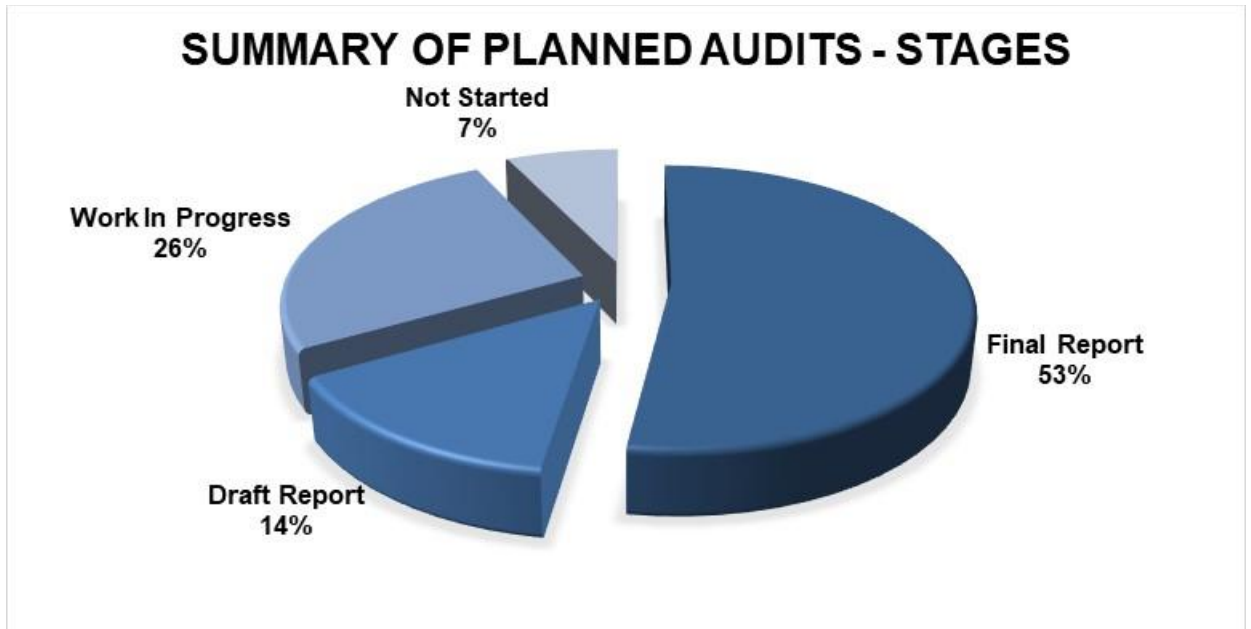
7.2. The 2022/23 Internal Audit Plan was presented to, and approved by the Audit Committee at the 22nd, February 2022 meeting, with adjustments being approved in September, November and January. This report provides an update on progress made against the plan up to 31st March 2023.

8. Performance Against the Plan 2022/23

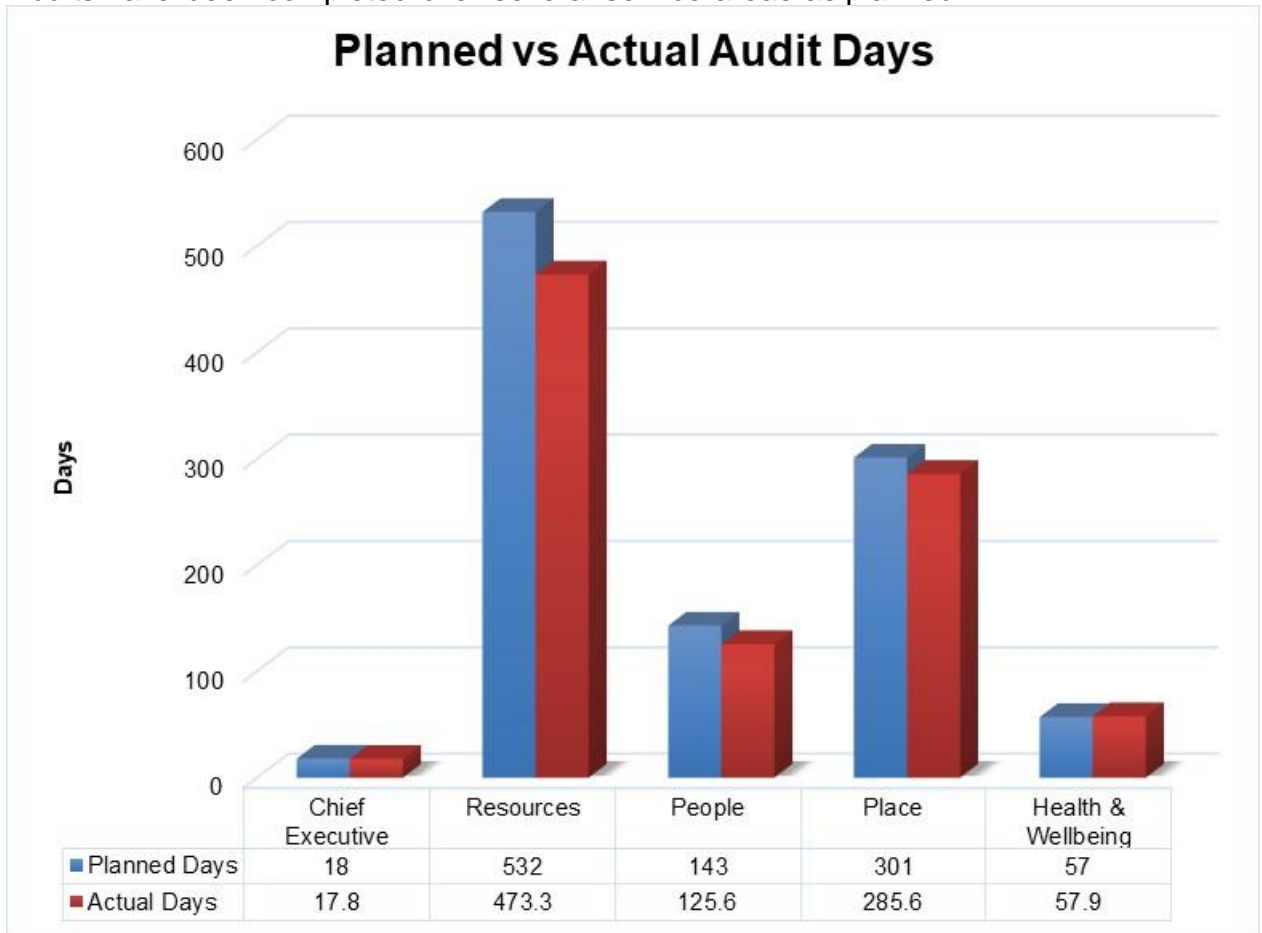
8.1. The 2022/23 plan provides for a total of 1,569 audit days. Over the year there have been changes to planned audit activity which has been adjusted to reflect changes in resources and risks. Part of the audit plan has been delivered by external contractors, whilst the majority of work has been completed there are two audits that have not been started. Assurances have been received that planned work will commence imminently.

8.2. Performance is on par with previous delivery records at 94% (97% 2021/22; and 2020/21), and the team has achieved the target to deliver a minimum of 90% of the revised annual plan by the year end.

8.3. In total, 16 final reports have been issued in the period from 16th January to 31st March 2023, all are listed with their assurance rating and broken down by service area at paragraph 8.5. The year to date position is shown at **Appendix A, Table 2**. The following chart shows performance against the approved Internal Audit Plan for 2022/23:



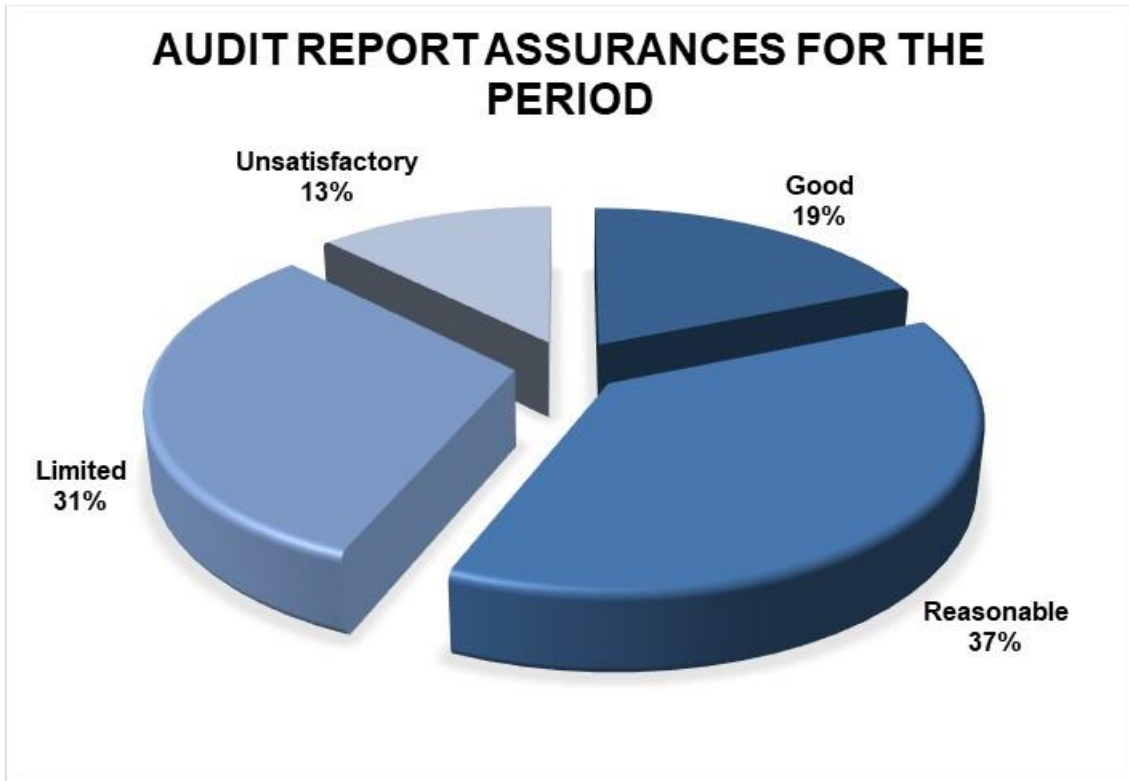
8.4. Audits have been completed over several service areas as planned:



8.5. The following audits have been completed in the period:

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Health and Wellbeing								
Contaminated Land		1			0	0	3	0
	0	1	0	0	0	0	3	0
People - Adults								
Comforts Fund Reviews - Avalon	1				0	0	1	0
Other, including added value and briefing notes					0	3	0	0
	1	0	0	0	0	3	1	0
People - Children								
Nursery Grants 3 to 5 years		1			0	1	3	2
Other, including added value and briefing notes					0	2	1	0
	0	1	0	0	0	3	4	2
Place								
Community Infrastructure Levy	1				0	0	1	0
Highways Permits	1				0	0	2	0
Economic Growth Projects		1			0	0	4	0
Registrars Income Collection		1			0	1	8	0
Theatre Severn		1			0	1	19	0
Tree Safety 2022/23				1	1	4	7	0
	2	3	0	1	1	6	41	0
Resources - Finance and Technology								
Capital Management and Monitoring		1			0	1	3	0
Backup Arrangements			1		1	0	4	0
Database Administration			1		0	6	4	0
Firewalls			1		0	4	6	0
Microsoft Azure and Power Platform Follow Up			1		1	3	12	0
IT Business Administration				1	1	2	2	0
Other, including added value and briefing notes					0	4	1	0
	0	1	4	1	3	20	32	0
Resources - Legal and Governance								
Information Security Management Follow up			1		1	2	4	0
	0	0	1	0	1	2	4	0
Total	3	6	5	2	5	34	85	2
%	19%	38%	31%	12%	4 %	27 %	67%	2 %

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



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



In the period 16th January to 31st March 2023, nine reports have been issued providing good or reasonable assurances and accounting for 57% of the opinions delivered. This represents a slight decrease in the higher levels of assurance for this period, compared to the previous year outturn of 59%. This is balanced by a corresponding increase in limited and unsatisfactory assurances, currently 43% for the period compared to the previous year outturn of 41%. Finance and Technology

have received four limited and one unsatisfactory assurance level in the period and the Place Directorate has seen the highest number of unsatisfactory assurance opinions.

- 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. Twelve 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.
- 8.10. A total of 126 recommendations have been made in the 16 final audit reports issued during this period; these are broken down by service area at paragraph 8.5, the year-to-date position is show at **Appendix A, Table 2**. Five fundamental recommendations have been identified which are detailed below:

- **Tree Safety**

Recommendation - The current organisational structure at Shropshire Council should be reviewed with a view to ensuring one individual or department has oversight and understanding of woodland development and tree management. This review should delegate responsibility for the development of a biodiversity strategy (incorporating woodland creation and management) that contributes effectively to Shropshire's net zero by 2030 targets and managing tree safety risks.

Risk - Without clarity on roles and responsibilities for tree management an overarching strategy that covers biodiversity, tree and hedge planting as well as tree safety Shropshire may fail to meet its net zero by 2030 carbon target and tree management will remain peripheral to all departments, reactive and lacks direction and focus. This could lead to severe damage to property or person which could result in injury or death. This could also result in legal action, fines and reputational damage.

Management Response - Issue to be raised at senior management level because it crosses service area / directorate boundaries. This also needs to be considered in the wider context of the Council's financial position and ensuring that we have the correct model for managing trees, woodland and biodiversity that is resourced.

Date to be Actioned – October 2023

- **Backup Arrangements**

Recommendation - The backup recovery processes need to be simplified, provide additional coverage for M365 apps.

Risk – A lack of appropriate back up facilities supporting key material systems may lead to being unable to recover in the event of an incident.

Management Response - With the adoption of a modern backup solution we will refresh our backup processes as our new solution provides capability across the mentioned areas.

Date to be Actioned – June 2023

- **Microsoft Azure and Power Platform Follow Up**

Recommendation - The review of the structure should be completed as a matter of priority to ensure that the Azure/M365 adequate administrative arrangements are in place, including clearly defined responsibilities for receipt and analysis of M365 Message Center notifications.

Risk - The absence of appropriate resourcing leads to poor management of the platforms, increasing the risk of configuration error leading to a cyber event.

Management Response - Since the publication of the initial briefing note a significant amount of work has been put into strengthening the controls around Azure/M365, including establishing an MS Planner to manage notifications from the message centre. In light of a strategic partner being appointed to work with the Council, we will be extending the interim arrangements while a skills and maturity assessment is conducted with the partner. This will inform the most appropriate structure moving forwards.

Date to be Actioned – September 2023

- **IT Business Administration**

Recommendation - As recommended in 2020/21 and 2021/22, a contract for the provision of ICT hardware i.e. PC's, laptops and mobile devices should be secured in line with the Council's Contract Procedure Rules at the earliest opportunity.

Risk - Non-compliance with the Council's Contract Procedure Rules resulting in a failure to ensure that legal requirements are met and value for money is achieved which could result in a financial and reputational loss to the Council. Without a contract, terms and conditions are not agreed and supplier performance and costs cannot be easily measured or addressed. This could result in a financial loss to the Council if the supplier ceased to provide goods or was not delivering or performing as expected and goods needed to be sought elsewhere at short notice.

Management Response - The business case to allow the budget has been completed and is being reviewed by colleagues in Finance. Investigations have been held with several suppliers on the different technologies available and an appropriate framework has been identified. The associated paperwork for this is being completed and we are intending for this to be issued in March with a 3 month procurement cycle likely.

Date to be Actioned – July 2023

- **Information Security Management Follow Up**

Recommendation - The Information Governance Leadership and Organisational Oversight Group (IGLOO) should ensure arrangements for the independent assurance over the Information Governance Framework and Information Security are retained and documented.

Risk - Since the Head of Service - Policy of Governance and Governance's job description is operationally responsible for the Information Governance Framework and is also Chief Audit Executive, the Council may lose independent (third line) assurance over its Information Security / Information Governance arrangements.

Management Response - Independent assurance was raised during the IGLOO meeting held on 24 March 2023 where members of the group were asked

for input into this. Appropriate arrangements will be made as the new Head of Policy and Governance takes up their role on April 1 2023.

Date to be Actioned – June 2023

8.11. It is the identified manager'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.

8.12. 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**.

- **Strategic Partner Framework** – A review of the initial phase of the transformation which established the governance arrangements for the programme and identified the initial projects that would be prioritised.
- **Transport Operational Project Board** – Representation on the Flexiroute system implementation project board providing critical challenge and advice on internal controls.
- **Schools self-assessment review and feedback** – Annually a sample of schools are asked to complete a controls evaluation self-assessment. The results are reviewed by Internal Audit to inform the annual plan of work and specific feedback provided to schools where appropriate.
- **Demand Responsive Transport** – Connect On-Demand will replace existing low-frequency scheduled bus services in various zones covering rural areas of Shropshire with demand-responsive transport (DRT) services using new minibuses, bookable through an app. Audit representation on the project board providing critical challenge and advice on internal controls.
- **Payroll Data Analytics** – Analysis of payroll data was undertaken to identify data quality improvements. This information was shared with the HR/Payroll Manager to enable the HR Business Partners to support those not using the system correctly.
- **National Fraud Initiative (NFI)** – The team are co-ordinating the review of matches from the 2022/23 NFI process.

Performance Measures

8.13. 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 2022/23 – Audit Committee 14th February 2023

Internal Audit Performance and Revised Annual Audit Plan 2022/23 – Audit Committee 24th November 2022

Internal Audit Performance and Revised Annual Audit Plan 2022/23 – Audit Committee 15th September 2022

Draft Internal Audit Risk Based Plan 2022/23 - Audit Committee 22nd February 2022
Public Sector Internal Audit Standards (PSIAS)
Audit Management system

Accounts and Audit Regulations 2015, 2018 and Accounts and Audit (Coronavirus)
(Amendment) Regulations 2020, Amendment Regulations 2022

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 1st April to 31st March 2023.

Table 2: Final audit report assurance opinions and recommendation summary 1st April to 31st March 2023.

Table 3: Unsatisfactory and limited assurance opinions in the period 1st April to 31st March 2023.

