

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

Date: Wednesday, 20 November  
2024

My Ref:  
Your Ref:

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

**Date:** Thursday, 28 November 2024  
**Time:** 10.00 am  
**Venue:** Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury,  
Shropshire, SY2 6ND

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

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](mailto: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  
Kate Halliday

Independent Member: Jim Arnold

Your Committee Officer is:

**Michelle Dulson** Committee Officer  
Tel: 01743 257719

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

# AGENDA

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

## 2 **Disclosable Pecuniary Interests**

Members are reminded that they must 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 27 September 2024 (Pages 1 - 8)**

The Minutes of the meeting held on the 27 September 2024 are attached for confirmation.

Contact Michelle Dulson (01743) 257719

## 4 **Public Questions (Pages 9 - 10)**

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 12noon on Friday 22 November 2024.

## 5 **Member 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 12noon on Friday 22 November 2024.

## 6 **Bishops Castle Community College Management Update (Pages 11 - 24)**

The report of the Headteacher is attached.

Contact: Reuben Thorley (01588) 638257

## 7 **Customer Journey Project Management Update**

The report of the Executive Director of Health is to follow.

Contact: Rachel Robinson (01743) 258918

## 8 **Second line assurance: Treasury Strategy Mid-Year Report 2024/25 (Pages 25 - 52)**

The report of the Executive Director of Resources (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

**9 Governance Assurance: Annual Audit Committee Self-Assessment (Pages 53 - 74)**

The report of the Executive Director of Resources (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

**10 Third line assurance: Internal Audit Charter and Mandate (Pages 75 - 94)**

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

Contact: Barry Hanson 07990 086409

**11 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative (Pages 95 - 126)**

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

Contact: Barry Hanson 07990 086409

**12 Governance Assurance: Annual review of Audit Committee Terms of Reference (Pages 127 - 136)**

The report of the Executive Director of Resources (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

**13 First line assurance: Final Approval Statement of Accounts 2023/24 (Pages 137 - 140)**

The report of the Executive Director of Resources (Section 151 Officer) is attached.

Contact: James Walton (01743) 258915

**14 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2024/25 (Pages 141 - 166)**

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

Contact: Barry Hanson 07990 086409

**15 Third line of assurance: External Audit: Shropshire Council Audit Findings (Information) 2023/24**

A verbal update will be given.

Contact: Avtar S Sohal (0121) 232 6420

**16 Third line of assurance: External Audit: Auditors Annual Report 2023/24 (Pages 167 - 218)**

The report of the Associate Director is attached.  
Contact: Jonathan Meek

**17 Third line of assurance: External Audit: IT Findings Report 2023/24 (Pages 219 - 234)**

The report of the Engagement Lead is attached.  
Contact: Avtar S Sohal (0121) 232 6420

**18 Date and Time of Next Meeting**

The next meeting of the Audit Committee will be held on the 20<sup>th</sup> December 2024 at 10:00am

**19 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.

**20 Exempt Minutes of the previous meeting held on the 27 September 2024 (Pages 235 - 236)**

The Exempt Minutes of the meeting held on the 27 September 2024 are attached for confirmation.  
Contact Michelle Dulson (01743) 257719

**21 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 237 - 240)**

The report of the Internal Audit Manager is attached.  
Contact: Katie Williams 07584 217067

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## Committee and Date

Audit Committee

28 November 2024

## **MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 27 SEPTEMBER 2024 10.00 - 11.30 AM**

**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 Kate Halliday

Independent Member: Jim Arnold

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

None received.

### **40 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.

### **41 Minutes of the previous meeting held on the 17 July 2024**

#### Minute 25 – Internal Audit Performance Report

It was confirmed that the Head Teacher of Bishops Castle Community College would attend the November meeting of the Audit Committee to provide an update.

### **RESOLVED:**

That the Minutes of the meeting of the Audit Committee held on the 17 July 2024 be approved as a true record and signed by the Chairman.

### **42 Public Questions**

A public question had been received from Mr Frank Oldaker. The Executive Director of Resources (Section 151 Officer) read out the question and the Executive Director of Place provided the response.