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Recommendation follow up process (risk based)

APPENDIX A

Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st April to 31st March 2023

	Original Plan	Revised Plan	31 st March 2023 Actual	% of Original Complete	% of Revised Complete
Chief Executive	14	18	17.8	127%	99%
Health and Wellbeing	10	57	57.9	579%	102%
People	65	143	125.6	193%	88%
Adult Services	15	58	65.7	438%	113%
Children's Services	22	47	20.4	93%	43%
Education and Achievement	28	38	39.5	141%	104%
Place	129	301	285.6	221%	95%
Resources	318	532	473.3	149%	89%
Finance and Technology	202	320	275.2	136%	86%
Legal and Governance	49	63	58.0	118%	92%
Workforce and Improvement	67	149	140.1	209%	94%
S151 Planned Audit	536	1,051	960.2	179%	91%
Contingencies and other chargeable work	682	307	303.0	44%	99%
Total S151 Audit	1,218	1,358	1,263.2	104%	93%
External Clients	211	211	206.8	98%	98%
Total	1,429	1,569	1,470.0	103%	94%

Table 2: Final audit report assurance opinions and recommendation summary - 1st April to 31st March 2023

Audit Name	Audit Opinion					Recommendations			
	Good	Reasonable	Limited	Unsatisfactory		Fundamental	Significant	Requires Attention	Best Practice
Chief Executive									
Corporate Governance		1							
	0	1	0	0		0	0	0	0
Health and Wellbeing									
Contaminated Land		1						3	
	0	1	0	0		0	0	3	0
People - Adults									
Comforts Fund Reviews - Avalon	1							1	
Individual Service Funds (ISFs)		1				1	1	1	
Other, including added value and briefing notes							4	1	
	1	1	0	0		1	5	3	0
People - Children									
Supporting Families Grant - June Claim	1								
Nursery Grants 3 to 5 years		1					1	3	2
Supporting Families Grant - September Claim		1					1		
Schools Themed Audits 2021/22		1					7	28	
Schools Themed Audits		1						29	
Other, including added value and briefing notes							3	1	
	1	4	0	0		0	12	61	2
Place									
Community Infrastructure Levy	1							1	
Highways Permits	1							2	
Local Enterprise Partnerships	1								
Contracts and Tendering - Property		1					1	5	2
Economic Growth Projects		1						4	
Gladstone Application 2021/22		1					6	5	
Registrars Income Collection		1					1	8	
Theatre Severn		1					1	19	
Confirm Application			1				7	5	
WSP Contract Management 2021/22			1				2	9	
Acton Scott Working Farm Museum				1			13	13	
Much Wenlock Leisure Centre				1			21	22	
Tree Safety 2022/23				1		1	4	7	

Audit Name	Audit Opinion					Recommendations			
	Good	Reasonable	Limited	Unsatisfactory		Fundamental	Significant	Requires Attention	Best Practice
	3	5	2	3		1	56	100	2
Resources - Finance and Technology									
ERP Development and Administration	1							1	
Capital Management and Monitoring		1					1	3	
Encryption		1					2	2	
ResourceLink Database Administration		1					4	1	
Sales Ledger - Periodic Income 2021/22		1					4	2	
Sales Ledger 2021/22		1					3	4	
SNOW - IT Asset Management		1					2	3	
Backup Arrangements			1			1		4	
Database Administration			1				6	4	
Debt Recovery 2021/22			1				5	4	
Firewalls			1				4	6	
General Ledger 2021/22			1				7	11	
Microsoft Azure and Power Platform Follow Up			1			1	3	12	
Purchase Ledger 2021/22			1				9	27	
Telecommunications, Contracts and Procurement Follow up 2021/22			1				5	3	
Third Party Contractor Access Controls 2021/22			1				2	4	
IT Business Administration				1		1	2	2	
Other, including added value and briefing notes							4	1	
	1	6	9	1		3	63	94	0
Resources - Workforce and Improvement									
Risk Management	1						1	2	
Home and flexible Working Arrangements		1					5	8	
Payroll 2021/22				1		1	19	9	
	1	1	0	1		1	25	19	0
Resources - Legal and Governance									
Information Security Management Follow up			1			1	2	4	
Management and Control of CCTV Operations			1				10	9	
	0	0	2	0		1	12	13	0
Total	7	19	13	5		7	173	293	4

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
%	16 %	43 %	30 %	11 %	2 %	36 %	61 %	1 %

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 16th January to 31st March 2023¹

Unsatisfactory assurance - None in current period

Directorate– Tree Safety (Unsatisfactory 2020/21)

- To establish the extent to which the previous audit recommendations have been implemented.
- There are written policies and procedures in place in relation to tree safety that reflect the requirement of the Health and Safety Executive (HSE) Legislation.
- There are up to date records, monitoring, surveying and risk assessment procedures to control the risk of tree safety.
- There are procedures to monitor the information and reports received from contractors and ensure that where appropriate, remedial works are ordered and carried out on a timely basis.
- There are procedures to ensure that payments to the main contractors and payments for remedial works are authorised and correct

Directorate– IT Business Administration (Unsatisfactory 2021/22)

- Policies and procedures are in place to ensure compliance with internal and external requirements.
- Appropriate contracts are in place that are subject to continuous monitoring.

Limited assurance

Directorate– Backup Arrangements

- An appropriate backup and recovery plan is in place which forms part of an overall disaster recovery plan.
- Recovery procedures are routinely tested.
- Logical access to back up processes and data is restricted to authorised personnel

Directorate– Database Administration

- To ensure that routine database administrative procedures have been defined and documented.
- To ensure that user authentication methods have been configured in accordance with internal policy and industry best practices.

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

- To ensure that clear and well defined database user administration procedures are documented and operating effectively in practice.
- To ensure that third party access is appropriately managed.
- To ensure that database auditing/access logs and alerts are configured and monitored.

Directorate– Firewalls

- To ensure that firewall administration access rights are restricted to authorised staff.
- To ensure that changes to firewall settings are subject to approval.
- To ensure that there are regular reviews and validation of firewall rules
- To ensure that firewall logs have been configured and are regularly reviewed.

Directorate– Microsoft Azure and Power Platform Follow Up

Azure (Unsatisfactory 2021/22)

- To ensure that Microsoft Azure/M365 configuration management responsibilities clearly defined
- To ensure that permissions in M365 reflect any delegated responsibilities
- To ensure that Azure/M365 administration and security procedures are documented

Power Platform (Briefing note 2021/22)

- Controls exist 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.

Directorate– Information Security Management (Limited 2021/22)

- To ensure that an information security policy is in place and is reviewed on a regular basis to determine that it is updated to reflect changes to the operating environment and new threats.
- To ensure that processes are in place for the management oversight of the information security function.
- To ensure that the information security function has established processes to ensure that routine testing of information-security-related controls is performed in accordance with regulatory requirements and risk assessments that have identified high risk or vulnerable assets.
- To ensure that an incident management policy has been established that defines the classification of information security incidents and the actions to be executed when an information security incident is identified, and the process has been communicated to units who are first responders.

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.

Chief Audit Executive Annual Opinion

The rating, conclusion and/or other description of results provided by the Chief Audit Executive addressing, at a broad level, governance, risk management and/or control processes of the organisation. An overall opinion is the professional judgement of the Chief Audit Executive 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 Executive 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.

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Committee and Date

Audit Committee

20th July 2023

10:00am

Item

Public



Audit Committee Annual Assurance Report to Council 2022/23

Responsible Officer:	James Walton		
email:	James.Walton@shropshire.gov.uk	Tel:	01743 255011
Cabinet Member (Portfolio Holder):	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder for Finance and Corporate Resources		

1. Synopsis

A key part of the Audit Committee's role is to report annually to Full Council on the Committee's findings, conclusions and recommendations. Audit Committee has some concerns but on balance can provide reasonable assurance.

2. Executive Summary

- 2.1 Attached to this report is the Audit Committee's Annual Assurance Report to Council for 2022/23. This provides Council with independent reasonable assurance that it has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains consistently

- 2.2 The Audit Committee recognises and is concerned about the limitations identified in the internal control framework as reported in the Chief Audit Executive's Opinion and the potential impact on value for money but on balance, can provide reasonable assurance, founded on those reports, explanations and assurances received, throughout the year.

3. Decisions

- 3.1 Audit Committee is asked to consider and comment on the contents of the draft Annual Assurance report for 2022/23 before forwarding to Council with a recommendation to consider, comment upon and accept this report.

Recommendation to Council

- 3.2 Council is asked to consider and comment on the contents of the Annual Assurance report for 2022/23 before recommending accepting this report.

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Audit Committee's Annual Assurance Report is part of the overall internal control arrangements and risk management process. The Audit Committee objectively examines and evaluates the adequacy of the control environment through the reports it receives and in turn can provide assurances to Council on its governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that inform the Annual Governance Statement
- 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 requirements or consequences of this proposal.

5. Financial Implications

- 5.1. There are no direct financial implications from this report. In assessing the internal control environment, risk management and governance aspects of the Council, the Audit Committee can provide a perspective on the overall value for money of these.

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 adaption. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7. Background

- 7.1. A key part of the Audit Committee's role is 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. In addition, the Audit Committee should report to Council where they have added value, improved or promoted the control environment and performance in relation to its Terms of Reference and the effectiveness of the Committee in meeting its purpose and functions.
- 7.2. The Audit Committee has a well-established role within the Council, and it is important that an Annual Assurance report based on the work of the Committee is produced and recommended to Council. In compiling this assurance report, information provided at the Audit Committee meeting on 20th July 2023 has also been considered.
- 7.3. In addition, this report has been reviewed to ensure its continuing compliance with CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2018 edition. This requires the Audit Committee to be held to account on a regular basis by the Council specifically in relation to whether the;
- committee has fulfilled its agreed terms of reference;
 - committee has adopted recommended practice;
 - development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities;
 - committee has assessed its own effectiveness, or been the subject of a review, and the conclusions and actions from that review and,
 - what impact the committee has on the improvement of governance, risk and control within the Council.
- 7.4. The annual assurance report to Council for 2022/23, attached to this report, is an aid to addressing the key areas where the Committee should be held to account.

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

- CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2022 edition
- Audit Committee reports 2022/23

Local Member: N/A

Appendices

Appendix A - Draft Audit Committee Annual Assurance Report 2022/23

APPENDIX A

AUDIT COMMITTEE ANNUAL ASSURANCE REPORT FINANCIAL YEAR 2022/23

STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE

1. Governance in and of the public sector continues to be high profile with the Chartered Institute of Public Finance and Accountancy (CIPFA) supporting good practice in local government. In Shropshire we have a Code of Corporate Governance which is reviewed annually in line with the best practice issued by CIPFA and SOLACE; we have also produced an Annual Governance Statement, again in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failing to achieve our objectives and providing good service to our community.
2. Shropshire Council has an Audit Committee that is long established in seeking to maintain and improve our governance procedures. The Committee is a key component of the Council's corporate governance arrangements and a major source of assurance of the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance.
3. This year the Committee has held seven planned meetings including the meeting held on 20th July 2023. We have received and considered a substantial number of reports across key areas of the Council's activity (see Annex A).
4. Membership of the Audit Committee for 2022/23 was made up of the following Councillors: Brian Williams (Chairman), Simon Harris (Vice Chairman), Rosemary Dartnall, Nigel Lumby and Roger Evans. Substitutes were invited to attend and contribute at all meetings and training.
5. In February of this year, in line with recommended good practice, we recruited our first external independent member Jim Arnold, a highly successful businessman living in Shrewsbury, and we shall look forward to the good advice and experienced contributions which he will bring to the committee.
6. The benefits to the Council of operating an effective Audit Committee are:
 - Maintaining public confidence in the objectivity and fairness of financial and other reporting.
 - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing and approving the Annual Statement of Accounts and the Annual Governance Statement.
 - Providing a sharp focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial reporting process.
 - Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable.

- Providing additional assurance through a process of independent and objective review.
 - Raising awareness within the Council of the need for governance, internal control and the implementation of audit recommendations.
 - Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
7. The Committee continues to have a professional and arm's length relationship with Grant Thornton, the Council's external auditors, who attend all meetings of the Committee to offer their advice where needed.
8. The Committee undertakes a substantial range of activities and works closely with both internal and external auditors and the Chief Finance Officer (Executive Director of Resources /Section 151 Officer) in achieving our aims and objectives. We have put together a work and development plan for the year to enable key tasks to be considered and completed.
9. As Chair of the Audit Committee, I see training as a key priority for members to undertake our roles effectively. The Committee continues to undertake a full and extensive programme of training and this year has been no exception. Training has been received in relation to:
- Audit Committee self-assessment and effectiveness of the Audit Committee
 - Strategic risk management
 - Public health governance update
 - Treasury Management
 - Climate change
 - Update on the Statement of accounts

Members also have access to CIPFA's Better Governance Forum network which provides specific information in the form of regular briefings, training events, and an informative web site.

Details of Reports/Information Received

10. **Annex A** provides a summary of the key reports and information received by the Audit Committee at its meetings. These appear categorised in the areas which, under the Terms of Reference, Audit Committee have a responsibility to consider and report upon. They are
- Governance;
 - Risk management framework;
 - Controls, including specific focus on:
 - Contracts and partnerships
 - Fraud, corruption and whistleblowing
 - Value for money
- A detailed audit work plan has been agreed for the current year.
11. Following receipt of the reports the Audit Committee:
- Resolved that there were reasonable arrangements for corporate governance and where improvements are required there is a clear

improvement plan with dedicated lead officers that will be monitored by Members.

- Resolved that the risk management and assurance framework was fit for purpose and operating as intended.
- Recognise the increased risks in the control environment and resolved that there is still a need with pressures on resources and following the Council's response to COVID and changes to major systems, to ensure continual monitoring by management and members alike on the internal control environment. Members focus will remain on areas critical to the Council, i.e. internal control environments in respect of the embedding of ERP software, IT management and cyber security, major contracts and commercial activities.
- Resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).
- Resolved that there was evidence of effective arrangements in place to support Value for Money but recognised the links to good financial management and sound internal controls in minimising opportunities for waste and fraud and maximising income and use of all assets, and the need to ensure continual monitoring by management and members alike given the reported direction of travel of the internal control environment.
- Resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards.

12. The Chief Audit Executive has offered limited assurance for the 2022/23 year on the Council's framework for governance, risk management and internal control. There are a continuing and increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected. Management of Coronavirus has introduced unprecedented pressures and responses, and this inevitably has impacted upon her opinion. Managers' priorities have been diverted to business continuity pressures and this has removed capacity to plan and deliver improvements to known internal control processes, leading to maintained and increased risks in some areas that may impact on delivery of the Council's objectives. The year has continued to be challenging with the embedding of key fundamental line of business systems (financial and human resources), changes of key managerial posts, alongside a challenge to deliver savings, increase income and respond to changing Coronavirus pressures, at times on a daily and weekly basis.

Audit Service Staff

13. Following the retirement of Ceri Pilawski, the long serving Audit Manager in October 2022 and a restructuring under James Walton, the Executive Director of Resources (section 151 officer), the key Audit staff were Barry Hanson, Head of Policy and Governance and his deputy, Internal Audit Manager, Katie Williams.

14. Without the support of all Audit staff and, in particular, of the officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be. My thanks and that of my fellow committee members are given to all our Audit Service officers.
15. I have been Chairman of the Audit Committee for most of the last eighteen years since its first formation in 2005 and I am pleased to say that the quality of my colleagues of whichever party, in terms of financial knowledge and subject interest, is the best I have experienced in that time and I am grateful to them for their contribution to the effectiveness of the Committee's work.

Annual Statement of Assurance

16. Based on:
- The work carried out by the Internal and External Auditors and their reports presented to this Committee;
 - Reports from service managers and;
 - The work carried out by the Section 151 Officer, Head of Policy and Governance and their reports presented to this Committee

The Audit Committee recognises and is concerned about the limitations identified in the internal control framework and the impact on value for money. However, on balance, the Audit Committee can provide reasonable assurance, founded on those reports, explanations and assurances received, that the Council has in place adequate and effective governance, risk management and internal control systems; internal, external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects.

RECOMMENDATION – Council is asked to accept this report

Signed *Brian B. Williams* Date 21st June 2023

On behalf of the Audit Committee

ANNEX A

Summary of assurance reports received by Audit Committee

Governance

- **Management report; Annual Governance Statement (AGS) and a review of the effectiveness of the Council's internal controls and Shropshire's Code of Corporate Governance**

Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement. In addition, he reported on compliance with the Corporate Governance Code as reasonable. It confirmed the Council's commitment to the principles of good corporate governance

and set out clear improvements targeted at managing known strategic risk areas for 2023/24.

➤ **Internal Audit – Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2022/23**

Report of the Section 151 Officer which provided Members with the results of the 2022 self-assessment of the Internal Audit Service against the requirements of the Public Sector Audit Standards, compliance against which demonstrates an effective Internal Audit service. There are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code. It was noted the report should be read in conjunction with the Internal Audit Annual Report.

➤ **Annual review of Audit Committee terms of reference**

Report of the S151 Officer which ensures that the Council continues to provide an effective Audit Committee. Terms of Reference are considered and approved by members annually. There were no significant changes proposed in 2022.

➤ **Annual Audit Committee self-assessment**

Report of the Section 151 Officer which requested members to review and comment on compliance 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 a few areas of partial compliance.

➤ **Internal Audit Charter**

Report of the Chief Audit Executive which set out the requirement for an annual review of the Internal Audit Charter which had been completed. 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 were no significant changes.

➤ **Draft Audit Committee annual work plan and future learning and development requirements 2023/24**

Report of the Chief Audit Executive which provided a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for members to ensure they were well informed and appropriately skilled to fulfil their role. Therefore ensuring the integrity of the financial reporting and governance of the Council.

➤ **Annual Assurance report of Audit Committee to Council 2022/23**

Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance report to Council.

The Audit Committee resolved that there were reasonable arrangements for corporate governance and where improvements are required there is a clear improvement plan with dedicated lead officers that will be monitored by Members.

Risk Management Framework

➤ **Management report: Risk Annual Report 2022/23 incorporating strategic risks update**

Report of the Risk and Business Continuity Manager who provided assurances on and an overview of the activity of the Risk, Insurance and Resilience Team during 2022/2023 with a synopsis of the current risk exposure of the Council in relation to strategic, operational and project risks. It also identified key activity for 2022/2023.

The report sets out the challenges and achievements accomplished by the Team during 2021/2022. During 2021/2022 the team included business continuity management and emergency planning and as a result we experienced an unprecedented workload due to significant weather events and the response to and recovery from Covid-19. Following a recent restructure, the team is now made up of Risk Management and Business Continuity, though continues to work closely and align undertakings with emergency planning and insurance. The team continues to strive to ensure that Shropshire Council embeds Opportunity Risk Management practices throughout all service areas.

A 'good' assurance level was achieved following a risk management audit and confirmed that robust policies and procedures were in place, including a shared site for all risk registers allowing for real time updating and reporting. The Opportunity Risk Management Strategy is reviewed annually and reported to the Executive Directors, Cabinet and Audit Committee and all operational risk registers have a named lead officer as the overall risk owner.

➤ **Management report: Strategic risks update**

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.

Reports during the year from the Risk and Business Continuity Manager set out the existing strategic risk exposure. There were currently 15 strategic risks on the strategic risk register. The risk score for inability to deliver a balanced budget has increased. Failure to safeguard vulnerable children risk has reduced, as has ICT Infrastructure resilience. A recruitment, Retention and Succession Planning risk has been added, and the risk relating to the ability to fund children's services has been split into two risks; one for Children's Social Care & Safeguarding and one for Learning & Skills.

Strategic risks are monitored to enable achievement of Council priorities and outcomes and are linked, where appropriate, with the Annual Governance Statement Targeted Outcomes.

➤ **Internal Audit report of the review of Risk Management audit 2022/23**

Report of the Interim Audit Service Manager which summarised the detailed findings identified in the Internal Audit review of risk management of which the overall control environment had been assessed as Good, with minor control weaknesses identified. The focus of the review was on user compliance with processes around operational and project risks.

➤ **Draft Internal Audit Annual plan 2023/24**

Report of the Chief Audit Executive on the proposed risk based Internal Audit Plan for Audit Committee approval. Designed to 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 2023/24. 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 externally contracted work for the service is 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. Members were also referred to the appendix, which set out those low risk areas that would not be considered for review by Internal Audit on a rolling basis, to allow Members to consider first line assurances, if required, from managers on these areas.

The Audit Committee resolved that the risk management and assurance framework was fit for purpose and operating as intended.

Controls

➤ **Management Report: Highways Term Maintenance update (exempt)**

The Executive Director of Place provided an update on progress towards a resolution of the issues identified by Audit relating to the management of the Council's Term Maintenance Contract with its Highway's provider.

➤ **Management Report: IT Management update**

The Head of Automation and Technology provided an update which provided an update on the actions taken or planned to address the recommendations arising from various audit reports on the IT control environment.

➤ **Management Report: Information Governance Management update**

The Committee received the report of the Assistant Director Legal and Governance which outlined the Council's current position and progress made in responding to the Audits for Information Security Management and the IT Acceptable Usage Policy.

➤ **Management Report: Update on the Council's Cloud based services**

The Assistant Director Finance and Technology provided a report which identified the current use of cloud-based services by the Council and considered its use of these systems (including wider networks and data centres) to house its data and network systems. It focused on the approach to assurance for internal controls and risk management for these services. The report also considered the current position in terms of consistency of approach across different types of use of the cloud and the desirability of increased controls and risk management and consistency how these were being applied.

➤ **Management Report: Payroll update**

The Committee received the report of the Assistant Director, Workforce and Improvement at the November 2022 and February 2023 meetings which provided an update on the actions to address the recommendations arising out of the Payroll Audit for 2021/22.

➤ **Internal Audit performance report and revised annual audit plan 2022/23**

Report of the Chief Audit Executive provided Members with an update of the work undertaken by Internal Audit throughout the year. By September Members were informed that 26% of the revised plan had been completed. Performance was slightly lower than in previous years due to resourcing issues and delays in the commencement of the externally provided internal audit work.

By the year end the Chief Audit Executive informed members that 94% of the revised plan had been completed and Internal Audit continued 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.

Lower assurance levels and fundamental recommendations were separately identified throughout the year. Where appropriate, members requested management updates at subsequent meetings.

➤ **Internal Audit annual report 2022/23**

Report of the Chief Audit Executive on achievements against the revised internal audit plan for 2022/23 and the annual internal audit assurance. The Chief Audit Executive gave limited assurance for the year that the Council's framework for governance, risk management and internal control is sound and working effectively.

Revisions were made to the plan to reflect both changing resources and risks. There are a continuing and increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected. The year has continued to be challenging with the continued development of key fundamental line of business systems (financial and human resources), changes of key managerial posts, alongside a challenge to deliver savings, increase income and respond to delayed service impact from the pandemic.

The Audit Committee recognise the increased risks in the control environment and resolved that there is still a need to ensure continual monitoring by management and members alike on the internal control environment. Members focus will remain on areas critical to the Council, i.e. internal control environments in respect of the embedding of ERP software, IT management and cyber security, major contracts and commercial activities.

Controls: Fraud, Corruption and Whistleblowing

➤ **Fraud, special investigation and Regulation of Investigatory Powers Act (RIPA) update (Exempted by categories 2, 3 and 7)**

Members are provided with exempt reports of the Principal Auditor providing an update on the current fraud and special investigations undertaken by Internal Audit and current RIPA activity.

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

Report of the Chief Audit Executive outlined the measures undertaken in the last year to evaluate the potential for the occurrence of fraud, and how the Council managed these risks with the aim of prevention, detection and subsequent reporting of fraud, bribery and corruption. It also provided an update on the action plan to ensure continuous improvement and an update to members in response to national and local issues. It was confirmed that the Strategy had been reviewed and updated to reflect both best practice and to continue to be aligned with the updated Fighting Fraud and Corruption Locally Strategy 2020. The Council can never be free from fraud activities, but continues to be focused on acknowledging, preventing and pursuing fraud, bribery and corruption and Audit Committee members reaffirmed the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.

➤ **Annual Whistleblowing report**

Report of the Assistant Director of Workforce and Improvement which detailed the cases reported under the Whistleblowing arrangements. Assurance was provided as to the currency of the Whistleblowing Policy and its effectiveness.

The Audit Committee resolved that there were effective arrangements for the prevention and detection of fraud and corruption, and for enabling whistleblowing (confidential reporting).

Controls: Value for Money

Sound internal controls lead to the effective, efficient and economic use of Council resources (VFM), assurances are taken from the robustness of the internal control environment, management of risks, soundness of governance and any additional reports add weight to these.

➤ **External Audit: Pension fund audit plan 2022/23**

Report of the Engagement Lead (Grant Thornton) setting out the Pension fund plan for the year ending 31 March 2023.

➤ **External Audit: Audit fee letter 2022/23**

Report of the Engagement Lead (Grant Thornton) setting out the audit fee for the year ending 31 March 2023.

The Audit Committee resolved that there was evidence of effective arrangements in place to support Value for Money but recognised the links to good financial management and sound internal controls in minimising opportunities for waste and fraud and maximising income and use of all assets, and the need to ensure continual monitoring by management and members alike given the reported direction of travel of the internal control environment.

Financial reporting

➤ **External Audit: Shropshire County Pension Fund Audit Findings (Information) 2021/22**

Report of the Engagement Lead (Grant Thornton) summarised the findings for the year ended 31 March 2022 on the audit of the Pension Fund financial statements. It 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 to the Pensions Committee.

➤ **External Audit: Audit progress report and sector update**

Report of the Engagement Lead (Grant Thornton) which highlighted progress and provided a summary of emerging national issues and developments of relevance to the Council. Including changes to arrangements for securing Value for Money to be included in the Auditor's Annual Report. The Engagement Manager explained that there was a slight delay in reporting on the Whole of Government Accounts, due to a delay with the workbook.

In February 2023 he confirmed that the audit of the 2020/21 and 2021/22 financial statements had been substantially completed with the main area outstanding related to national guidance on accounting for Infrastructure assets.

➤ **Financial outturn report 2021/22**

Report from the Section 151 Officer providing details of the revenue outturn position for the Council and the full year capital expenditure and financing of the Council's capital programme.

➤ **Appointment of External Auditors**

In September 2022, the Section 151 Officer provided a report which updated Audit Committee on the appointment of external auditors for Shropshire Council from 2023/24 for a period of five years. He informed the Committee that Grant Thornton had been appointed as the Auditor for Shropshire Council and Shropshire County Pension Fund.

➤ **Approval of the Council's Statement of Accounts 2021/22 including a review of accounting policies**

July 2022: The Committee received the report of the Section 151 Officer which provided an overview of the Accounts for the year 2021/22 and details of the reasons for the most significant changes between the 2020/21 Accounts and the 2021/22 Accounts. He explained that the accounts were draft at this point in time and had been produced in line with the timetable. He drew attention to the delay to the amendments to the code relating to infrastructure assets which had implications for last years' accounts which were unable to be signed off until the code was published. All the work relating to the change had been done but could not be acted upon.

November 2022: The External Audit Engagement Lead presented their draft audit findings report for 2021/22.

February 2023: The 2021/2022 accounts were presented and approved by the Audit Committee but had not been signed off by External Audit due to delays on their part relating to infrastructure assets.

Treasury Management

➤ **Annual treasury report 2021/22**

Report of the Section 151 Officer showed the borrowing and investment strategy for 2021/22, the outturn for the financial year and the investment performance of the Internal Minutes of Audit Committee held in September 2022 Treasury Team, confirming that activities align with the approved Treasury Management Strategy.

The 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

➤ **Treasury Strategy 2022/23 mid-year report**

Report of the Section 151 Officer which provided Members with an economic update for the first six months of 2022/23, along with reviews of the Treasury Strategy 2022/23 and Annual Investment Strategy, the Council's investment portfolio for 2022/23, the Council's borrowing strategy for 2022/23, any debt rescheduling taken and compliance with Treasury and Prudential limits for 2022/23.

➤ **Treasury Strategy 2023/24**

Report of the Section 151 Officer which proposed the Treasury Strategy for 2023/24. It set out the arrangements for how the council would appropriately manage its arrangements for banking, cash flow management, investments, and borrowing, supporting the delivery of the MTFs and The Shropshire Plan. He explained that the report set out the current market conditions that the Council were working within along with the prudential indicators which gave a measure of the financial viability from a capital point of view and a borrowing point of view for the organisation. He informed the Committee that going forward the treasury management function would sit with the Assistant Director of Finance and Technology (Deputy Section 151 Officer).

The Audit Committee resolved that Financial Statements reflected the Council's true position, were complete including all transactions, and were prepared in accordance with International Financial Reporting Standards

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Committee and Date

Audit Committee

20th July 2023

10:00am

Item

Public



Internal Audit Annual Opinion 2022/23

Responsible Officer:	Barry Hanson		
email:	barry.hanson@shropshire.gov.uk	Tel:	07990086409
Cabinet Member (Portfolio Holder):	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder – Finance and Corporate Resources		

1. Synopsis

This report provides a summary of Internal Audit's work over 2022/23. Based on 477 recommendations across 44 reports and supporting evidence the Chief Audit Executive's opinion provides 'Limited assurance' on the Council's framework for governance, risk and internal control.

2. Executive Summary

2.1. This annual report provides members with details of the work undertaken by Internal Audit for the year ended 31 March 2023. It informs on delivery against the approved annual audit plan and includes the Chief Audit Executive's opinion on the Council's internal controls, as required by the Public Sector Internal Audit Standards (PSIAS). This in turn, contributes to delivering the Accounts and Audit Regulations 2015 requirement to have internal audit, 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.

2.2. Final performance has been good with the revised plan being delivered above the 90% delivery target, in compliance with the Public Sector Internal Audit Standards and to the satisfaction of customers. Twenty six good and reasonable assurances

were made in the year accounting for 59% of the opinions delivered. This represents a 5% decrease in the higher levels of assurance compared to the previous year, balanced by a 5% increase in limited and unsatisfactory opinions. The number of unsatisfactory opinions has reduced slightly to 11% (17% 2021-22).

2.3. Based on the Internal Audit work undertaken, and management responses received, I can offer Limited assurance for the 2022/23 year that the Council's framework for governance, risk management and internal control is sound and working effectively.

2.4. There are a continuing and increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected. The year has continued to be challenging with the continued development of key fundamental line of business systems (financial and human resources), changes of key managerial posts, alongside a challenge to deliver savings, increase income and respond to delayed service impact from the pandemic.

3. Decisions

3.1. The Committee is asked to consider and endorse, with appropriate comment

- a) the performance of Internal Audit against the 2022/23 Audit Plan.
- b) That Internal Audit have evaluated the effectiveness of the Council's risk management, control and governance processes, considering public sector internal auditing standards or guidance, the results of which can be used when considering the internal control environment and the Annual Governance Statement for 2022/23.
- c) The Chief Audit Executive's Limited assurance, year-end opinion, that the Council's framework for governance, risk management and internal control is sound and working effectively for 2022/23 based on the work undertaken and management responses received.

Report

4. Risk Assessment and Opportunities Appraisal

4.1. The delivery of a risk based Internal Audit Plan is an essential part of ensuring probity and soundness of the Council's financial and risk management systems and procedures. It is closely aligned to the Council's strategic and operational risk registers and is delivered in an effective manner; where Internal Audit independently and objectively examine, evaluate and report on the adequacy of its customers' control environments as a contribution to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying areas for improvement or potential weaknesses, and engaging with management to address these in respect of current systems and during system design. Failure to maintain robust internal control creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss, poor value for money and reputational damage.

- 4.2. Internal Audit operates a strategic risk-based plan. The plan is revisited each year to ensure that suitable audit time and resources are devoted to reviewing the more significant areas of risk. This results in a comprehensive range of audits being undertaken in the year, supporting the overall opinion on the control environment. The plan contains a contingency provision which can be utilised during the year to respond to unforeseen work demands that may arise.
- 4.3. 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.
- 4.4. Internal Audit customers are consulted on the service that they receive. Feedback is included in this report and continues to be very positive.

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. This report is the culmination of the work of the Internal Audit team during 2022/23 and seeks to provide:
- A summary of the internal audit work undertaken.
 - An annual opinion on the adequacy of the Council's governance arrangements.
 - Information on the performance of Internal Audit including results of the quality and assurance programme and progress against the improvement plan.
- 7.2. As the Accountable Officer, the Executive Director of Resources (Section 151 Officer) has responsibility for maintaining a sound system of internal control that supports the achievement of the Council's policies, aims and objectives, whilst safeguarding the Council's assets, in accordance with local government legislation. This includes section 151 of the Local Government Act 1972 which requires the Council to plan for the proper administration of its financial affairs.
- 7.3. The Accounts and Audit Regulations 2015 require the Council to have internal audit to; 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. In addition, Internal Audit are expected to comply with the Public Sector Internal Audit Standards to maintain an ongoing programme of quality assessment and improvement.

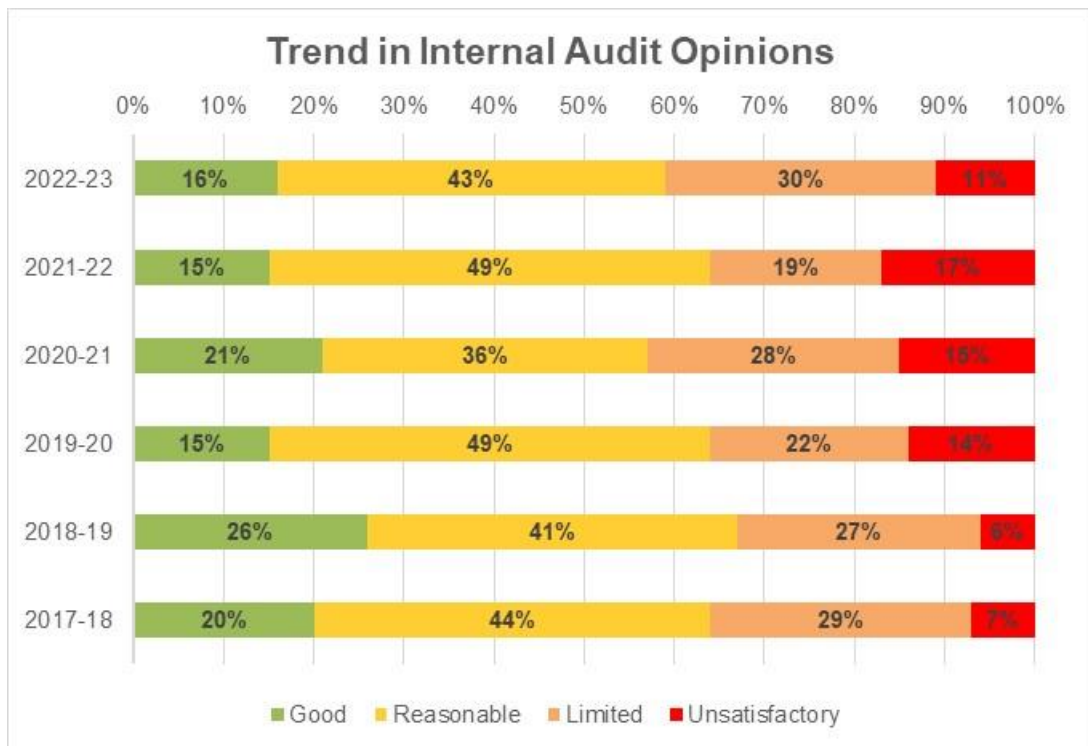
Scope and Purpose of Internal Audit

- 7.4. The Public Sector Internal Audit Standards define the scope of the annual report on internal audit activity. The annual report should include an assessment as to the extent to which compliance with the Standards has been achieved. This annual report provides an internal audit opinion that can be used by the Council to inform its governance statement as part of the wider framework of assurances considered. The annual internal audit opinion concludes on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and incorporates a summary of the work in support of the opinion, a statement on conformance with the PSIAS and the results of the quality assurance and improvement programme. This is in accordance with the requirements of the 2015 Accounts and Audit Regulations. In addition, Internal Audit has an independent and objective consultancy role to help line managers improve governance, risk management and control.
- 7.5. The purpose of Internal Audit is to provide the Council, through the Audit Committee, the Chief Executive and the Section 151 Officer, with an independent and objective opinion on risk management, control and governance processes and their effectiveness in achieving the Council's agreed objectives.

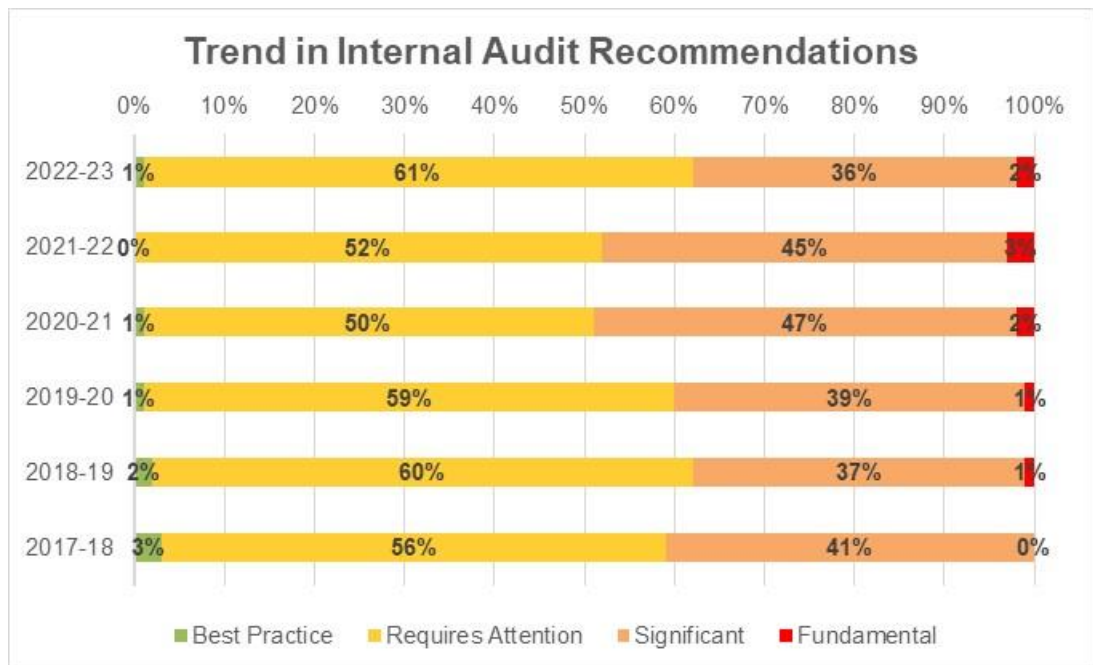
8. Internal Audit Work Undertaken in 2022/23

- 8.1. The Internal Audit Plan 2022/23 was considered and approved by Audit Committee at its meeting on the 22nd February 2022. The Plan provided for a total of 1,429 days. Revisions throughout the year to reflect changing risks and resources were reported to Audit Committee and the plan revised to 1,569 days. Revisions were necessary to respond to changes to the Council's key risks and requirements.
- 8.2. The Chief Audit Executive can confirm that the service has been free from interference throughout the year. Activity provided sound coverage for the opinion, which is explored later in this report. Final performance has been good and the target to deliver 90% of the annual plan has been achieved. **Appendix A, Table 1.**
- 8.3. The audit findings and performance of audit have been set out in summary reports which have been presented to the Audit Committee during the year. In total 44 final reports have been issued in 2022/23, all are listed with their assurance rating and broken down by service area at **Appendix A, Table 2 and 3.**
- 8.4. The following set of tables and graphs compare the assurance levels (where given) and categorisation of recommendations made at the Council to demonstrate a direction of travel in relation to the control environment.

8.5. The assurance levels awarded to each completed audit area for 2022/23 are:



8.6. The overall spread of recommendations agreed with management following each audit review for 2022/23 appear in the following chart:



8.7. Twenty six good and reasonable assurances were made in the year accounting for 59% of the opinions delivered. This represents a 5% decrease in the higher levels of assurance compared to the previous year, balanced by a 5% increase in limited and unsatisfactory opinions. Five unsatisfactory opinions and 13 limited assurance opinions were issued.