A full copy of the question and response provided are attached to the web page for the meeting.

### **43 Member Questions**

There were no questions from members.

#### **44 First line assurance: NWRR Management update**

The Committee received the report of the Executive Director of Place which provided an update on continuing actions made to address the recommendations contained in the Audit report, previously submitted to the Audit Committee on 22 February 2024.

The Executive Director of Place introduced and amplified his report. He explained that the audit had identified a range of opportunities to tighten the approach and make improvements to various aspects of the project and its governance, which have been taken on board and he thanked the audit team for their support in setting up the project for success. He drew attention to the two fundamental recommendations set out in paragraph 2.2 of the report and confirmed that they had both been addressed as far as they could be. The first related to governance and the clarification of certain roles and responsibilities and had been completed. The second related in part to updating Council delegations and current levels of financial approvals, which had been approved at Council on 29 February 2024.

Turning to the confirmation of the potential cost and confirmation of government funding, the Executive Director of Place confirmed that they were on track to report to a special meeting of Full Council to consider the Full Business Case, hopefully in November. In relation to any higher-level financial risks to the Council, he confirmed that they had met with the Department for Transport (DFT) on numerous occasions, including since the General Election, and he had no reason from any of those conversations to give Members any sense that this was a project at risk in their programme. The DFT were saying that this continued to be a large local major funded project within their programme which was not affected by any of the reviews heard about in the press.

The Executive Director of Place confirmed that the governance and financial reporting had been strengthened and the project was operating well within its financial headroom as agreed by full Council. The oversight of financial commitments had been reviewed and an authorisation and monitoring process was in place giving full openness to those issues raised in relation to the 'Confirm' system. He went on to clarify that management responsibility for the project now sat with Andy Wilde as the lead Assistant Director and who was taking on new levels of oversight including Manager of the Confirm system. Any orders of a significant size that were above Matt Johnson's (Strategic Project Executive Manager) level would be committed by Andy Wilde (Assistant Director for Growth and Infrastructure) with the support of the commercial manager within the project. So, there were multiple layers of governance within the Confirm system.

In terms of the firewall between planning and those promoting the project, Andy was positioned in the promoter/delivery side of things whilst the planning / development control function sat with Rachel Robinson, the Executive Director for Health and Wellbeing, further strengthening the governance arrangements. Andy Wilde was also the lead officer in conversations with WSP in terms of ensuring best value from consultants during this process and was looking at a range of opportunities around the wider contract with WSP.

In terms of transparency and the public interest, the Executive Director of Place informed the Committee that all of the meeting notes and all of the papers that relate to the projects were recorded and saved within a SharePoint site that all key project members from



various departments within the Council including the audit team had access to which provided full visibility. They were also looking to publish as much as they could publicly during October as there was a great deal of interest in the project including a number of Freedom of Information requests and questions at full Council so they were hoping to let people self-serve on as much of that information, albeit redacted where necessary, but then being open and transparent which would hopefully provide some reassurance to members of the community and provided that transparency highlighted by the audit.

The Executive Director of Place reported that teams were currently evaluating the final tender submissions, and it was hoped to complete that by the 25<sup>th</sup> October to allow for the construction costs contained therein to feed into the Full Business Case. He confirmed that good progress was being made in response to discharging the planning conditions and in formalising the legal agreements with the landowners for the Section 106 Agreements. Following this, and once the planning decision notice had been issued, they would be in a position to go to Full Council to make a recommendation for submission to the DFT, hopefully during November and it would normally take a couple of months for the DTF to make its decision and it was hoped to start to mobilize towards delivery as we enter the new year.

In response to a query, the Executive Director of Place explained the procurement process, noting that it was an open process inviting anyone with an interest in bidding and a total of 12 submissions had been received. The process had been narrowed down to the final stages and Council could be reassured that there had been a full market test approach.