- 8.8. A total of 477 recommendations have been made in the 44 final audit reports issued in the year; these are broken down by audit area and have been reported in more detail in performance reports to the Committee throughout the year. The percentage split of recommendations remains has changed with 38% significant and fundamental compared to 48% last year, with a corresponding increase in requires attention recommendations.
- 8.9. The number of fundamental recommendations has decreased slightly from 3% to 2% of the total number of recommendations. They were made on the following audits and have been reported to the Audit Committee throughout the year for awareness and appropriate management challenge:
- Individual Service Funds
 - Tree Safety
 - Backup Arrangements
 - Microsoft Azure and Power Platform Follow Up
 - IT Business Administration
 - Payroll 2021/22
 - Information Security Management Follow Up
- 8.10. It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 6** sets out the approach adopted to following up recommendations highlighting Audit Committee's involvement.
- 8.11. During 2022/23, Internal Audit continued to facilitate work on the National Fraud Initiative (NFI), the results of which will be reported to a later committee, and several internal audit reviews have been conducted to ensure appropriate controls are in place and are operational to counter the risk of fraud, see **Appendix A, Table 2**.
- 8.12. Counter fraud activities were further supported by learning following individual investigations. Where internal control weaknesses have been identified, results are reported in a management report and recommendations made and agreed to help reduce a repeat of any inappropriate activity.
- 8.13. Although Internal Audit is primarily an assurance function, internal audit activity should also add value to the Council. Contingencies are provided in the plan to allow for such activities and review areas reprioritised based on risks. Details of the added value work have been reported to the Audit Committee throughout the year in the performance reports, headlines of which appear in **Appendix A Table 2**.
- 8.14. Work has also been completed for external clients including honorary and voluntary bodies in addition to the drafting and auditing of financial statements.

An Annual Opinion on the Adequacy of the Council's Governance Arrangements

- 8.15. When considering an annual audit opinion, it should be noted that assurances given can never be absolute. The Internal Audit service can however provide the Council with a level of assurance as to whether there are any major weaknesses to be found in risk management, governance and control processes, **Appendix A Table 7** shows opinion criteria.

8.16. The matters raised in this report are only those which came to Internal Audit's attention during its internal audit work and are not necessarily a comprehensive statement of all the strengths or weaknesses that exist, or of all the improvements that may be required.

8.17. In arriving at his opinion, the Chief Audit Executive has taken the following matters into account:

- Results of all audits undertaken during the year ended 31 March 2023;
- Results of Corporate Governance review (reasonable assurance) and Risk Management (good assurance);
- Results of fundamental audit reviews, self-assessments and their direction of travel; **Appendix A, Table 3.**
- Implementation of recommendations of a fundamental nature;
- Assurance levels provided and their direction of travel, and those of the recommendation ratings, compared against the risk appetite of the Council;
- Fundamental recommendations not accepted by management and the consequent risks;
- Effects of any material changes in the organisation's objectives or activities;
- Matters arising from previous reports to the Audit Committee and/or Council;
- If any limitations have been placed on the scope of internal audit;
- Whether there have been any resource constraints imposed which may have impinged on Internal Audit's ability to meet the full internal audit needs of the Council, and
- Proportion of the Council's internal audit needs that have been covered to date.

8.18. Further consideration of the assurance levels of completed audits shows:

- i. The plan continued to flex to respond to changes to the risk environment, , these were approved in September 2022, November 2022 and February 2023 by the Audit Committee. The revised planned work alongside other audit activity has helped provide the appropriate assurance to the Council. Some of the other areas contributing to the opinion appear in **Appendix A, Table 2.**
- ii. There are concerns that some of the unsatisfactory assurances are repeat offenders and whilst it is recognised that complex areas take time to turn around, there has been a focus on addressing these by escalating to Executive Directors for appropriate action.
- iii. The Refocus Programme was not subject to review whilst its focus was being realigned once the new Target Operating Model established in mid-2022. This programme has been followed by the launch of The Shropshire Plan and delivery transformation partner PwC.
- iv. Cyber security continues to be key, and the Council's reliance on digital systems significant. Audit reviews in these areas have identified increased areas of risk that require investment in the control environment. During 2022/23 there has been an increase in the number of limited and unsatisfactory assurance levels. A new Digital Strategy, aligned to The Shropshire Plan was published in January 2023.
- v. Given the overall proportion of assurance levels of key systems and delays in delivering improved controls (some of which were fundamental and significant), the level of assurance the Chief Audit Executive can provide to the Council is impacted upon. Payroll was not audited during 2022/23 as management provided assurance that the required improvements had not been made. The assurance level in this area remains unsatisfactory.

- vi. It is planned to revisit unsatisfactory audits and fundamental recommendations in 2023/24.

8.19. When considering the points above, the Chief Audit Executive can offer limited assurance for 2022/23 in his year-end opinion, that the Council’s framework for governance, risk management and internal control is sound and working effectively.

8.20. All assurances are provided on the basis that management carry out the actions they have agreed in respect of the recommendations made to address any weakness identified and improvements suggested.

Based on the Internal Audit work management responses received; I can offer limited assurance for the 2022/23 year on the Council’s framework for governance, risk management and internal control. There are a continuing and increased number of high and medium risk rated weaknesses identified in key individual assignments that are significant in aggregate but where discrete parts of the system of internal control remain unaffected. The year has continued to be challenging with the continued development of key fundamental line of business systems (financial and human resources – Unit4 ERP), changes of key managerial posts, alongside a challenge to deliver savings and increasing income. The Council has set out its strategy within The Shropshire Plan and service plans are being aligned to the identified priorities. A new strategic partner has been engaged with to help deliver the plan but this is still at the inception stage.

Information on the performance of Internal Audit including results of the quality and assurance programme and progress against the improvement plan.

8.21. Audit Performance is demonstrated by measuring achievement against the plan, ensuring compliance against the Public Sector Internal Audit Standards, benchmarking the service against others in the sector and evaluating improvements made over the previous twelve months. The effectiveness of Internal Audit is further reviewed through the Audit Committee’s delivery of its responsibilities and feedback gained from customer satisfaction surveys.

Aspect of measure	Target 2022/23	Actual 2022/23
Percentage of revised plan delivered	90%	94%
Compliance with Public Sector Internal Audit Standards	Compliant	Compliant
Percentage of customers satisfied overall with the service	80%	91%

8.22. Internal Audit employ a risk-based approach to determining the audit needs of the Council at the start of the year and use a risk-based methodology in planning and conducting audit assignments. All work has been performed in accordance with PSIAS. To ensure the quality of the work performed, a programme of quality measures is used, which includes:

- Supervision of staff conducting audit work;
- Review of files of working papers and reports by managers and partners;
- Receipt of formal feedback from managers to audit findings and recommendations;
- Follow up reviews for reports attracting low assurance levels and recommendation follow up processes;
- The use of satisfaction surveys for each completed assignment;
- Annual appraisal of audit staff and the development of personal development and training plans, and
- The maintenance of guidance and procedures.

8.23. There have been no instances during the year which have impacted on Internal Audit's independence and/or have led to any declarations of interest.

8.24. An annual review of Internal Audit is conducted in the form of a self-assessment and confirmed compliance with the Public Sector Internal Audit Standards. The self-assessment forms part of another report on this agenda: 'Annual review of Internal Audit, Quality Assurance and Improvement Programme (QAIP) 2022/23. In addition, an external assessment conducted by CIPFA and reported on to the February 2022 meeting of this committee demonstrated compliance with the PSIAS, the external assessment will be repeated in 2027.

8.25. Internal Audit recognises the importance of meeting customer expectations as well as conforming to the UK Public Sector Internal Audit Standards. The Service continually focuses on delivering high quality audit to clients – seeking opportunities to improve where possible.

- Commitment to quality begins with ensuring that appropriately skilled and experienced people are recruited and developed to undertake audits.
- Audit practice includes ongoing quality reviews for all assignments. These reviews examine all areas of the work undertaken, from initial planning through to completion and reporting. Key targets have been specified - that the assignment has been completed on time, within budget and to the required quality standard.
- A Quality Assurance Framework includes all aspects of the Internal Audit Activity – including governance, professional practice and communication. The quality of audits is evidenced through performance and delivery, feedback from our clients and an annual self-assessment.
- There is a corporate financial commitment to training and developing staff the budget for which is managed centrally. Training provision is reviewed continually through the new Personal Development Plans (PDP) process and regular meetings with individual auditors. Individual training programmes are developed to ensure that staff are kept up to date with the latest technical / professional information and to ensure that they are equipped with the appropriate skills to perform their role.

8.26. Customers are asked for feedback on their audit experience and quality of the service after most reviews. This helps to ensure that audit work meets client expectations and that quality is maintained. The percentages of excellent and good responses for the last three years are detailed in **Appendix A, Table 8** and remain above our target, but we are not complacent. The percentage of customers scoring the service as high or excellent has increased slightly (94% to 97%). Where individual ratings are low, or showing a downward trend, we do value the opportunity to explore the reasons for these with our customer to identify the key issues and improve where appropriate and possible.

- 8.27. During the last year several compliments and comments have been received in respect of the service from both questionnaires and directly, a selection of these appears at **Appendix A, Table 9**. Most comments have been very positive reflecting the hard work the team devote to establishing a good professional relationship with clients and making the client comfortable and the process as easy as possible whilst still delivering the service. All other comments are followed up with the author to identify where lessons can be learnt and improvements made.
- 8.28. All Internal Audit work has been completed in accordance with the agreed plan and the outcomes of final reports have been reported to the Audit Committee.

Review of the effectiveness of Internal Audit work by the Audit Committee

- 8.29. The Council had a well-established Audit Committee in place which operates in accordance with best practice. Its terms of reference and associated working practices are aligned with those suggested by CIPFA and are reviewed annually. Its members received regular training on the role of the committee and how they can best support this, as well as the roles of internal and external audit. It undertakes an annual self-assessment exercise and seeks to improve the way in which it operates.
- 8.30. The Committee provides an Annual Assurance Report to Council to summarise its work and opinion on internal controls. This report is also located on this agenda.
- 8.31. The Council's Audit Committee considers external and internal audit reports and the Committee requests management responses to any significant issues reported, including reporting the progress made in implementing audit recommendations. Senior officers have attended the Audit Committee to provide management responses in relation to a few reports, an example is the Payroll system.

9. Conclusions

- 9.1. The Internal Audit Service has completed enough independent activity for the Chief Audit Executive to provide an annual opinion on the adequacy of the Council's framework for governance, risk management and internal control, the overall opinion is Limited.
- 9.2. Information on the performance of Internal Audit demonstrates compliance with the PSIAS and no areas of significant concern.

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 2022/23 – Audit Committee 14th February 2023

Internal Audit Performance and Revised Annual Audit Plan 2022/23 – Audit Committee 24th November 2022

Internal Audit Performance and Revised Annual Audit Plan 2022/23 – Audit Committee 15th September 2022

Draft Internal Audit Risk Based Plan 2022/23 - Audit Committee 22nd February 2022
Public Sector Internal Audit Standards (PSIAS)
Audit Management system

Accounts and Audit Regulations 2015, 2018 and Accounts and Audit (Coronavirus)
(Amendment) Regulations 2020, Amendment Regulations 2022

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 2023/23

Table 2: Final audit report assurance opinions issued in 2022/23

Table 3: Audit opinions made on fundamental systems 2022/23

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Recommendation follow up process (risk based)

Table 7: The principles and assurance criteria applied to the Chief Audit Executive's opinion

Table 8: Customer Feedback Survey Forms

Table 9: Summary of compliments and comments 2022/23

Appendix B - Audit plan by service – annual report 2022/23

APPENDIX A

Table 1: Summary of actual audit days delivered against plan 2022/23

	Original Plan	Revised Plan	31 st March 2023 Actual	% of Original Complete	% of Revised Complete
Chief Executive	14	18	17.8	127%	99%
Health and Wellbeing	10	57	57.9	579%	102%
People	65	143	125.6	193%	88%
Adult Services	15	58	65.7	438%	113%
Children's Services	22	47	20.4	93%	43%
Education and Achievement	28	38	39.5	141%	104%
Place	129	301	285.6	221%	95%
Resources	318	532	473.3	149%	89%
Finance and Technology	202	320	275.2	136%	86%
Legal and Governance	49	63	58.0	118%	92%
Workforce and Improvement	67	149	140.1	209%	94%
S151 Planned Audit	536	1,051	960.2	179%	91%
Contingencies and other chargeable work	682	307	303.0	44%	99%
Total S151 Audit	1,218	1,358	1,263.2	104%	93%
External Clients	211	211	206.8	98%	98%
Total	1,429	1,569	1,470.0	103%	94%

Table 2: Final audit report assurance opinions issued in 2022/23

Summary

Audits 2022 / 23	Assurance	%	Direction of travel ¹	Audits 2021 / 22	%	Audits 2020 / 21	%
7	Good	16	↑	7	15	11	21
19	Reasonable	43	↓	23	49	19	36
26	Sub total	59	↓	30	64	30	57
13	Limited	30	↓	9	19	15	28

¹ Based on percentages

Audits 2022 / 23	Assurance	%	Direction of travel ¹
5	Unsatisfactory	11	↑
18	Sub total	41	↓
44	Overall total	100	

Audits 2021 / 22	%	Audits 2020 / 21	%
8	17	8	15
17	36	23	43
47	100	53	100

Full Details

	Audit	Assurance
1.	Comforts Fund Reviews - Avalon	Good
2.	Supporting Families Grant - June Claim	Good
3.	Community Infrastructure Levy	Good
4.	Highways Permits	Good
5.	Local Enterprise Partnerships	Good
6.	ERP Development and Administration	Good
7.	Risk Management	Good
8.	Corporate Governance	Reasonable
9.	Contaminated Land	Reasonable
10.	Individual Service Funds (ISFs)	Reasonable (FR) ²
11.	Nursery Grants 3 to 5 years	Reasonable
12.	Supporting Families Grant - September Claim	Reasonable
13.	Schools Themed Audits 2021/22	Reasonable
14.	Schools Themed Audits	Reasonable
15.	Contracts and Tendering - Property	Reasonable
16.	Economic Growth Projects	Reasonable
17.	Gladstone Application 2021/22	Reasonable
18.	Registrars Income Collection	Reasonable
19.	Theatre Severn	Reasonable
20.	Capital Management and Monitoring	Reasonable
21.	Encryption	Reasonable
22.	ResourceLink Database Administration	Reasonable
23.	Sales Ledger - Periodic Income 2021/22	Reasonable
24.	Sales Ledger 2021/22	Reasonable
25.	SNOW - IT Asset Management	Reasonable
26.	Home and flexible Working Arrangements	Reasonable
27.	Confirm Application	Limited
28.	WSP Contract Management 2021/22	Limited
29.	Backup Arrangements	Limited (FR)
30.	Database Administration	Limited
31.	Debt Recovery 2021/22	Limited
32.	Firewalls	Limited
33.	General Ledger 2021/22	Limited
34.	Microsoft Azure and Power Platform Follow Up	Limited (FR)
35.	Purchase Ledger 2021/22	Limited

² FR with fundamental recommendation

	Audit	Assurance
36.	Telecommunications, Contracts and Procurement Follow up 2021/22	Limited
37.	Third Party Contractor Access Controls 2021/22	Limited
38.	Information Security Management Follow up	Limited (FR)
39.	Management and Control of CCTV Operations	Limited
40.	Acton Scott Working Farm Museum	Unsatisfactory
41.	Much Wenlock Leisure Centre	Unsatisfactory
42.	Tree Safety 2022/23	Unsatisfactory (FR)
43.	IT Business Administration	Unsatisfactory (FR)
44.	Payroll 2021/22	Unsatisfactory (FR)

	Other areas contributing to the opinion	
1	Department for Education Children's Residential Care Grant	Grant
2	Contain Outbreak Management Fund Grant	Grant
3	Practical Support Payments Grant	Grant
4	Building Digital UK Grant	Grant
5	Housing Benefits Test and Trace Grant	Grant
6	Local Transport Bus Services Operating Grant	Grant
7	Adult Social Care Debt Write Off	Consultancy
8	Council Tax Energy Support Grant	Consultancy
9	Financial Evaluations	Consultancy
10	Head of IT Update Meetings	Consultancy
11	Information Systems, Information Governance and IT Meetings	Consultancy
12	Local Government Association Finance Peer Review	Consultancy
13	National Fraud Initiative	Consultancy
14	ResourceLink Advice	Consultancy
15	Schools Financial Value Standard	Consultancy
16	Schools Self Assessments	Consultancy
17	Transport Operational Project Board	Consultancy
18	Ukrainian Homes Grant Project Group	Consultancy
19	Uniform System Replacement Project (RSTSL)	Consultancy
20	Together for Children Partnership Meetings	Consultancy
21	ICT Business Continuity and Resilience Working Group	Consultancy
22	Payroll Data Analytics	Consultancy
23	Demand Responsive Transport	Consultancy

Key

Text in blue	High risk from an internal audit perspective.
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Table 3: Audit Opinions made on fundamental systems

Fundamental system	Direction of travel	Level of assurance given
<i>Budget Management and Control (Draft)</i>	=	Reasonable
Corporate Governance	=	Reasonable
<i>Debt Recovery (Draft)</i>	↑	Reasonable
General Ledger 2021/22	=	Limited
Housing Benefits	↓	Reasonable
Periodic Income 2021/22	↑	Reasonable
Risk Management	↑	Good
<i>Sales Ledger (Draft)</i>	=	Reasonable
Payroll 2021/22	=	Unsatisfactory Management Assurance

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: 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 Executive 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.

Table 7: The principles and assurance criteria applied to the Chief Audit Executive’s opinion:

Principles applied to the opinion:

1. Authentic: Opinions are fair, reliable and honest
2. Transparent: Opinions are qualified with evidence or professional judgement
3. Strategic: Macro level information without undue detail
4. Insightful: Information is engaging and generates discussion
5. Resolute: Opinion is delivered with courage and conviction

Assurance criteria applied:

Opinion	Indication of when this type of opinion may be given ³	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	

³ Indicators refer not only to Internal Audit review s, but wider assurance providers and intelligence from across the business that is evidenced, an example would be peer review s.

Opinion	Indication of when this type of opinion may be given ³	Traditional Opinion
	High risk rated weaknesses identified in individual assignments/ observations that are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk.	
No Assurance	High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk.	Qualified
Disclaimer	An opinion cannot be issued because insufficient internal audit work has been completed due to either: -restrictions in the agreed audit programme, which means that audit work would not provide enough evidence to conclude on the adequacy and effectiveness of governance, risk management and control, or - unable to complete enough reviews and gather enough evidence to conclude on the adequacy of arrangements for governance, risk management and control.	Qualified

Table 8: Customer Feedback Survey Forms - percentage of excellent and good responses

Item Being Scored	2020/2021	2021/22	2022/23	Direction of Travel
Pre-audit arrangements	88%	85%	93%	↑
Post-audit briefing	88%	86%	88%	↑
Audit coverage/scope of the audit	82%	89%	85%	↓
Timeliness of production of report	91%	90%	91%	↑
Accuracy and clarity of report	88%	88%	90%	↑
Practicality of recommendations	79%	84%	82%	↓

Item Being Scored	2020/2021	2021/22	2022/23	Direction of Travel
Professionalism of approach	93%	98%	98%	←→
Communication skills	93%	99%	98%	↓
Timeliness, competence, manner	85%	88%	91%	↑
Number of forms returned	47	34	34	←→
% of forms scored as excellent and good	92%	94%	97%	↑

Table 9: Summary of compliments and comments 2022/23⁴

- X has been very supportive and patient during this audit taking on board our feedback and concerns. As always one of the key elements for ‘us’ is the communication before, during and after the audit and this has been delivered very effectively and with consideration to the challenges that ‘we’ as a team and indeed across all of adult social care are managing. Overall, X’s approach has been very professional.
- Thank you to X and X for your work on this audit.
- Thank you for the draft debtors report and all your work on our audit.
- Thank you Audit. Your support/advice and patience are always immense.
- As ever it was difficult to agree a convenient time to undertake an internal audit. It was decided to proceed at a convenient time for some key Officers, but the worst time for others. On balance it seemed to work reasonably well, largely due to the patience, understanding and flexibility of the individual Auditor.
- Its always good to work with you.
- Your approach to audit working with clients is spot on, very professional and open approach.
- Thank you X and X for supporting us over the last few difficult weeks. We are very lucky to have such a wonderful working relationship with Audit.
- We felt that some of the recommendations were for reports that had never been previously requested by anyone, which meant being judged on recommendations we were unaware of was required. We felt Some of the Rec rating were on the higher side, but X listened to all our concerns and made it easier to review.
- I would suggest that future Audits of this area look at the wider holistic ‘Hybrid’ approach, including Home, Field and Office Based working and the equipment and premises we provide to support this model. Hybrid Strategy (due to be published in

⁴ Depersonalised for public reporting

April 2023) and subsequent amends to Policy, should form a good basis for future holistic Hybrid Audits.

- As noted in the pre audit briefing an external consultant had been procured to carry out a comprehensive review of our process. It would have been useful to have been able to hold off this internal audit for 6 months so that we could use it to see how we were progressing with the action plan from this external audit. Hopefully it will be something that we will be able to pick up when we come to carry out next year's internal audit process
- Some of the recommendations are beyond the control of the team being audited and would require structural and budgetary alterations at a higher level to be able to implement them.

AUDIT PLAN BY SERVICE – ANNUAL REPORT 2022/23

	Original Plan Days	August Revision	November Revision	January Revision	Revised Plan Days	31 March 2023 Actual	% of Original Complete	% of Revised Complete
CHIEF EXECUTIVE								
Governance	14	0	-4	0	10	9.6	69%	96%
Communications	0	0	0	8	8	8.2	0%	103%
CHIEF EXECUTIVE	14	0	-4	8	18	17.8	127%	99%
RESOURCES								
Finance and Technology								
Finance Transactions	30	54	4	10	98	78.7	262%	80%
Finance and S151 Officer	22	2	0	0	24	25.6	116%	107%
Financial Management	30	11	0	0	41	34.2	114%	83%
ICT	104	18	0	-2	120	99.8	96%	83%
Information Governance	8	0	0	0	8	0.0	0%	0%
Revenues and Benefits	8	20	1	0	29	36.9	461%	127%
	202	105	5	8	320	275.2	136%	86%
Workforce and Improvement								
Risk Management and Insurance	10	10	0	-4	16	14.6	146%	91%
Human Resources	57	18	30	20	125	117.5	206%	94%
Occupational Health & Safety	0	0	0	8	8	8.0	0%	100%
	67	28	30	24	149	140.1	209%	94%

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	Original Plan Days	August Revision	November Revision	January Revision	Revised Plan Days	31 March 2023 Actual	% of Original Complete	% of Revised Complete
Legal and Governance								
Procurement	33	0	0	14	47	42.6	129%	91%
Information Governance	16	0	0	0	16	15.4	96%	96%
	49	0	0	14	63	58.0	118%	92%
RESOURCES	318	133	35	46	532	473.3	149%	89%
PEOPLE								
Joint Commissioning								
Community and Partnerships	15	0	0	3	18	26.5	177%	147%
Business Support	0	20	0	0	20	19.2	0%	96%
	15	20	0	3	38	45.7	305%	120%
Adult Social Care								
Long Term Support	0	20	0	0	20	20.0	0%	100%
	0	20	0	0	20	20.0	0%	100%
Education and Achievement								
Education and Achievement	8	0	0	0	8	5.8	73%	73%
Primary/Special Schools	20	0	0	0	20	21.6	108%	108%
Business Support	0	5	5	0	10	12.1	0%	121%
	28	5	5	0	38	39.5	141%	104%

	Original Plan Days	August Revision	November Revision	January Revision	Revised Plan Days	31 March 2023 Actual	% of Original Complete	% of Revised Complete
Children's Social Care and Safeguarding								
Safeguarding	14	0	0	0	14	20.1	144%	144%
Children's Placement Services & Joint Adoption	8	25	0	0	33	0.3	4%	1%
	22	25	0	0	47	20.4	93%	43%
PEOPLE	65	70	5	3	143	125.6	193%	88%
PLACE								
Business Enterprise and Commercial Services								
Property and Development	0	31	0	0	31	31.2	0%	101%
Development Management	0	15	0	0	15	15.0	0%	100%
	0	46	0	0	46	46.2	0%	100%
Economy and Place								
Business Growth and Investment	10	15	0	0	25	25.0	250%	100%
Environment and Sustainability	5	0	0	0	5	7.3	146%	146%
Planning and Corporate Policy	0	10	0	0	10	10.0	0%	100%
	15	25	0	0	40	42.3	282%	106%
Infrastructure and Communities								
Highways	26	35	1	1	63	49.7	191%	79%
Public Transport	0	15	10	0	25	25.6	0%	102%
Library Services	15	0	0	0	15	0.0	0%	0%
	41	50	11	1	103	75.3	184%	73%

	Original Plan Days	August Revision	November Revision	January Revision	Revised Plan Days	31 March 2023 Actual	% of Original Complete	% of Revised Complete
Culture and Heritage								
Theatre Severn and OMH	15	0	0	0	15	17.6	117%	117%
Leisure Services	33	3	0	-15	21	16.0	48%	76%
Outdoor Recreation	10	0	0	0	10	10.8	108%	108%
	58	3	0	-15	46	44.4	77%	97%

**Homes and
Communities**

Superintendent Registrar	15	0	0	0	15	14.3	95%	95%
Business and Consumer Protection	0	30	6	0	36	47.2	0%	131%
Community Protection	0	0	0	15	15	15.9	0%	106%
	15	30	6	15	66	77.4	516%	117%

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PLACE	129	154	17	1	301	285.6	221%	95%
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**HEALTH AND
WELLBEING**

Public Health

Public Health	10	10	2	0	22	11.0	110%	50%
Ecology and Pest Control	0	10	5	-10	5	16.8	0%	336%
Community Safety	0	15	0	0	15	15.0	0%	100%
Environmental Protection	0	15	0	0	15	15.1	0%	101%
	10	50	7	-10	57	57.9	579%	102%

**HEALTH AND
WELLBEING**

HEALTH AND WELLBEING	10	50	7	-10	57	57.9	579%	102%
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	Original Plan Days	August Revision	November Revision	January Revision	Revised Plan Days	31 March 2023 Actual	% of Original Complete	% of Revised Complete
Total Shropshire Council Planned Work	536	407	60	48	1,051	960.2	179%	91%
CONTINGENCIES								
Advisory Contingency	50	0	0	0	50	42.9	86%	86%
Fraud Contingency	50	0	0	0	50	62.0	124%	124%
Unplanned Audit Contingency	383	-269	-56	-48	10	0.0	0%	0%
Other non-audit Chargeable Work	199	0	-2	0	197	198.1	100%	101%
CONTINGENCIES	682	-269	-58	-48	307	303.0	44%	99%
Total for Shropshire	1,218	138	2	0	1,358	1263.2	104%	93%
EXTERNAL CLIENTS	211	0	0	0	211	206.8	98%	98%
Total Chargeable	1,429	138	2	0	1,569	1470.0	103%	94%



Committee and Date

Audit Committee

20th July 2023

10:00am

Item

Public



Annual Review of Internal Audit Quality Assurance and Improvement Programme (QAIP) 2023/24

Responsible Officer:	James Walton		
email:	James.Walton@shropshire.gov.uk	Tel:	01743 255011
Cabinet Member (Portfolio Holder):	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder for Finance and Corporate Resources		

1. Synopsis

- 1.1. This report confirms, following a self-assessment quality assurance review (QAIP) and an external assessment by Chartered Institute of Public Finance and Accountancy (CIPFA), that Internal Audit complies with the Public Sector Internal Audit Standards (PSIAS).

2. Executive Summary

- 2.1 The Accounts and Audit Regulations 2015 (5) require the Council to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering Public Sector Internal Auditing Standards (PSIAS) or guidance.
- 2.2 As part of the Service's Quality Assurance and Improvement Programme (QAIP), this report provides the results of a self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit

Standards. Compliance with these standards demonstrates an effective Internal Audit Service. Audit Committee is required to review this report and its findings.

- 2.3 This review should be read in conjunction with the Annual Internal Audit report, found elsewhere on this agenda. When read together the two reports demonstrate the effectiveness of internal audit. The update of the self-assessment has confirmed that the Council continues to operate an effective Internal Audit function. There are no areas where the Internal Audit function is not complying with the Code and, whilst there are areas of partial compliance, these are not considered significant and do not compromise compliance with the code.
- 2.4 The PSIAS also contain a requirement for an external assessment of the Internal Audit function once every five years. The Service presented the results of the 2022 assessment to the Committee in February and full compliance was recorded. The next assessment is to be undertaken by 31st March 2027.

3. Decisions

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

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Accounts and Audit Regulations 2015 (section 5) require a relevant authority to undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, considering PSIAS or guidance.
- 4.2. Under the PSIAS, Internal Audit's mission is, 'to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.' 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. Thereby providing assurances on the Council's internal control systems by identifying areas for improvement or potential weaknesses and engaging with management to address these in respect of current systems and during system design. Internal Audit will also continue to align its work with the Strategic Risk Register.

- 4.3. The use of a consistent framework for internal audit across the UK public sector has benefits for both partnership working and for internal auditors who work across different parts of the public sector. The standards are designed to drive improvement and lead to better public finance arrangements. Under 1310 of the PSIAS there is a requirement for Internal assessments which include:
- Ongoing monitoring of the performance of the internal audit activity; and
 - Periodic self-assessments or assessments by other persons within the organisation with enough knowledge of internal audit practices.
- 4.4. Ongoing monitoring is an integral part of the day-to-day supervision, review and measurement of the internal audit activity and is incorporated into the routine policies and practices used to manage the activity. It uses processes, tools and information considered necessary to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards.
- 4.5. This Report provides Members with details of an annual assessment conducted to evaluate conformance with the Definition of Internal Auditing, the Code of Ethics and the Standards. It is completed by the Head of Policy and Governance and discussed with the Section 151 Officer before the results and improvement plan are reported to Audit Committee.
- 4.6. Under Standard 1312 of the PSIAS there is a requirement for External assessments every five years which include:
- The form and frequency of external assessment.
 - The qualifications and independence of the external assessor or assessment team, including any potential conflict of interest.
- 4.7. An independent external assessment must be completed by a body independent to the organisation qualified in the practice of internal auditing. Independence for these reviews is critical to ensure an objective external assessment will demonstrate to the Audit Committee compliance with the PSIAS and the improvement plan will show actions to close any gaps.
- 4.8. The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental or equalities consequences of this proposal.

5. Financial Implications

- 5.1. The Internal Audit service is provided within approved budgets.
- 5.2. There may be a small cost to enable an external assessment of Internal Audit's conformance with the PSIAS. The Chairman, Section 151 Officer and the Head of Audit have delegated authority to consider the approach/scope of the assessment and agree this with an external assessor and report back to the Committee.

5.3. Funding for an external assessment will be met from an approved corporate budget.

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

Shropshire Internal QAIP

7.1. The Public Sector Internal Audit Standards (PSIAS) are mandatory for all principal local authorities as updated in 2017. They consist of:

- Mission of Internal Audit;
- Definition of Internal Auditing;
- Core Principles for the Professional Practice of Internal Auditing;
- Code of Ethics; and
- Standards for the Professional Practice of Internal Auditing.

7.2. The 'Mission' of Internal Audit is, 'to enhance and protect organisational value by providing risk based and objective assurance, advice and insight'. Internal Audit's effectiveness is demonstrated when the following principles are present and operating effectively.

- Demonstrates integrity
- Demonstrates competence and due professional care
- Is objective and free from undue influence
- Aligns with the strategies, objectives, and risks of the organisation
- Is appropriately positioned and adequately resourced
- Demonstrates quality and continuous improvement
- Communicates effectively
- Provides risk-based assurance
- Is insightful, proactive and future focused
- Promotes organisational improvement.

7.3. Internal Audit is reviewed using CIPFA's updated Local Government Application Note for the United Kingdom Public Sector Internal Audit Standards (April 2019) for compliance with the Standards, the results of which are summarised in **Appendix A**.

7.4. The PSIAS aim to promote further improvement in the professionalism, quality and effectiveness of internal audit across both the public and private sectors. They reaffirm the importance of robust, independent and objective internal audit arrangements to provide the Executive Director of Resources (the Section 151 Officer) with the key assurances he needs in both managing the financial affairs of the Council and producing the annual governance statement.

7.5. In complying with the PSIAS, Shropshire Council can provide assurances to Internal Audit's external customers of the teams' professionalism, quality and effectiveness.

7.6. **Appendix A** provides an update against the previously approved improvement plan. Most standards are complied with totally. Where there are areas of partial conformance these are detailed below for members to consider further. Members should note that there are no new areas of none or partial compliance. Where further improvements have been identified in areas of compliance these, along with the actions outlined below, appear in the improvement plan within the appendix, to ensure continuing conformance to the standards.

Additional Information

Internal Assessment: Areas of potential non-conformance

7.7. There is no change to the areas of potential conflict from previous years, the details of which are repeated here. The role of Head of Policy and Governance post commenced from 1 April 2023 which includes responsibility for Information Governance. A new Internal Audit Manager post was appointed to from 1 June 2023 which adds a layer of independence from the CAE in the operational management of the audit team on a day-to-day basis.

7.8. The Internal Audit Manager has direct access to the Chief Executive, Chairman of the Audit Committee, Leader of the Council, S151 Officer and Monitoring Officer to ensure independence is maintained. In addition, the post holder is required to be CCAB qualified and therefore bound by their professional body code of ethics as well as the general requirement to adhere to the NOLAN principles on standards in public life.

7.9. **Code of Ethics - Objectivity Standard:** Do internal auditors display objectivity by not taking part in any activity or relationship that may impair or be presumed to impair their unbiased assessment?

Finding: It is important that internal audit is consulted during system, policy or procedure development. Auditors are assigned to business review projects where there is a possibility that internal control systems will be affected. This is an opportunity for internal audit to provide insight, add value and strengthen internal control arrangements. Where specific auditors have been involved in providing such advice, they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to the audit. If this is not possible, it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report remain objective and evidenced based.

Where auditors have been involved in supporting service areas in response to COVID, different auditors will conduct any system reviews initially in these areas.

There is therefore **partial** conformance. This is not considered to be to the detriment of the principles of auditing and the independent review process helps to mitigate any risks, therefore no actions are proposed.

- 7.10. **1100 Independence and Objectivity Standard:** Does the Chief Audit Executive (CAE) confirm to the board, at least annually, that the internal audit activity is organisationally independent? The following examples **can be** used by the CAE when assessing the organisational independence of the internal audit activity: The board:

Approves the internal audit budget and resources plan.

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee.

Approves decisions relating to the appointment and removal of the CAE

Finding: It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan, including the appointment and removal of the CAE, and to report any concerns to the Audit Committee.

Therefore, **partial** conformance: Governance requirements in the UK public sector would not generally involve the board specifically approving the CAE's remuneration. The underlying principle is that the independence of the CAE is safeguarded by ensuring that their remuneration or performance assessment is not inappropriately influenced by those subjected to audit. In the UK public sector, CIPFA advise that this can be achieved by ensuring that the Chief Executive (or equivalent) undertakes, countersigns, reviews or contributes feedback to the performance appraisal of the CAE and that feedback is also sought from the Chair of the Audit Committee, this is completed for Shropshire Council.

The CAE's Line Manager also seeks, as he deems appropriate, opinions from the Chairs of externally serviced Audit Committees and their key officers on the CAE's performance for use in their Performance Development Plan review.

The above are not considered significant variations in respect of the principles of the PSIAS to require specific mention in the Annual Governance statement and this has been supported by the findings of the external QAIP reported below.

External QAIP

7.11. The PSIAS also contain a requirement for an external assessment of the Internal Audit function once every five years. The Service presented the results of the 2022 assessment to the Committee in February and full compliance was recorded. The next assessment is to be undertaken by 31st March 2027.

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
- Local government application notes for the UK Public Sector Internal Audit Standards CIPFA 2019
- Completed Conformance Checklist 2023/24 and supporting evidence
- Internal Audit Quality Assurance Improvement Programme – External assessment report, Audit Committee, February 2022.

Local Member: N/A

Appendices

Appendix A: Public Sector Internal Audit Standards conformance assessment and improvement plan.

APPENDIX A – PUBLIC SECTOR INTERNAL AUDIT STANDARDS CONFORMANCE ASSESSMENT AND IMPROVEMENT PLAN JUNE 2023

Standard	Conform	Observations and actions proposed
Mission	Yes	
Definition of Internal Audit	Yes	
Code of Ethics	Yes	
Integrity	Yes	Plan ongoing compliance updates with PSIAS at team meetings. Quarterly Chief Audit Executive
Objectivity	Partially	Internal audit is consulted during system, policy or procedure development. Auditors have been assigned to business review projects where there is a possibility that internal control systems will be affected. This is an opportunity for internal audit to add value and strengthen internal control arrangements. Where specific auditors have been involved in providing system advice, they will be excluded from carrying out the audit as far as possible i.e. another auditor would be allocated to the audit. If this is not possible, it is felt the benefit of using the experience of developing controls and procedures outweighs concerns of independence and the review process will help to ensure that the review and report remain objective and evidenced based. Where auditors have been involved in supporting service areas in response to COVID, different auditors will conduct any system reviews initially in these areas.
Confidentiality	Yes	Ensure all filing conforms with retention guidelines. Review Audit manual documents and contents are up to date Ongoing Principal Auditors
Competency	Yes	Set dates for PDPs. June/July 2023 Principal Auditors

Standard	Conform	Observations and actions proposed
Attribute Standards		
1100 Independence and Objectivity	Yes	
1110 Organisational Independence	Partially	<p>It is the responsibility of the Section 151 Officer to ensure that the budget and resources allocated to internal audit are sufficient to ensure delivery of the plan; including the appointment and removal of the CAE and to report any concerns to the Audit Committee.</p> <p>The role of Head of Policy and Governance commenced from 1 April 2023. A new Internal Audit Manager post was appointed to from 1 June 2023 which adds a layer of independence from the CAE in the operational management of the audit team on a day-to-day basis.</p>
1111 Direct Interaction with the Board	Yes	
1120 Individual Objectivity	Yes	
1130 Impairment to Independence or Objectivity	Yes	
1210 Proficiency	Yes	<p>Ongoing continuous development of IT skills across the audit team and move the type of audit review conducted by auditors to a more technical one to reflect digital transformation plans and to reflect new systems. March 2024 Internal Audit Manager</p> <p>Continue to embed the data analytics approach to appropriate audits March 2024 Internal Audit Manager</p> <p>Auditor completing the ISACA CISA qualification during 2023.</p>
1220 Due Professional Care	Yes	
1230 Continuing Professional Development	Yes	

Standard	Conform	Observations and actions proposed
1300 Quality Assurance and Improvement Programme	Yes	Ongoing review of the Audit manual and the quality review processes to ensure complete compliance with the standards and suitable guidance for staff. March 2024 Chief Audit Executive Complete this assessment and continue to report to Audit Committee annually along with a high-level improvement programme. July 2023 Chief Audit Executive
1310 Requirements of the Quality Assurance and Improvement Programme	Yes	
1311 Internal Assessments	Yes	
1312 External Assessments	Yes	
1320 Reporting on the Quality Assurance and Improvement Programme	Yes	
1321 Use of 'Conforms with the International Standards for the Professional Practice of Internal Auditing'	Yes	Report outcome of this assessment to June Audit Committee on compliance with the standards and a resulting QAIP. July 2023 Chief Audit Executive
1322 Disclosure of Non-conformance	Yes	
2000 Managing the Internal Audit Activity		
2010 Planning	Yes	
2020 Communication and Approval	Yes	
2030 Resource Management	Yes	
2040 Policies and Procedures	Yes	Continue to review policies and procedures March 2024

Standard	Conform	Observations and actions proposed
		Internal Audit Manager
2050 Coordination	Yes	
2060 Reporting to Senior Management and the Board	Yes	Continue to ensure senior managers are informed of changes in the internal control environment. Quarterly throughout the year Chief Audit Executive
2070 External Service Provider and Organisational Responsibility for Internal Auditing	Yes	
2110 Governance	Yes	
2120 Risk Management	Yes	Refresh risk assessments throughout the year As risks change Chief Audit Executive
2130 Control	Yes	
2210 Engagement Objectives	Yes	
2220 Engagement Scope	Yes	
2230 Engagement Resource Allocation	Yes	
2240 Engagement Work Programme	Yes	
2300 Performing the Engagement	Yes	
2310 Identifying Information	Yes	
2320 Analysis and Evaluation	Yes	
2330 Documenting Information	Yes	
2340 Engagement Supervision	Yes	
2410 Criteria for Communicating	Yes	
2420 Quality of Communications	Yes	
2421 Errors and Omissions	Yes	
2430 Use of 'Conducted in Conformance with the International	Yes	

Standard	Conform	Observations and actions proposed
Standards for the Professional Practice of Internal Auditing'		
2431 Engagement Disclosure of Non-conformance	Yes	
2440 Disseminating Results	Yes	
2450 Overall Opinion	Yes	

External Audit Plan

Year ending 31 March 2023

Shropshire County Pension Fund

3 June 2023

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Agenda Item 12

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Your key Grant Thornton team members are:

Grant Patterson

Key Audit Partner

T 0121 2325296

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

Keith Chaisewa

Audit Manager

T 0121 3879061

E keith.chaisewa@uk.gt.com

Shazna Rashid

In Charge Auditor

T 0121 2325431

E shazna.b.rashid@uk.gt.com

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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 Pension Fund 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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Key matters



National context

For the general population, rising inflation, in particular for critical commodities such as energy, food and fuel, is pushing many households into poverty and financial hardship, including those in employment. The pressures on household income have raised concerns that members could look at their pension contributions as a way of cutting back on their monthly costs. Whilst the statutory framework around employee contributions makes this difficult funds may receive more requests for early access to their pension after age 55 as a means to financially manage their commitments.