In response to another query, the Executive Director of Place confirmed that they were working on the assumption that there would be a special meeting of Full Council in November to approve the submission of a Full Business Case to the DFT. In response to a further query, the Executive Director of Place confirmed that the capital finance partner was Donna Payne a member of the Executive Director for Finance's team. He also confirmed that the Executive Director for Finance had joined the Executive Steering Group as further oversight.

Concern was raised that Members had been continually refused any up-to-date financial information about the NWRR and as far as they were concerned, nothing official had been received from the new Government confirming what had been agreed by the previous Minister eg that they would fully fund the NWRR. Due to the precarious financial position that the Council found itself in, there was concern whether this was still a viable project and whether more money should be put at risk before the Full Business Case was submitted.

In response, the Executive Director for Finance (Section 151 Officer) confirmed that Council had approved the original budget and that expenditure to date had been within that approved budget. A further report had been to Council earlier in the year that requested additional funding to be allocated to continue the work based on the necessary delegations. He explained the current position was that the Full Business Case was being worked through before the Council committed itself to any expenditure that went beyond the current delegations, which would be approved by full Council. In terms of the financial position, that was understood, and the Portfolio Holder was aware of the discussions that had been had around the financial position, but until they got to that final point where Council makes the decision, that information would not be widely shared. He confirmed that he was joining the Executive Steering Group to oversee this position and would

ensure that what Council saw in November gave a full position and was clear what Council was signing up to at that point in time in terms of that overarching financial position.

The Executive Director for Place reassured Members that he was working on the basis that this project would not in any way impact on any wider Council services.

In response to a query about climate change and in particular reference to condition number 41, which stated that no development should commence until the carbon assessment had been submitted for approval to the LPA. In response, it was confirmed that a draft carbon assessment plan had been written and was close to being approved in the next few weeks.

The Executive Director for Place explained that the Marches LEP was now the Marches Joint Committee, and a report would be forthcoming at its next meeting, and he was comfortable that those conditions would all be met and discharged in that report. A brief discussion ensued about discharge of the conditions and any possible contract variations.

In response to a query, it was confirmed that no specific piece of work had been undertaken by Internal Audit around the BECC contract framework but from a line of assurance perspective, an update could be requested by the Committee from the Commissioning and Procurement Manager around that element. By way of reassurance, the Executive Director of Place confirmed that the current contract had only been let the previous year following a full public procurement process that was competitive and had a range of consultants and which WSP had won again.

It was queried whether a full-time commercial manager was required on this project at the moment. In response, the Executive Director of Place explained that a considerable amount of money had been spent getting the project this far and that every package of work that was commissioned to any of the specialist consultants or WSP was reviewed by that commercial manager, and he reassured members that the role was providing value to the project.

In response to concerns whether the DFT had time to make their decision prior to the pre-election period, the Executive Director of Place confirmed that they were aware of the potential for this. However, he reassured the Committee that DFT had been provided with information as the project proceeded and so had full visibility and were not currently flagging any significant concerns.

## **RESOLVED:**

To acknowledge the continuing adherence to project management amendments as suggested in the original audit report and updated Managers response in February 2024.

### **45 Second line assurance: Strategic Risk Update**

The Committee received the report of the Assistant Director – Workforce & Improvement which set out the current strategic risk exposure following the June 2024 bi-annual review and subsequent discussions/amendments.

The Executive Director for Finance (Section 151 Officer) introduced and amplified the report. He drew attention to the 11 strategic risks that had been reviewed (set out at paragraph 7.4 of the report) along with their direction of travel. The score for most had

remained the same although some titles had been redefined to more clearly state what the actual risk was and what specifically was being mitigated and three new risks had been added. Any changes to the risk score or assurance levels were included within paragraph 7.7 of the report.

The Executive Director for Finance (Section 151 Officer) confirmed that the Executive team reviewed the strategic risks on a regular basis and the cycle was due to begin again the following week when Executive Directors would look at individual strategic risks every two weeks which allowed a cross-organisational view. The risk framework would then be updated as necessary. He reiterated that the Audit Committee could, at any time, ask any of the risk owners to attend a meeting to discuss their risks.