In recent years, LGPS funding levels have been rising because of strong returns on assets. Some funds have generated a return in excess of 100% over the last decade. However, returns over the last 12 months have been relatively weak with one actuary estimating them to be around -4 to +2% for a typical LGPS fund. Shropshire Pension Fund experienced a drop of 4.1% in its asset values. However, with the Central Banks' response to increasing inflation being to raise interest rates the knock on effect has been to increase predicted returns on higher risk assets. Higher future expected investment returns lead to a lower value placed today on the fund's liabilities. Therefore whilst the fund may not be holding as many assets its overall funding position has improved at the 2022 triennial valuation to 99% (94% at the March 2019 valuation).

In planning our audit, we will take account of this context in designing a local audit programme which is tailored to your risks and circumstances.



Our Responses

- As a firm, we are absolutely committed to audit quality and financial reporting in the local government sector. Our proposed work and fee, as set out further in our Audit Plan, has been agreed with the Director of Finance.
- We will continue to provide you and your Audit and Pension Committees with sector updates providing our insight on issues from a range of sources and other sector commentators
- We hold annual financial reporting workshops for our clients to access the latest technical guidance and interpretation, discuss issues with our experts and create networking links with other clients to support consistent and accurate financial reporting across the sector.

Introduction and headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire County Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

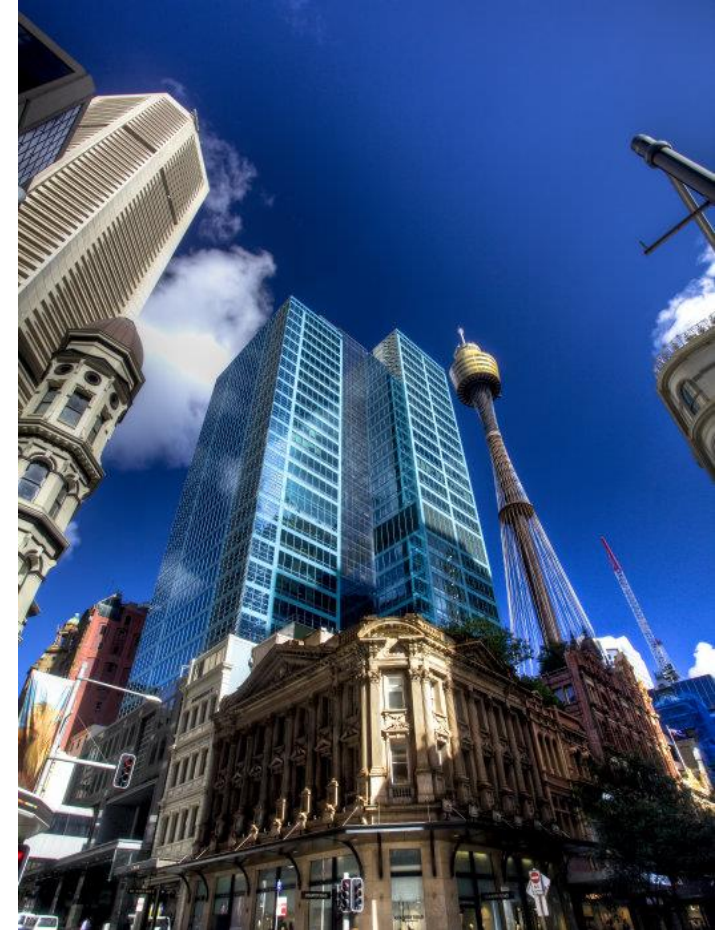
The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Shropshire County Pension Fund. We draw your attention to both of these documents.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of the Pensions Committee, for and on behalf of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Pensions Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

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



Introduction and headlines

Significant risks

Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as:

- management over-ride of controls
- valuation of level 3 investments

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.

Materiality

We determined planning materiality to be £27m (PY £23m) for the Pension Fund, which equates to 1.25% of the Pension Fund's gross assets as at 31/12/2022. We have also determined planning materiality to be £4.205m for Fund Account transactions which equates to 5% of the Pension Fund's total expenditure for the year ended 31/03/22.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. As part of our risk assessment, we have considered the impact of unadjusted prior period errors. We have not identified any additional risks hence we have not reduced materiality further. Clearly trivial has been set at £1.35m (PY £1.15m).

The Fund has recently published its draft financial statements. We will formally revisit our materiality before we begin our substantive work but initial views are that these are unlikely to change.

Audit logistics

Our interim visit took place in March and April and our final visit will take place from July to September. Our key deliverables are this Audit Plan, our Audit Findings Report and Auditor's Annual Report.

Our proposed fee for the audit will be £39,952 (PY: £33,952) for the Pension Fund, subject to the Pension Fund delivering a good set of financial statements and working papers.

We have complied with the Financial Reporting Council's Ethical Standard (revised 2019) and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

New Auditing Standards

There are two auditing standards which have been significantly updated this year. These are ISA 315 (Identifying and assessing the risks of material misstatement) and ISA 240 (the auditor's responsibilities relating to fraud in an audit of financial statements). We provide more detail on the work required later in this plan.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification
ISA240 revenue risk (rebutted)	<p>Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue.</p> <p>This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA 240 and the nature of the revenue streams of the Pension Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because:</p> <ul style="list-style-type: none"> • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire County Pension Fund, mean that all forms of fraud are seen as unacceptable <p>We therefore do not consider this to be a significant risk for the Pension Fund.</p>

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'Significant risks often relate to significant non-routine transactions and judgmental matters. Non-routine transactions are transactions that are unusual, due to either size or nature, and that therefore occur infrequently. Judgmental matters may include the development of accounting estimates for which there is significant measurement uncertainty.' (ISA (UK) 315)

Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Valuation of level 3 investments	<p>The Pension Fund revalues its investments on a quarterly basis to ensure that the carrying value is not materially different from the fair value at the financial statements date.</p> <p>By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions.</p> <p>Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians to estimate the fair value as at 31 March 2023.</p> <p>We therefore identified valuation of level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate management's processes for valuing level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; to ensure that the requirements of the Code are met • independently request year-end confirmations from investment managers and the custodian and consider the role played by the custodian in asset valuation • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2023 with reference to known movements in the intervening period • test revaluations made during the year to see if they have been input correctly into the Pension Fund's asset register • where available review investment manager service auditor report on design effectiveness of internal controls • identify the key valuation controls at the fund managers (and where appropriate the custodians) and consider the design effectiveness of the controls through enhanced documentation of our consideration of the relevant controls reports.

Management should expect engagement teams to challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates and similar areas. Management should also expect to provide to engagement teams with sufficient evidence to support their judgments and the approach they have adopted for key accounting policies referenced to accounting standards or changes thereto. Where estimates are used in the preparation of the financial statements management should expect teams to challenge management's assumptions and request evidence to support those assumptions.

Significant risks identified

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Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Management over-ride of controls	<p>Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Pension Fund faces external scrutiny of its stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance.</p> <p>We therefore identified management over-ride of controls, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.
Fraud in expenditure recognition (rebutted)	<p>Practice Note 10 suggests that the risk of material misstatement due to fraudulent financial reporting that may arise from the manipulation of expenditure recognition needs to be considered, especially an entity that is required to meet financial targets.</p> <p>Having considered the risk factors relevant to Shropshire County Pension Fund and the relevant expenditure streams, we have determined that no separate significant risk relating to expenditure recognition is necessary, as the same rebuttal factors listed on page 7 relating to revenue recognition apply.</p>	<p>We therefore do not consider this to be a significant risk for Shropshire County Pension Fund.</p>

Other matters

Other work

The Pension Fund is administered by Shropshire County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.

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We consider our other duties under legislation and the Code, as and when required, including:

- Giving electors the opportunity to raise questions about your 2022/23 financial statements, consider and decide upon any objections received in relation to the 2022/23 financial statements;
- Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
- Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
- Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, 'irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure'. All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

The 2022 triennial valuations were published in March/April 2023. The data for this underpins IAS19/IAS26 roll forward disclosures within the Fund's and employer accounts. We are required to gain assurance that the information submitted to the actuary is consistent with the underlying records of the Fund. This work happens every three years and will be conducted as part of the 2022/23 audit.

Progress against prior year audit recommendations

We identified the following issues in our 2021/22 audit of the Pension Fund's financial statements, which resulted in three recommendations being reported in our 2021/22 Audit Findings Report. We will provide an update on actions taken in our Audit Findings Report.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>There were differences identified between the fair value of investments reported in the financial statements and the statements received from investment managers. The bulk of these differences were identified on HarbourVest's private equity portfolio and Global Infrastructure's infrastructure portfolio. The estimates had been based on a roll forward from the 30 September 2021 and 31 December 2021 capital statements. No amendment has been made in the Pension Fund's Statement of Accounts.</p>	Update to be provided in the Audit Findings Report
TBC	<p>Fund Officers regularly review services provided by Investment Managers and other service providers. As part of this monitoring exercise, management are delegated with the task of reviewing investment manager internal control reports. As part of the audit we were not provided with the below service organisation reports:</p> <ul style="list-style-type: none"> • Blackrock who engage BNYM as their fund administrators (BNYM report not yet provided) • DRC who engage Sanne as their fund administrators (Sanne Group (Luxembourg). The report provided specifically excludes coverage of the fund administrator. 	Update to be provided in the Audit Findings Report

Progress against prior year audit recommendations

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
TBC	<p>We identified a number of controls issues in security and access of Shropshire Council's IT systems that is, Altair, Unit 4 ERP and Active Directory:</p> <ul style="list-style-type: none"> - we noted that there was inadequate control over privileged accounts within Active Directory (28 accounts) and Altair (3 accounts). - lack of review of the Access control policy and the Application security policy. - evidence requested but not provided – Leaver's process. - lack of review of the third-party IT assurance reporting for the ERP system. While an independent service organization assurance report SOC 1 is available, Shropshire Council has not assessed the IT controls findings. 	Update to be provided in the Audit Findings Report

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Matter	Description	Planned audit procedures
1	<p>Determination</p> <p>We have determined financial statement materiality based on a proportion of the gross assets as at 31/12/2022 for the Pension Fund. Materiality at the planning stage of our audit is £27m, which equates to 1.25% of the Pension Fund's gross assets as at 31/12/2022. Performance materiality and clearly trivial have been set at 75% and 5% of headline materiality.</p>	<p>We determine planning materiality in order to:</p> <ul style="list-style-type: none"> – establish what level of misstatement could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements – assist in establishing the scope of our audit engagement and audit tests – determine sample sizes and – assist in evaluating the effect of known and likely misstatements in the financial statements
2	<p>Other factors</p> <p>An item does not necessarily have to be large to be considered to have a material effect on the financial statements.</p>	<p>An item may be considered to be material by nature where it may affect instances when greater precision is required.</p> <p>We have determined transactions within the Fund Account as items requiring greater precision and where we will apply a lower materiality level, as these are considered a key area of focus for users of the financial statements which is not directly derived from the investment portfolio. We have set a materiality of £4.205m which is equivalent to 5% of expenditure. We will apply this to the audit of all fund account transactions, except for investment transactions, for which materiality for the financial statements as a whole should be applied. For the Fund Account, performance materiality and clearly trivial have been set at 75% and 5% of headline materiality.</p>

Our approach to materiality

Matter	Description	Planned audit procedures
3	<p>Reassessment of materiality</p> <p>Our assessment of materiality is kept under review throughout the audit process.</p>	<p>We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality. The Fund has recently published its draft financial statements. We will formally revisit our materiality before we begin our substantive work but initial views are that these are unlikely to change.</p>
	<p>Other communications relating to materiality we will report to the Audit Committee</p> <p>Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pension and Audit Committees any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) ‘Communication with those charged with governance’, we are obliged to report uncorrected omissions or misstatements other than those which are ‘clearly trivial’ to those charged with governance. ISA 260 (UK) defines ‘clearly trivial’ as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.</p>	<p>We report to the Pension and Audit Committees any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work.</p> <p>In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.35m (PY £1.15m). We will adopt the same percentages on Fund Account transactions where we have determined a lower materiality. If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pension and Audit Committees to assist in fulfilling their governance responsibilities.</p>

IT audit strategy

In accordance with ISA (UK) 315 Revised, we are required to obtain an understanding of the relevant IT and technical infrastructure and details of the processes that operate within the IT environment. We are also required to consider the information captured to identify any audit relevant risks and design appropriate audit procedures in response. As part of this we obtain an understanding of the controls operating over relevant Information Technology (IT) systems i.e., IT general controls (ITGCs). Our audit will include completing an assessment of the design and implementation of relevant ITGCs. We say more about ISA 315 Revised on page 16.

The following IT systems have been judged to be in scope for our audit and based on the planned financial statement audit approach we will perform the indicated level of assessment:

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IT system	Audit area	Planned level IT audit assessment
Unit 4 Business World	Financial reporting	Roll-forward streamlined ITGC review (also make reference to page 16)
Altair	Pension benefits	Roll-forward streamlined ITGC review (also make reference to page 16)

Audit logistics and team



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Grant Patterson - Key Audit Partner

Provides oversight of the delivery of the audit including regular engagement with Governance Committees and senior officers.

Keith Chaisewa - Audit Manager

Plans and manages the delivery of the audit including regular contact with senior officers.

Shazna Rashid - In Charge Auditor

Key audit contact responsible for the day to day management and delivery of the audit work.

Audited Entity responsibilities

Where audited entities do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to an entity not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to an entity not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, you need to :

- ensure that you produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples for testing
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

Audit fees and updated Auditing Standards including ISA 315 Revised

In 2017, PSAA awarded a contract of audit for Shropshire County Pension Fund to begin with effect from 2018/19. The PSAA published scale fee for 2022/23 under the contract is £21,539. Since 2017 there have been a number of developments, particularly in relation to the revised Code and ISAs which are relevant for the 2022/23 audit. For details of the changes which impacted on years up to 2021/22 please see our prior year Audit Plans but we have summarised them overleaf.

The major change impacting on our audit for 2022/23 is the introduction of ISA (UK) 315 (Revised) - *Identifying and assessing the risks of material misstatement* ('ISA 315'). There are a number of significant changes that will impact the nature and extent of our risk assessment procedures and the work we perform to respond to these identified risks. Key changes include:

- Enhanced requirements around understanding the Pension Fund's IT Infrastructure and IT environment. From this we will then identify any risks arising from the use of IT. We are then required to identify the IT General Controls ('ITGCs') that address those risks and test the design and implementation of ITGCs that address the risks arising from the use of IT.

Additional documentation of our understanding of the Pension Fund's business model, which may result in us needing to perform additional inquiries to understand the Pension Fund's end-to-end processes over more classes of transactions, balances and disclosures.

We are required to identify controls within a business process and identify which of those controls are controls relevant to the audit. These include, but are not limited to, controls over significant risks and journal entries. We will need to identify the risks arising from the use of IT and the general IT controls (ITGCs) as part of obtaining an understanding of relevant controls.

- Where we do not test the operating effectiveness of controls, the assessment of risk will be the inherent risk, this means that our sample sizes may be larger than in previous years.

These are significant changes which will require us to increase the scope, nature and extent of our audit documentation, particularly in respect of your business processes, and your IT controls. We will be unable to determine the full fee impact until we have undertaken further work in respect of the above areas. However, for a Pension Fund of your size, we estimate an initial increase of £3,000. We will let you know if our work in respect of business processes and IT controls identifies any issues requiring further audit testing. There is likely to be an ongoing requirement for a fee increase in future years, although we are unable yet to quantify that. In response to regulator feedback we have also had to increase the level of work required on changes in circumstances related to benefits payable. We estimate a fee increase of £500 to cover this work.

The 2022 triennial valuations were published in March/April 2023. The data for this underpins IAS19/IAS26 roll forward disclosures within the Fund's and employer accounts. We are required to gain assurance that the information submitted to the actuary is consistent with the underlying records of the Fund. We estimate the additional fee to cover this work will be approximately £5,000.

The other major change to Auditing Standards in 2022/23 is in respect of ISA 240 which deals with the auditor's responsibilities relating to fraud in an audit of financial statements. This Standard gives more prominence to the risk of fraud in the audit planning process. We will let you know during the course of the audit should we be required to undertake any additional work in this area which will impact on your fee.

Taking into account the above, our proposed work and fee for 2022/23, as set out below, is detailed overleaf and has been agreed with the Head of Pensions.

Audit fees

	Actual Fee 2020/21	Actual (or estimated) Fee 2021/22	Proposed fee 2022/23
Shropshire County Pension Fund Audit – Scale Fees	£18,039	£18,039	£21,539
Brought Forward 2019/20 and 2020/21 Variation	£12,250		
Ongoing Prior Year Variations taken into 2021/22		£10,913	
2021/22 Proposed Variations – additional quality procedures and work on investment management fees		£5,000	
Ongoing Prior Year Variations not contained within amended scale fee			£9,913
2022/23 – ISA 315			£3,000
2022/23 – Additional Change of Circumstances Work			£500
2022/23 – Triennial Data Assurance Work			£5,000
Total audit fees (excluding VAT)	£30,289	£33,952 (TBC)	£39,952

Assumptions

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard \(revised 2019\)](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with partners and staff with appropriate time and skill to deliver an audit to the required professional and Ethical standards.

Independence and non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons, relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in September 2022 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

We confirm that we have implemented policies and procedures to meet the requirements of the Ethical Standard. For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund.

Independence and non-audit services

Other services

The following other services provided by Grant Thornton were identified.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

None of the services provided are subject to contingent fees.