The Executive Director for Finance (Section 151 Officer) addressed concerns around the scoring for the 'Failure to proactively manage and mitigate the health and wellbeing of staff' risk, explaining that stress and associated conditions were among the highest causes of staff sickness. He emphasized the importance of managing staff well-being to mitigate this risk.

In response to a query, the Executive Director for Finance (Section 151 Officer) discussed the 'Safeguarding children' risk, explaining that it had been reintroduced to the strategic risk register following a targeted Ofsted report and the establishment of a Children's Improvement Board. He noted that the risk was now managed at a strategic level.

Referring to the 'Inability to contain overall committed expenditure within the current available resources within this financial year' risk, concern was raised that the wage increase for staff may be above the projection (2.5%) and as it was understood that every 1% would equal an additional £1m cost to the Council, it was queried whether the likelihood score of three was reasonable, or whether it should be higher. In response, the Executive Director of Finance (Section 151 Officer) explained that the scoring set out in the report had been based on the review undertaken in June which was prior to the period 3 monitoring report, so was very early in the year and he explained the rationale for the likelihood score of 3 and the impact score of 5. He confirmed that until the budget had been set, the likelihood had been higher.

He discussed the seven themes that sat underneath and fed into this strategic risk which was assessed on a regular basis and formed the basis of Period 3 and 4 reporting and shortly the Period 5 report which was being presented to Cabinet on 16 October. He explained that this did not mean that those risks were being realised and he discussed the actions being taken to manage them. He assured Members that nothing was being seen in terms of projects that would likely lead to a financial implication for this financial year.

#### **RESOLVED:**

To note the position as set out in the report.

Councillor Evans voted against this item.

#### **46 Third line assurance: Internal Audit Performance Report and revised Annual Audit Plan 2024/25**

The Committee received the report of the Head of Policy and Governance which provided Members with an update of work undertaken by Internal Audit in the first four and half months of the approved internal audit plan for 2024/25.

The Head of Policy and Governance informed the meeting that delivery was in line with previous years however given the limited data available no strong patterns of lower levels of assurance were emerging. He reported that in the period up to 25 August 2024, 20 reports had been issued providing good or reasonable assurances (83%) which represented an increase in the higher levels of assurance than the previous year (60%), offset by a corresponding decrease in the number of limited and unsatisfactory assurance levels (17%) (40% last year). However, this could change significantly throughout the year.

He also informed Members that there were nine draft reports awaiting management responses and these would be included within the next performance report. Of these, six were limited and two were unsatisfactory. A total of 131 recommendations were made within 24 final reports (detailed at paragraph 8.9 of the report and broken down by service area). It was confirmed that no fundamental recommendations had been made. The Head of Policy and Governance explained that revisions had been made to the 2024/25 Internal Audit Plan, as set out in the report, resulting in an increase of 211 days to 1,347 days following the successful recruitment of two new internal auditors who had now taken up post. The revisions were however targeted to provide enough activity to inform his year-end opinion and would be held in an unplanned contingency and allocated on a needs basis throughout the year to allow for flexibility to respond to the changing risk environment that the Council was currently operating in.

The Head of Policy and Governance drew Members' attention to the pressures within the organisation to address the financial sustainability of the Council (set out at paragraph 8.4) which had resulted in competing priorities for service areas, however, the impact on Internal Audit was not yet clear. Concern was raised that the audit function was not taken seriously enough by certain managers and the Chairman requested that any concerns be raised with him and the Committee, as they would take failure to cooperate very seriously.

In response to a query about reasons behind the improvement in assurance levels, the Head of Policy and Governance explained that given the small number of audits that had been issued to date, it was very difficult to draw any conclusions, plus, the draft reports were of lower-level assurances and so would skew the results. It was therefore important to look at the opinions coming through but obviously the picture would change throughout the year.

Members were please to note the improved direction of travel and congratulated the Internal Audit team for getting back on track as previously Members had been concerned that there were not enough audit days to ensure that internal audit functioned properly.

A query was raised around the limited assurance level for Section 17 Payments - Children's Services which had been audited back in 2015/16. In response, the Internal Audit Manager explained that they had looked at the overall assurances and where those lower levels of assurances were, and they had slightly changed their approach to follow up audits. If they had enough resources, they would revisit every limited as well as every unsatisfactory audit in a really prompt timescale however in order to target their resources, they will always follow up an unsatisfactory audit or one with a fundamental recommendation in the following year or when the recommendations become due. The

limited resources however had to be prioritised and, as the level of assurance in this particular area was limited, it had not been followed up more promptly.

**RESOLVED:**

To endorse the performance of Internal Audit against the 2024/25 Audit Plan.

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

The Committee received the report of the Engagement Lead which provided the Members with an update on progress and a series of sector updates in respect of emerging issues which the Committee may wish to consider.

The Senior Audit Manager introduced the report and provided a summary of progress. In relation to the financial statements, she confirmed that there had been positive movement where the receipt of evidence had become overdue, and they were working through those areas and following up with any queries as quickly as possible with the Council's finance team. She explained the escalation procedure to senior officers should any matter arise.

Turning to the Value for Money planning, as well as the usual broader spectrum testing undertaken by External Audit, there were three areas where a more detailed review of arrangements would be undertaken, and these were set out in the report. The Senior Audit Manager confirmed that the Value for Money findings would be reported within the Auditors Annual Report.

Members were pleased to see that Audit reporting was back on time following the post-pandemic delays.

**RESOLVED:**

To note the contents of the report.

**48 Third line of assurance: External Audit: Shropshire County Pension Fund Annual Audit Findings (Information) 2023/24**

The Committee received the report of the Engagement Lead which provided an update on the Audit findings for Shropshire County Pension Fund for 31 March 2024, for information. The Engagement Lead confirmed that all areas had been substantially completed and the report had been presented to the Pensions Committee at its last meeting.

**RESOLVED:**

To note the contents of the report.

**49 Date and Time of Next Meeting**

The next meeting of the Audit Committee would be held on the 28 November 2024 at 10.00am.

**50 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.

**51 Exempt Minutes of the previous meeting held on the 17 July 2024**

**RESOLVED:**

That the Exempt Minutes of the meeting of the Audit Committee held on the 17 July 2024 be approved as a true record and signed by the Chairman.

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

The Committee received the report of the Internal Audit Manager which provided a brief update on current fraud and special investigations undertaken by Internal Audit and the impact these have on the internal control environment, together with an update on current Regulation of Investigatory Powers Act (RIPA) activity.

**RESOLVED:** To note the contents of the report.

Signed ..... (Chairman)

Date: .....

## AUDIT COMMITTEE 28 NOVEMBER 2024

### PUBLIC QUESTION TIME

#### Question from Mr Frank Oldaker:

From the latest draft S106 agreements it is now clear that a start on site will not occur before March 2026 - one year later than planned. This means the council funding of the scheme will inevitably increase which of course has significant implications for the overall council budget. Will an audit of the proposed financing of the scheme take place **before** any approval of the final business case?

#### Response:

The Full Business Case will go through the Council's usual internal channels before it is considered by Council or the DfT. The work of the Internal Audit function is to provide assurance that the Council's processes are operating satisfactorily not to double check individual calculations. External Audit also consider these factors when delivering their Value for Money opinion. In both these cases assurance has been provided on the Council's financial functions and budget processes and this has been reported through to the Audit Committee.

Details of the Internal and External audit work undertaken in relation to the North West Relief Road Project within the last 12 months are as follows:

- The Internal Audit review of the North West Relief Road project was finalised in January 2024. A follow up audit is due to be completed in Q4 2024/25, in line with the target implantation dates given for the recommendations.
- The Executive Director of Place has provided management updates to the Audit Committee in February and September 2024 to outline the steps taken to address the Internal Audit recommendations.
- Our External Auditors, Grant Thornton, have recently completed a review of the NWRR project and a key recommendation is included in the External Auditors report included later on the agenda for this committee in relation to that review. Management responses have been provided for the recommendations indicating the actions the project team intends to take to address them.