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Service	Fees £	Threats	Safeguards
Audit related			
IAS19 Assurance letters for Admitted Bodies	10,400	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £10,400 in comparison to the total proposed fee for the audit of £39,952 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

Communication of audit matters with those charged with governance

Our communication plan

	Audit Plan	Audit Findings
Respective responsibilities of auditor and management/those charged with governance	•	
Overview of the planned scope and timing of the audit, form, timing and expected general content of communications including significant risks and Key Audit Matters	•	
Confirmation of independence and objectivity of the firm, the engagement team members and all other indirectly covered persons	•	•
A statement that we have complied with relevant ethical requirements regarding independence. Relationships and other matters which might be thought to bear on independence. Details of non-audit work performed by Grant Thornton UK LLP and network firms, together with fees charged. Details of safeguards applied to threats to independence	•	•
Significant matters in relation to going concern	•	•
Significant findings from the audit		•
Significant matters and issue arising during the audit and written representations that have been sought		•
Significant difficulties encountered during the audit		•
Significant deficiencies in internal control identified during the audit		•
Significant matters arising in connection with related parties		•
Identification or suspicion of fraud (deliberate manipulation) involving management and/or which results in material misstatement of the financial statements		•
Non-compliance with laws and regulations		•
Unadjusted misstatements and material disclosure omissions		•
Expected modifications to the auditor's report, or emphasis of matter		•

ISA (UK) 260, as well as other ISAs (UK), prescribe matters which we are required to communicate with those charged with governance, and which we set out in the table here.

This document, the Audit Plan, outlines our audit strategy and plan to deliver the audit, while the Audit Findings will be issued prior to approval of the financial statements and will present key issues, findings and other matters arising from the audit, together with an explanation as to how these have been resolved.

We will communicate any adverse or unexpected findings affecting the audit on a timely basis, either informally or via an audit progress memorandum.

Respective responsibilities

As auditor we are responsible for performing the audit in accordance with ISAs (UK), which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance.

The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.



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Committee and Date

**Audit Committee
20th July 2023**

Item

Public



Dog Warden Service

Responsible Officer:	Andy Wilde		
email:	Andy.wilde@shropshire.gov.uk	Tel:	01743 255472
Cabinet Member (Portfolio Holder):	Richard Marshall		

1. Synopsis

The purpose of this report is to update members of the Audit Committee on developments within the Dog Warden Service and those measures being taken to address findings and recommendations of previous Audit reports

2. Executive Summary

Essentially previous audits identified the following issues with the service

- Procedural inadequacies for the management arrangements with Stray Dog provider Hillbrae and regarding invoice processing and maintenance of the Stray Dog Register
- No formally signed contract with the provider
- Requirement for a Full Management Review of the Service to determine a considered way forward to consolidate and improve the service

A full management review was completed during the winter 2022/23, details contained in the subsequent sections of this report. The review also acknowledged that many of the audit recommendations had been implemented and that a formal contract with provider Hillbrae, which started in April 2023 for the period of one year, would address those outstanding.

In response to the management review, customer enquiries and accusations that the Council was not taking sufficient enforcement against dog fouling a review of legislative

powers was also completed. The conclusions of review are also contained below in the body of the report, but importantly that both public education and enforcement are required to encourage responsible dog ownership to ensure residents who use public open space are kept safe.

2.1. **Strategic Plan - Implications**

- 2.2. Healthy Living – supporting residents to take responsibility for their dogs and the health of others, and preventing ill health
- 2.3. Healthy Economy – ensuring that Shropshire is a healthy destination for tourists
- 2.4. Healthy Environment – enabling safer communities by reducing anti-social behaviours and risk of harm from stray dogs
- 2.5. Healthy Organisation – ensuring Shropshire’s internal capacity and capability is complimented effectively by private sector providers and that internal resources are organised efficiently and effectively to take the necessary enforcement to encourage responsible behaviour

3. **Recommendations**

- 3.1. To note the contents of the report

Report

4. **Risk Assessment and Opportunities Appraisal**

(NB This will include the following: Impact on Children and Vulnerable Adults, Risk Management, Human Rights, Equalities, Community and other Consultation)

- 4.1. The award of a new contract with Hillbrae has addressed Audit’s recommendations concerning a compliant contracting arrangement to collect stray dogs and this will help to discharge the council’s legislative obligations.

The service is also minded to implement legal powers to take enforcement action when required to encourage responsible pet ownership. Currently the council is vulnerable to challenge about the lack of enforcement and indeed has been criticised by the public that enforcement action hasn’t been taken. The report recommendations would therefore address any legal challenge and address any reputational issues associated with lack of enforcement.

5. **Financial Implications**

- 5.1. None

6. Climate Change Appraisal

6.1. None

7. Background

- 7.1. The audit service has undertaken three audits into the Dog Warden Service concentrating on how stray dogs were taken care of through internal and external arrangements. Recommendations were wide ranging and required procedural improvements.
- 7.2. Due to service pressures and various staffing issues within the wider service the audits were not given the attention needed to properly review how the control of stray dogs fitted within the Dog Warden service and council aspirations informed by the Strategic Plan. This has now been completed and as outlined in the report.

8. Additional Information

- 8.1. To address the audit findings a full management review was undertaken and reached the conclusions listed below.

That a formal contract with Hillbrae for a term of 12 months be confirmed, subject to contract exemption, and for the following reasons.

- That Hillbrae currently meet the Council's service requirements and that there are few other providers who can.
- That Hillbrae currently provides a similar service to Telford and Wrekin Council
- That there are concerns about the services that alternative providers deliver and that effort will be required to stimulate the market.

That a 12 month term will provide sufficient incentive for Hillbrae to improve their administrative support for the contract.

That the current service costs (£15-20k annually) are relatively small and represent a low risk financially.

Use of the contract will strengthen administrative arrangements for invoicing and keeping the Stray Dog Register up to date.

Reprocure the service at the end of the new contract term to address any VfM considerations.

That the council's legislative powers be reviewed and measures implemented to enable enforcement for the control of dogs and addressing dog fouling.

- 8.2. To strengthen the Council's enforcement powers it is proposed to implement a Public Space Protection Order for the council's geographic and administrative area and further to consider how effective and efficient enforcement, to prevent dog fouling can be introduced, This will be the subject of a further report to Cabinet in

the Autumn.

- 8.3. The review also considered that enforcement on its own wouldn't be sufficient to secure a change in attitudes and the behavioural change needed to address the volume of complaints about dog fouling in public areas. To meet this challenge, it was considered that a proactive public information campaign advising of health considerations, the impact of dog nuisance and the reasons for subsequent enforcement action would be more effective.

9. Conclusions

- 9.1. The review of the service has acknowledged that many of the previous audit recommendations have been completed and those outstanding have been addressed through the management review and formal award of a contract to provider Hillbrae. The review has also sought to further develop the Dog Warden service to address reported dog nuisance.
- 9.2. It has been concluded that both a public information campaign together with enforcement is likely to achieve the best results in terms of encouraging pet owners to act responsibly. This will help to protect those members of the public who use the Council's open recreation areas and their health from the adverse effects of dog nuisance.
- 9.3. The service development will enhance the Dog Warden service and provide strategic direction for the control of dogs and enforcement of nuisance behaviours
- 9.4. The conclusions reached are also considered to be ones that will best meet the themed aspirations of the Strategic Plan and align the service with the Plan.

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

Local Member:

Appendices [Please list the titles of Appendices]

Appendix 1 Dog Wardens Audit Report

INTERNAL AUDIT EXCEPTION REPORT FOR STREET SCENE - DOG WARDENS 2019/20

Fundamental	Significant	Requires Attention	Best Practice
Immediate action required to address a major control weakness which, if not addressed, could lead to material loss.	A recommendation to address a significant control weakness where the system may be working but errors may go undetected.	A recommendation aimed at improving the existing control environment.	Suggested action which aims to improve best value, quality or efficiency.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
Management Control Objective: The system is operated in accordance with up to date policies, procedures, Financial Rules, statutory regulations and legislation.					
2.1	There is no formal policy for stray dogs.	Lack of a formal policy may lead to procedures not being followed resulting in non-compliance with the Environmental Protection Act. Possible breach of national guidance leading to reputational damage in the event of a dispute or error.	1	Significant	A formal policy should be introduced for stray dogs. This should comply with the requirements of the Environment Protection Act 1990 and should be formally approved. Completed.
2.2	Whilst there are some written procedures in place, these do not relate to the operational processes. Furthermore, the Street Scene Manager advised that there may be several different versions of procedure notes and that they are not all held in a central location. The procedure notes that are available are not dated or version controlled.	Failure to have procedure notes in place could lead to incorrect procedures being followed in the event of staff absence, or tasks not being completed in accordance with legislative requirements.	2	Significant	Procedure notes should be produced for all Dog Warden (DW) activities. These should be dated and version controlled and should be available to all relevant staff. Completed.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
2.3	There is no risk register for Dog Wardens.	Risks are not monitored which may result in financial and or reputational loss to the Council.	3	Significant	Risks to the Council in relation to Dog Wardens should be identified, documented and considered. This information should be shared with the Risk and Insurance Team and Senior Management. Completed.
Management Control Objective: There is an appropriate recording process in place for Dog Warden activities.					
4.1	It is stated in the October 2017 Agreement with Hilbrae Pet's Hotel for the Provision of a Dog Collection and Kennelling Service to Shropshire Council that it is an obligation of the service provider to provide the Council with information to update their dog register as soon as possible when a dog is collected. However, this does not occur and often the Environmental Maintenance Team only become aware of a dog being collected when an invoice is received at the end of the month. Furthermore, it is stated that Shropshire Council should be informed of all service requests, whether a dog is physically collected or not, including the time that a service request was received. This is not currently	Non-compliance with the Environmental Protection Act if the register of dogs seized is not up to date as a result of the Council not being notified of stray dogs collected.	4	Significant	In accordance with the 2017 Agreement with Hilbrae Pet's Hotel for the Provision of a Dog Collection and Kennelling Service to Shropshire Council it should be ensured that the Council is provided with information to update the dog register as soon as possible when a dog is collected. Furthermore, the Council should be informed of all service requests made to the kennels whether a dog is physically collected or not, including the time that a service request was received. DW in contact with Hilbrae daily.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	adhered to and therefore the Council would not become aware of these if no charge is made.				
4.2	A review of twelve invoices received from Hilbrae Pet's Hotel for dogs collected in the Central and South of Shropshire between April 2018 and May 2019 identified two occasions when dogs were collected by Hilbrae during the Dog Warden's normal working hours and no reason was recorded on Confirm as to why the Dog Warden could not attend. A further four occasions were identified where the dog was taken to Hilbrae, but no details were available on Confirm to ascertain whether they were taken by the Dog Warden or a member of the public.	Unnecessary costs to the Council if Hilbrae Pet's Hotel collect dogs when the Dog Warden is available to complete this task.	5	Requires Attention	<p>Where it is not possible for the Dog Warden to collect a stray dog during her normal working hours the reason for this should be clearly recorded on Confirm. This should be subject to management review, to ensure that the duties of the Dog Warden role are being fulfilled.</p> <p>Hilbrae are contracted to collect 24/7. This allows the DW to carry out other duties for the entire County.</p>
4.3	A review of a sample of 12 stray dog reports between April 2018 and July 2019 identified that on two occasions the action taken was considered insufficient, whereby it is noted on Confirm that the dogs could not be located but that there is no evidence that the Dog Warden made contact with the customer that made the report. On both occasions	Dogs are not found resulting in reputational damage if insufficient action has been taken to perform Dog Warden duties.	6	Requires Attention	If a dog cannot be located by the Dog Warden based on the information logged on Confirm, the customer that made the report should be contacted by the Dog Warden to ascertain whether any more information is available. This should be clearly evidenced on the

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	contact telephone numbers were available.				relevant record on Confirm. All relevant info now recorded on Confirm.
4.4	A review of a sample of 12 stray dog reports between April 2018 and July 2019 identified that on four occasions dogs were returned to owners, but it is not clear whether this was facilitated by the Dog Warden or a third party. On one other occasion it is unclear from the notes on Confirm what action was taken. In addition, whilst it was confirmed that reports of strays are recorded promptly on Confirm as they are made, records are not updated as action is taken and the dates and times of action taken are not recorded. Therefore, it has not been possible to confirm that reports are acted upon in a timely manner.	It is not possible to confirm that sufficient action has been taken in a timely manner. Poor performance may go undetected.	7	Requires Attention	Detailed descriptions of action taken should be recorded on Confirm as soon as possible following the event. Periodic management reviews of records should be undertaken to confirm that sufficient information has been captured and that reports of strays have been responded to in a timely manner. A new Stray Dog Register (SDR) is now in use to gather all info including the confirm Ref.
4.5	Dogs seized by the dog warden that are returned directly to the owner without being taken to the kennels are not recorded on the Stray Dog Register. Therefore, there is no complete record of all dogs seized. Furthermore, a review of 99 dogs entered to the Stray Dog Register between April 2018 and May 2019	Non-compliance with section 149 of the Environmental Protection Act.	8	Requires Attention	The Stray Dog Register should hold accurate, complete details of all dogs seized, including those that are returned directly to the owner by the Dog Warden. A new version of the SDR is now in use recording all enquiries coming through to

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	identified that inaccurate or incomplete details were recorded for eight; the date of seizure had been recorded incorrectly for seven dogs and the location that the dog was seized was not recorded for one other.				the Council and this is now overseen by the DW.
4.6	A review of nine reports of dog fouling between April 2018 and July 2019 identified that on six occasions the information recorded on Confirm was not updated to evidence that sufficient action was taken. On three occasions it was recorded that street cleansing had been requested, but the records were not updated to show that these were actioned. On the remaining three occasions it was stated that future action would be taken to tackle problem areas, but again Confirm was not updated to evidence that this was completed.	It is not possible to confirm that sufficient action has been taken if records are not updated accurately. Failure to respond to reports of dog fouling could lead to health and safety concerns and may have a negative impact on the Council's reputation.	9	Requires Attention	Where street cleansing is requested by the Dog Warden, confirmation should be sought from the relevant team that this has been actioned. Confirm should then be updated accordingly. Where it is planned that action will be taken in the future to tackle problem areas in relation to dog fouling the report should not be closed on Confirm until the action has been taken and the record updated to evidence this. The confirm system automatically records the job Ref number so this can be checked to see when the work has been completed.
4.7	A review of a sample of nine missing, found or dangerous dogs	Reputational damage if it is perceived the Council has not	10	Requires Attention	Appropriate action should be taken to respond to reports

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<p>for the period from April 2018 to July 2019 identified that on two occasions insufficient action was taken:</p> <ul style="list-style-type: none"> • In relation to an anonymous report of a dangerous dog on private land, it is stated on Confirm that this is not the Council's responsibility and should therefore be reported to the Police. However, as the report was anonymous this could not be communicated to the customer and no action was taken by a Council officer to inform the police directly. • A lost dog report was closed on Confirm the day after the report being made despite the dog not being found. It is unclear why this was closed so promptly. • A further two occasions were identified where the information recorded on Confirm was insufficient to ascertain exactly what action was taken. 	<p>acted upon reports of lost or dangerous dogs. Non-compliance with section 149 of the Environmental Protection Act.</p>			<p>of dangerous dogs, including reporting dogs to the police directly when reports are received from members of the public. Reports of lost dogs should stay open on Confirm for a specified period in order that the Dog Warden is aware of it.</p> <p>The call centre will inform the customer at the time of the report that all dangerous dog issues should be reported to the Police.</p> <p>The new SDR now records missing dog reports, the information will be passed onto the Kennels at the time of the report, the cases are closed but can be reopened to update, emails are sent to owners to ask if the dog has been found, very few respond.</p>

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
Management Control Objective: Income is identified, collected and banked in accordance with procedures.					
5.1	The release / administration fee charged to owners by Hilbrae Pet's Hotel prior to a dog being returned is not in accordance with Shropshire Council's scale of approved charges, currently set at £72.00 (£25.00 statutory and £47.00 discretionary). Instead, owners are charged £40.00 or a reduced rate of £35.00 if their dog has a microchip. The potential lost income has been calculated as approximately £300 - £400 a month.	Financial loss to the Council if charges are not in accordance with the approved rates.	11	Significant	The release / administration fee charged to owners prior to dogs being returned to them should be in accordance with the approved fees and charges. These figures are incorrect, the Council have supplied the kennels with 2 card machines so the fees, £46 goes direct to the Council.
5.2	Release / administration fees are collected by Hilbrae Pet's Hotel on behalf of Shropshire Council. The value of these is then deducted from the monthly amount the Council pays to Hilbrae Pet's Hotel for the service they provide.	Income is not banked intact. The values for both income and expenditure in relation to Dog Wardens are understated in the statement of accounts. Budget monitoring is inaccurate which could impact on decisions made relating to the future delivery of the service.	12	Significant	All income received by Hilbrae Pet's Hotel on behalf of Shropshire Council should be paid into the Council's bank account. The Income Team should be contacted to assist with this. Completed.
5.3	If the Dog Warden can scan a dog's microchip and reunite it with the owner without taking it to the kennels no charge is made, due to the perceived security risk of the Dog Warden collecting and	Loss of income if owners are not charged for dogs being returned to them by the Dog Warden.	13	Significant	Arrangements should be made to enable the Dog Warden to collect income in a secure manner. Consideration should be given towards the use of

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	transporting income.				mobile card terminals for card payments to be made, or contacting the Customer Service Centre for dog owners to make a telephone payment prior to their dog being returned to them. Completed.
Management Control Objective: Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.					
6.1	Two versions of the agreement with Hilbrae Pet's Hotel were provided during the audit. However, neither of these have been signed by a representative of either Shropshire council or the service provider. Furthermore, the most recent version of the agreement was due to run until 31st October 2018. Therefore, there is currently no agreement in place.	Terms and conditions are not agreed resulting in dispute in the event of a challenge or incident. Performance cannot be measured leading to services not being provided or an inadequate level of service resulting in a financial loss to the Council.	14	Significant	A formal agreement signed by both parties should be held for the provision of the out of hours dog service. Completed.
6.2	The agreement with Hilbrae Pet's Hotel does not refer to the relevant legislative requirements and has not been updated to state that the service provider will collect all dogs in the North of Shropshire whilst there is a vacancy for a Dog	Failure to ensure that dogs are seized in accordance with legislative requirements could result in Shropshire Council not properly discharging the functions for dealing with stray dogs found in the area of the authority.	15	Significant	The agreement with Hilbrae Pet's Hotel should be updated to ensure that all activities are carried out in accordance with section 149 of the Environmental Protection Act 1990.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	Warden in this area.				<p>Furthermore, it should be updated for the arrangement to collect all dogs in the North of Shropshire whilst there is a vacancy for a Dog Warden.</p> <p>Completed.</p>
6.3	<p>The agreement with Hilbrae Pet's Hotel does not include any details of action to be taken in the event that a banned breed of dog is collected. This has been identified as an issue in a previous case where Hilbrae collected a dog on behalf of the dog warden that was a banned breed. Hilbrae have a policy of not destroying any dog and refused to release the dog to the Council knowing it would be destroyed. The Council were liable for all the associated costs until the case went to court and Hilbrae were awarded ownership of the dog. If this dog had been collected by the dog warden it would have been taken to the police station.</p>	<p>Additional financial costs due to court fees and the additional boarding fees incurred as a result of the dog being held whilst ownership is determined.</p>	16	Requires Attention	<p>The agreement with Hilbrae Pet's Hotel should be updated to include details of the action that should be taken if a banned breed of dog is collected as a stray. This should include details of which party will be responsible for the dog. If this is to be Shropshire Council it should be stated in the agreement that the dog will be handed to the police and the Council will accept no liability for costs.</p> <p>Completed.</p>
6.4	<p>The total estimated cost of the contract with Hilbrae over a period of four years is £57,846 which</p>	<p>Non-compliance with Financial Rules. A potential failure to achieve best value by not</p>	17	Fundamental	<p>Expenditure over £50,000 should be subject to formal tender. The cost of the</p>