The final business case is due to be presented to Council in December 2024, an audit of the funding arrangements will not be undertaken before then as External Audit have already made recommendations in this regard.

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**Committee and Date**

Item

Public

## Community College Bishops Castle (CCBC) response to audit report

<b>Responsible Officer:</b>	David Shaw		
email:	David.shaw@shropshire.gov.uk	Tel:	01743 256479
<b>Cabinet Member (Portfolio Holder):</b>	Kirstie Hurst-Knight		

### 1. Synopsis

*The Audit Committee requested a management update from leaders from the Community College, Bishops Castle, following the school having an unsatisfactory audit report from Shropshire Council. This report and appendices outline the actions taken by school leaders and the monitoring from Council Officers. The final audit report was issued on 11 March 2024.*

### 2. Executive Summary

*The action plan as submitted by the school outlines the actions taken against each of the following management control objectives. The action plan is due to be presented to school governors as an update in the week commencing 18 November 2024.*

- 2.1. The action plan, as submitted by school leaders, outlines the actions taken or due to be taken against each of the following management control objectives based on the findings of the audit report:
- A. Governors and staff clearly understand their respective roles and responsibilities.
  - B. Budget income is identified, collected and banked in accordance with procedures.
  - C. Regular budget monitoring is performed and any significant variations are investigated.
  - D. Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
  - E. The Imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.

- F. Payment is made to bona fide employees only for the work performed through the Payroll system.
- G. The school fund is operated in accordance with the school fund notes of guidance.
- H. Income from school meals is properly recorded, fully accounted for and banked promptly and intact by the cash collection agent.
- I. Only pupils entitled to a free school meal receive them. Adult free meals are authorised.
- J. Disclosure and Barring Service (DBS) checks have been performed for relevant staff.
- K. Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

2.2. The action plan included in Appendix 1 of this report, is based on appendices 1, 2 and 3 of the Council's audit report. Appendix 1 identified the high level summary of findings and appendix 2 identified the fundamental recommendations. Appendix 3 lists all recommendations.

2.3. The action plan indicates;

- A. Initial action required
- B. Person responsible
- C. Implementation date
- D. An update on the action
- E. Further action required
- F. Completion date

2.4. Analysis of the action plan indicates that action has been taken against all key areas. The section on the management control objective of ensuring that the school fund is operated in accordance with the school fund notes of guidance indicates that there are a small number of fundamental areas where action has been identified but the implementation is ongoing. The school will continue to address these areas.

2.5. The audit indicates a fundamental action as that of 'A full review should be completed of the financial management at the College by an independent body.' and states that 'The independent review should be completed as soon as possible. A review in 12 months will not address the potential financial mismanagement identified in this review or ensure that all funds are correctly accounted for'. The school has so far been unsuccessful in commissioning an independent body to carry out the review, though numerous bodies have been approached. Section 8.1 of the action plan outlines the steps taken to address this but this remains an outstanding action that needs addressing immediately.

### 3. Recommendations

- 3.1. The committee are requested to acknowledge that school leaders have formed an appropriate action plan and that they are taking the necessary actions to remedy the audit report.
- 3.2. Monitoring oversight is maintained by the Governing Body, plus termly updates to Council Officers via the Head of Education Quality and Safeguarding.



# Report

## 4. Risk Assessment and Opportunities Appraisal

- 4.1. Maintained schools must meet the Schools financial value standard (SVFS). Failure to meet these benchmarks indicate that financial processes are weak.
- 4.2. The school has an historic deficit which is forecast to be £402,226 by the end of the current academic year (2024/5). If the school becomes a sponsored academy then the local authority assumes the responsibility for the deficit. Under current statutory guidance, schools become sponsored academies if they are found to be 'inadequate' in an Ofsted inspection. The school was judged to be 'good' by Ofsted in June 2023 and therefore is not due to be inspected until June 2027. School Performance Monitoring identifies the risk of the school being judged 'inadequate' is very low.
- 4.3. Organisations nationally are at increased risk of cyber attacks and phishing attacks. The school has undertaken additional training for fraud awareness. Password policies are strengthened.
- 4.4. The action plan indicates in section 11.1 that there were risks of visitors having unsupervised access and no DBS check in place as required in the statutory guidance of Keeping Children Safe in Education. The school disagreed with the need for this recommendation. In June 2023, Ofsted confirmed that safeguarding was effective and the school's view is that all necessary action is taken to mitigate this risk.

<i>Risk</i>	<i>Mitigation</i>
The school fails to meet the benchmarks for Schools financial value standard.	The school is implementing the actions outlined in the action plan to ensure that SFVS benchmarks are met.  This includes organising an external audit of the school fund.
The school is judged to be inadequate and the council would need to bear the responsibility of the £402,226 deficit	School leaders and the LA will monitor and provide support to ensure that the school remains 'good' in all areas. The school will receive support from an LA school improvement adviser for and support from the Education Quality Advisers for send and alternative provision.
The school is exposed to a cyber attack or phishing scam.	The school business manager has attended fraud awareness and money laundering training. The finance assistant will complete the training in January 25.  Password policy has been updated with a migration to Office 365 and a new ICT provider.
Unsupervised access to children by volunteers without DBS checks being in place.	The school will ensure there is a DBS in place if a volunteer is due to visit more than 3 times, such as enrichment activities. Volunteers are NOT left with students without a member of staff supervising if no DBS in place. The school is not aware of any breach

	of a volunteer being left with a student that has not received a risk assessment and has a DBS in place.
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## 5. Financial Implications

- 5.1. The school has an historic deficit (£402,226 forecast at the end of 2024/5). The school has consistently managed to produce a budget that either typically breaks even or returns a small surplus each year. The school has undertaken restructures of staffing including the Senior Leadership Team and redundancies in order to reduce staffing costs. A large deficit means that the school remains in a challenging position. A large deficit creates a barrier to becoming a converter academy as any trust would need to take on the responsibility of the deficit. The deficit position and the need to restructure staffing are not due to the weaknesses identified in the audit report.
- 5.2. When maintained schools have a licensed deficit they are typically required to agree to a three year repayment plan. The in-year surpluses achieved by the school and those forecast to be achieved in future years would not make a three year repayment plan achievable. In 2019/20 the school had a deficit of £458,482 which demonstrates that the deficit has been reduced by over £50,000 over the period of 5 years. The school is reducing the deficit position over time and has shown a commitment to do so. This arrangement will be formalised on a rolling 3 year basis by the school finance officer. The action plan will be updated accordingly.
- 5.3. The school has engaged with a DfE School Resource Management Adviser. The report written by the SRMA identified 3 costed recommendations:
- A. Staffing:
- Review expenditure on teaching staff with particular focus on the structure of SLT which exceeds benchmark expenditure by around £60k per annum.
  - Review expenditure on non-curriculum support staffing and adjust budget to current 'firm and final' offer of £1,290 per FTE.
- B. Non-staffing costs evaluation
- Ongoing analysis of non-staffing expenditure is informed by the budget provided during the review and measured against the impact the expenditure is expected to have on pupil outcomes.
- C. Increase revenue income through grant applications.
- It is acknowledged that the school has been very successful in generating income through grant funding applications.
  - The SRMA has provided 90+ grant funding opportunities
- 5.4. The SRMA reviewed the historic legacy deficit and current budgets stated that *'the budgets provided for review were detailed with supporting notes informing assumptions.'*

## 6. Climate Change Appraisal

- 6.1. The audit report highlighted weaknesses in financial processes. There is no effect on climate change.

## 7. Background

7.1. The Community College, Bishops Castle is a maintained secondary school. All maintained schools are subject to audit carried out by local authorities. Academies are not subject to the same process as their financial arrangements are governed by the ESFA (Education and Skills Funding Agency). The recent audit carried out by Shropshire Council resulted in school processes being judged to be unsatisfactory.

## 8. Additional Information

8.1. See appendix for school action plan in response to the unsatisfactory audit report.

## 9. Conclusions

9.1. The school has produced an action plan to resolve issues identified in the audit report.

9.2. Many areas have been addressed. Where an area has not been fully remedied there are actions and deadlines in place. Section 8.1 outlines the priority action that needs to take place in terms of an external review.