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	exceeds the Council's tender threshold. No tender exercise was undertaken prior to this contract being awarded and there is no evidence that quotes from alternative suppliers were obtained.	appointing the most cost effective supplier. Criticism from other providers if they are not given the opportunity to quote for the service.			contract over its whole term should be included when calculating the value. Failure to return to the market at the end of the contract term means that the total payments to the same supplier would be used to calculate the contract value even where the original contract was for 12 months. Will be going out to tender in 2024.
6.5	It is stated in the agreement with Hilbrae Pet's Hotel that a preferred veterinary group should be used. However, there is no evidence that an appropriate procurement exercise was undertaken prior to selecting the preferred provider.	Value for money products or services not obtained resulting in excessive expenditure being incurred. Criticism from other providers if they are not given the opportunity to quote for the service.	18	Significant	Three written quotes should be obtained for any purchases over £10,000 in value, in accordance with Shropshire Council's Contract Procedure Rules. The vet costs are unlikely to exceed this, two different vets are currently being used, the SLA states that it is a requirement that the vets used should have either a Vet or Veterinary nurse on site 24hrs when a dog has to stay overnight.
6.6	The October 2017 agreement with	Failure to review poor performance	19	Significant	The performance of the

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	Hilbrae Pet's Hotel includes arrangements for the arbitration of any disputes between the service provider and Shropshire Council. However, no formal arrangements are in place to monitor performance of the service provider.	could result in issues not being rectified in a timely manner Potential for reputational risk if the service provided to the public is not sufficient.			provider of the out of hours dog collection service should be reviewed regularly and any poor performance formally addressed. Quarterly meetings are held between Hilbrae and the Council .
6.7	A review of fifteen invoices provided by Hilbrae Pet's Hotel between April 2018 and May 2019 identified that eight did not include an invoice number.	Non-compliance with HMRC VAT regulations resulting in possible fines against the Council.	20	Significant	Purchase invoices that do not include a unique invoice reference number should not be processed for payment. This is now overseen by the DW.
6.8	The review of 15 invoices identified that there were discrepancies on call out charges on each of the invoices. Several different reasons for these were identified: <ul style="list-style-type: none"> • On most call outs, Hilbrae have charged £5 more than the amounts included in the 2017 agreement; • There were several discrepancies on mileage calculations, however this may partly be due to the exact location not being recorded; • Several call outs have been included on call out sheets for which no stray dog sheets were provided. This may be due to no dogs being present when an officer attended, or 	Failure to verify amounts charged could result in incorrect charges being made leading to a financial loss to the Council.	21	Significant	All invoices should be checked to the information held on Confirm and checked for accuracy prior to being processed for payment. This should include: <ul style="list-style-type: none"> • Confirming that all call out fees are in accordance with the contract; • Confirming that all mileage has been calculated accurately, and that exact locations have been recorded in order to verify this; and • Ensuring that explanations

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	<p>because the dog was returned directly to the owner without being taken to the kennels. However, this is not evident from the information provided;</p> <ul style="list-style-type: none"> • One occasion where the time is not recorded, therefore it is not possible to ascertain what call out fee should have been charged; • The breakdown of call out fees and mileage were not recorded on invoices for the North, therefore it was not possible to calculate how the discrepancies occurred. • Furthermore, it is stated in the agreement with Hilbrae Pet's Hotel that the amount to be reimbursed for vaccinations is £15. However, the review of invoices identified that this was being charged at £30 for the North. No explanation for this was available. Whilst it was also identified that the price for other areas is being charged at £16.25, it is accepted that this small adjustment may be due to price increases. 				<p>for charges are included when stray dog sheets are not provided.</p> <p>Invoices should be reviewed prior to payment to ensure that the amount charged for vaccinations is in accordance with the contract agreement.</p> <p>Where discrepancies are identified these should be queried with the provider. Where errors are consistently identified this should be managed accordingly as part of performance monitoring.</p> <p>This is now overseen by the DW and all forms are checked for accuracy and this is recorded on the SDR. The SD/call out form and the call out sheet are now on one form .</p>
6.9	The review of Hilbrae invoices identified that in October 2018 the amount collected in fines on the	Income due to the Council is not collected resulting in a financial loss.	22	Significant	The agreement with Hilbrae Pet's Hotel should be updated to state that when a

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
	<p>Council's behalf for the South area was £25 less than expected. This was due to a breeder not being charged for a dog returned to them, however there is no evidence that this was authorised by a representative of the Council.</p>				<p>dog owner is not charged in accordance with the Council's approved fees this should be authorised by a representative of the Council. This should be recorded on the stray dog sheet by Hilbrae as evidence of the authorisation and should be recorded on Confirm by the Council representative.</p> <p>All information is now recorded on the SDR and the SD/call out forms.</p>
6.10	<p>The review of invoices identified that stray dog sheets are often not completed in full. This relates mainly to the method and date of disposal. Additionally, on one occasion the time that the dog was taken to kennels was not recorded, therefore it was not possible to calculate the expected call out charge. Furthermore, two invoices were provided with no supporting documents. It is accepted that that there may have been no dogs present when the officer attended the site, or that the dogs were</p>	<p>It is not possible to confirm that charges are accurate if stray dog sheets are not completed in full, resulting in possible overpayments.</p>	23	Significant	<p>Hilbrae Pet's Hotel should be reminded that all stray dog sheets should be completed in full, and that failure to action this may result in payment not being made. Where no stray dog sheets are available explanations for the charges made should be provided.</p> <p>A new SD/call out form is now in use and these are checked by the DW to ensure all the relevant</p>

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	returned to owners without being taken to kennels. However, this cannot be confirmed as no information was provided.				information is recorded before updating the SDR.
6.11	The review of invoices and supporting stray dog sheets identified four occasions where charges of £25 made to owners were included on the sheets as 'kennelling fees', however it is not clear what these relate to. It was suggested by the Dog Warden that this may be as a result of staff at Hilbrae staff becoming confused between the charges set by Shropshire Council and those set by Telford and Wrekin, but this cannot be confirmed. There is no evidence that these amounts of £25 were paid over to Shropshire Council.	Loss of income.	24	Requires Attention	Investigations should be taken as to what has been charged to dog owners when income is analysed as 'kennelling fees' on stray dog sheets. If it is identified that this is income due to Shropshire Council action should be taken to recover it. Invoices and the SD/call out forms are now checked by the DW for accuracy.
6.12	A review of fifteen recharges for vets costs identified that of 33 charges for vaccinations, 10 were carried out more than seven days after the dogs arrival at kennels. Therefore, the Council was no longer responsible for the dogs. A further 14 vaccinations were identified as being carried out more	Failure to review vets bills could lead to the Council paying costs for which it is not responsible leading to a financial loss.	25	Significant	Recharges for vaccinations should be reviewed prior to payment to ensure that these are carried out after three days of dogs arriving at kennels. Where it is identified that vaccinations are carried out more than seven days after the date of

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	than three days after the dog arrived at kennels but within seven days.				arrival payment should not be made as the dog is no longer the responsibility of the Council. This is now overseen by the DW and all paperwork is thoroughly checked prior to goods receiving any invoices.
6.13	A review of 15 recharges for vets' bills identified eight charges for treatments other than vaccinations. There was no evidence of any of these being authorised by a representative of the Council.	Inappropriate or excessive expenditure if costs are not authorised prior to treatment being undertaken.	26	Significant	Hilbrae Pet's Hotel should be reminded that any veterinary treatment required should be authorised by a representative of the Council. This authorisation should be recorded on Confirm at the time that it is granted and should be checked prior to payment being made. Where it is identified that authorisation was not sought or granted the invoice should not be paid or should be approved by a more senior budget holder. SC now requires evidence from the Vet (unless an emergency) before treatment. The information

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					inc who authorised the treatment is recorded on the SDR, with a confirm case Ref No, this information is not recorded on Confirm as the Confirm case is only relevant to the customer not the dog.
6.14	A review of 15 vets recharges identified that one charge for £322.31 was invoiced by Hilbrae twice. This was not identified by the invoice processor or authoriser prior to payment being made. Furthermore, five charges were identified that related to dogs that were returned to their owners. Therefore, the vets fees should have been recharged to the owners rather than the Council.	Financial loss in the event that duplicate payments are made.	27	Significant	All invoices should be checked prior to payment to ensure that charges are not duplicated. Consideration should be given to recording the amounts charged for individual dogs on Confirm, in order that duplicates can be easily identified. Care should be taken to ensure that payments are not made for dogs that are returned to their owners. Consideration should be given to recovering these overpayments from Hilbrae Pet's Hotel. All Invoices are now checked by the DW prior to goods receipting.

Audit Ref	Finding/ Observation	Implications/Risks	Rec No.	Rec Rating	Recommendation
6.15	It is stated in the October 2017 agreement with Hilbrae Pet's Hotel that the Council will pay a proportion of the call out fee if vaccinations are performed at the kennels. However, a review of the recharges for vets fees identified that the Council is being charged the full amount.	Failure to specify the amount that will be paid for vet's call out fees leads to confusion over the amount that should be recharged leading to financial loss.	28	Requires Attention	It should be clarified what proportion of call out fees the Council will pay when vaccinations are carried out at the kennels. Following this decision, it should be ensured that only the agreed amount is reimbursed to Hilbrae Pet's Hotel. Completed.
Management Control Objective: Disclosure and Barring Service (DBS) checks have been performed for relevant staff.					
7.1	The Dog Warden advised that a CRB check was performed when she started in her current role, however Human Resources do not hold a record of this.	There is no evidence that DBS checks have been performed.	29	Significant	If details of the Dog Warden's CRB or DBS check cannot be located a new check should be performed. Incomplete, A request has been put to HR for this to be done.
Management Control Objective: Adequate management information is obtained and reviewed at an appropriate level.					
8.1	There are no arrangements in place for the performance management of Dog Warden activities and performance reviews are not undertaken for members of the Street Scene Team. Furthermore, the Dog Warden has not received any formal training in relation to the role.	Staff are unaware of their work targets and how to achieve those goals leading to loss of productivity and not meeting the team or corporate aims and objectives.	30	Requires Attention	Performance targets for Dog Warden activities should be agreed upon and performance monitored against these. Performance reviews should be undertaken for all Street Scene employees, including the identification of any

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					training requirements.
8.2	Dog Wardens does not have a separate cost centre; therefore it is not possible to monitor the budget effectively as all income and expenditure is grouped within Street Scene.	Failure to monitor the budget could result in variances not being identified and action not being taken to address these.	31	Significant	Consideration should be given to setting up separate cost centres for the different services within Street Scene to allow for effective monitoring of the budget. Following this, the budget should be monitored on an ongoing basis to identify any variances.
8.3	The working arrangements for the Dog Warden have recently changed, whereby she must now return the Council's vehicle at 5pm each day. As a result of this the Dog Warden will be unable to attend certain calls towards the end of the day depending on the location and these would be referred to Hilbrae Pet's Hotel, incurring additional costs. Furthermore, the Dog Warden is now splitting her time between Dog Warden duties and Street Scene Officer duties. Therefore, if she is elsewhere in the county responding to Street Scene queries it may be necessary for	Increased costs to the Council if Hilbrae are used at times that the Dog Warden is not available during her usual working hours.	32	Significant	A review of the Dog Warden's working arrangements should be undertaken to ascertain whether resources are effectively utilised. This should include identifying the impact on the number of call outs that Hilbrae are now required to undertake and whether this is cost effective. DW now back on DW duties. Hilbrae contracted to collect 24/7 to allow the DW to undertake preventative work

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	Hilbrae to attend call outs. This also reduces the time that the Dog Warden has to undertake preventative work in relation to dog fouling.				in relation to dog fouling for the entire County.
Management Control Objective: Information / data processing risks are managed appropriately.					
9.1	The Street Scene Manager is unsure as to whether a risk assessment for personal and sensitive data has been completed.	Information security may be overlooked leading to a loss of personal data and/or misuse of personal data resulting in embarrassment to the Authority, distress to the individuals involved, non-compliance with GDPR and a security breach registered with the Information Commissioner's Office resulting in fines against the Council.	33	Significant	A risk assessment should be completed for all personal data collected as part of reports relating to Dog Warden activities. Completed annually.
9.2	Data Protection training has not been completed by the Street Scene Manager, the Dog Warden or the Senior Administration Officer. It has not been possible to ascertain whether training has been completed by an Administration Officer (202366).	Potential data breaches if staff are not aware of their responsibilities leading to fines against the Council.	34	Significant	Data Protection training should be completed by all members of the Street Scene team.

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Committee and Date

Audit Committee
20th July 2023

Item

Public



Annual Whistleblowing Report 2022/23

Responsible Officer:	Sam Williams		
email:	sam.williams@shropshire.gov.uk	Tel:	01743 252817
Cabinet Member (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

1. Synopsis

Whistleblowing provides a process for concerns to be raised in relation to work, such as fraud, adult/child protection or harassment and bullying allegations. This report provides an update to the Shropshire Council Audit Committee on the number of whistleblowing cases raised regarding Council employees over the last financial year.

2. Executive Summary

- 2.1 The Whistleblowing “Speaking up about Wrongdoing” process forms a key element of the Councils Corporate Governance arrangements. This report provides an update to the Shropshire Council Audit Committee on the number of cases raised regarding Council employees over the last financial year (excluding school-based employees).
- 2.2 The Whistleblowing Policy is available to all staff via the Intranet pages and is also available to them, along with members, contractors, partners and the public, via the [website](#); allowing it to be accessed from any computer
- 2.3 In 2022/23 there were twenty-nine whistleblowing reports, this is an increase of 14% compared to the previous year.

- 2.4 Whistleblowing reports in 2022/2023 have been predominately via email and phone. The most reported theme was financial incident which includes theft, tenancy and tax fraud. Six cases were referred to an external third party.
- 2.5 The Council Whistleblowing process provides an effective route to enable employees, elected members, contractors and others to raise concerns about fraud, corruption, adult/child protection or harassment and bullying allegations.

3. Recommendations

The Audit Committee is asked to:

- a. Consider and approve, with appropriate comments on the contents of the report

Report

4. Risk Assessment and Opportunities Appraisal

- 4.1. The Council has in place an effective Counter Fraud, Bribery and Anti-Corruption Strategy. The Council proactively encourages the detection of fraud and irregularities and the appropriate management of them. The Whistleblowing policies contribute to our zero tolerance of fraud, bribery and corruption.
- 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. The management and investigation of issues raised in response to this policy are met from 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; or on climate change adaptation. Therefore, no effect.

7. Background

- 7.1. This is an annual report to Audit Committee on whistleblowing arrangements.
- 7.2. The Whistleblowing Policy is available to all staff via the Intranet pages and is also available to them, along with members, contractors, partners and the public, via the [website](#); allowing it to be accessed from any computer/mobile device. 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.

7.3 Whistleblowing is when a worker reports suspected wrongdoing at work. Officially this is called 'making a disclosure in the public interest'. A worker can report things that aren't right, are illegal or if anyone at work is neglecting their duties, including:

- someone's health and safety is in danger
- damage to the environment
- a criminal offence
- the company isn't obeying the law (like not having the right insurance)
- covering up wrongdoing.

7.4 The way a worker can 'blow the whistle' on wrongdoing depends on whether they feel they can tell their employer.

1. The worker should check their employment contract or ask Human Resources if their company has a whistleblowing procedure.
2. If they feel they can, they should contact their employer about the issue they want to report.
3. If they can't tell their employer, they should contact a prescribed person or body.

7.5 A worker can only tell the prescribed person or body if they think their employer:

- will cover it up
- would treat them unfairly if they complained
- hasn't sorted it out and they've already told them

7.6 Dismissals and whistleblowing

A worker can't be dismissed because of whistleblowing. If they are, they can claim unfair dismissal. They'll be protected by law as long as certain criteria are met.

7.7 Types of whistleblowing eligible for protection

These are called 'qualifying disclosures'. They include when someone reports:

- that someone's health and safety is in danger
- damage to the environment
- a criminal offence
- that the company isn't obeying the law (like not having the right insurance)
- that someone's covering up wrongdoing
- a miscarriage of justice

7.8 Who is protected?

The following people are protected:

- employees
- agency workers

- people that are training with an employer, but not employed
- self-employed workers, if supervised or working off-site

An individual is also protected if they work in a school or sixth-form college, whether an employee or an agency worker. NHS workers who work under certain contractual arrangements, e.g., certain GPs and dentists, are also protected.

A worker will be eligible for protection if:

- they honestly think what they're reporting is true
- they think they're telling the right person
- they believe that their disclosure is in the public interest

7.9 Who isn't protected?

Workers aren't protected from dismissal if:

- they break the law when they report something, e.g., they signed the Official Secrets Act
- they found out about the wrongdoing when someone wanted legal advice ('legal professional privilege'), e.g., if they're a solicitor

Workers who aren't employees can't claim unfair dismissal because of whistleblowing, but they are protected and can claim 'detrimental treatment'.

7.10 Tribunals

Workers dismissed for whistleblowing can go to an employment tribunal. If the tribunal decides the employee has been unfairly dismissed, it will order that they are:

- reinstated (get their job back)
- paid compensation

A tribunal judge can reduce any compensation awarded by 25% if they find the person has acted dishonestly.

A whistleblower who is bullied at work will also be able to bring a claim to the employment tribunal against their employer or colleagues

8. **Additional Information**

8.1 **2022/23 Whistleblowing Reports**

8.1.1 In 2022/23, there were twenty-nine cases reported under the whistleblowing arrangements for Shropshire Council. Reports have predominately been received via phone (sixteen cases) and email (eleven cases) with two cases being received via letter. The most

reported theme was financial incident, which includes theft, tenancy and tax fraud. Six cases, none of which were employees, were referred to a third party such as Department Work and Pensions (DWP) and Action Fraud.

8.1.2 2022/23 Table of Whistleblowing reports and outcomes

Theme	Number
Financial incident: Theft, Tenancy and Tax Fraud	13
Benefit Fraud	3
Planning	3
Safeguarding / discrimination	4
Staffing issues	4
Other	2
Outcomes for all themes	Number
No case to answer	15
Referred to third party (DWP/Action Fraud)	6
Managed via another policy/procedure	7
Management action	1
Method of Communication	Number
Email	11
Phone	16
Letter	2

8.2 Comparison to previous years

8.2.1 There has been a 14% increase in the number of incidents reported than in the preceding year, this is an increase of four cases. The preferred routes of “blowing the whistle” in 2022/23 being via phone and email, this is a change to the previous year where all reports were via email. The number of incidents reported in the last five years are shown in Table 8.2.4. The number of cases reported can fluctuate year on year, however the 2022/23 figures are similar to the preceding year. The policy is periodically reflected in email updates and news items on the Intranet throughout the year.

8.2.2 When comparing the route of report to previous years; in 2018/19 and 2019/20 the preferred route was a verbal report. From 2020/21 the report via email route increased and in 2021/22 all reports were received via email. This linked with the increase in remote working seen from the start of the pandemic.

8.2.3 In 2021/22 there were twenty-five cases reported under whistleblowing arrangements for Shropshire Council, the majority of which were relating to financial incident. In 2020/21 there were thirty-five cases reported, and the majority were relating to grant fraud.

8.2.4 Table of Whistleblowing Reports for last five years

Year	Case	% Change
22-23	29	14% increase
21-22	25	29% decrease
20-21	35	43% increase

19-20	20	39% decrease
18-19	33	51% increase

9. Conclusions

- 9.1. The 'Speaking up about Wrongdoing' process forms a key element of the Council's Corporate Governance arrangements and is continuing to be a route employees use to raise concerns, as well as a route which is also open to elected members, contractors, partners and others.

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

None

Local Member: *Cabinet Member Cllr Lezley Picton (Leader of the Council)*
Cllr Brian Williams (Chair of Audit Committee)
Cllr Gwilym Butler (Portfolio Holder Resources)

Appendices N/A

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