9.3. A DfE School Resource Management Adviser has undertaken a review and benchmarking of school finances.

9.4. The action plan is expected to be fully implemented by March 2025

9.5. Monitoring by the Governing Body will continue as will oversight from Council Officers. The headteacher will provide monthly updates to the Head of Education Quality and Safeguarding to ensure that all actions are undertaken.

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

Appendix 1 - Audit Action Plan November 2024 (as submitted by school leaders)

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Audit 2024 Action Plan

Key

Red - Fundamental/Important/Issues

Orange - Significant/work in progress/ongoing

Yellow - Requires Improvement - work on

Green - Completed

Purple - latest update - latest action

Management Control Objective: Governors and staff clearly understand their respective roles and responsibilities.

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update	Further Action	Completion Date
2.1	Significant	Details of budget overspends and compensating savings should be recorded on budget reports presented to the Resources & Personnel Committee. Full details should also be recorded in the minutes to demonstrate governors awareness of all overspends.	Overspends are examined but have not been detailed accurately through reporting and minutes of R&P cttee meetings. SBM is ensuring detailed notations will accompany all reports, including budget documents.	KD	Apr-24	As per Budget reports and financial reports submitted to resources cttee mtgs and attached to minutes.		Apr-24
2.2	Significant	All governors and school staff who attend governing body meetings and/or have financial responsibilities at the school should be reminded to complete an annual declaration of interests form and declare any business interests at the start of each school year, to ensure that conflicts of interest are declared and known by all parties. (As recommended and agreed in 2021/22)	Actioned by Clerk to Governors and all forms are now in place. All staff members were issued with Business Interest form and returned to Clerk. To be reviewed beginning of academic year and termly reminder sent to all staff and governors.	RN	May-24	Annual Review in Sept-24. Termly reminders issued to staff by Clerk. Forms given to gobs and SLT at full gov mtg in Sept and re-issued to staff via pigeon holes. ■ will send a further email reminder in 2nd half autumn term.		Oct-24 Half term
2.3	Requires Attention	Actual spend against budgets as detailed in the College Development Plan should be reported to and monitored by Governors at each committee meeting.	This has not been detailed and reported to the governing body. To be included in the Headteacher's Report to Governors on termly basis.	RT	Sep-24	23-24 report was tabled at full gobs mtg, 24-25 report with budget also tabled at full gobs mtg.	Next update due December mtg	Sep-24
2.4	Significant	Future SFVS responses must be representative of actual processes at the College and supporting documentation should be provided to Governors to allow a full review prior to submission to the Local Authority.	Chair or Vice Chair of cttee to review documents with HT prior to completion of SFVS at R&P cttee mtg in Mar-25	Govs RT	Mar-25			Mar-25

Management Control Objective: Budget income is identified, collected and banked in accordance with procedures.

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update	Further Action	Completion Date
3.1	Significant	All standing orders for bus payments should be cancelled and replaced by a payment item on ParentPay for the full required amount. A periodic reconciliation of actual to expected payments should be performed and any outstanding balances followed up. This reconciliation should then be reviewed by another officer.	There were only 7 standing orders in place upto August 24, this is now reduced to 6. Request was sent to parents to cancel. We currently have 182 students using Out of Catchment transport. SBM requests ■■■■■ to check payments on a monthly basis and to send reminders, contact parents who haven't paid. SBM reviewed end of year in August for full list of outstnading debts. We are now using the ERP invoicing system and any parents not paid will be issued an invoice and debt collection will be followed up by Shropshire Council.	JO KD BG	May-24	Reconciliation checks by SBM taken place for September and October 24, parents have received reminders for outstanding payments. If no payments received invoices will be raised on ERP before end of November 24. SBM has reminded ■ to raise invoices for O/S payments as not completed the list to date.	■■■ on ERP frop in session for invoice training on 15.11.24. SBM give deadline to ■ for invoices on ERP of 22.11.24. Headteacher to check. SBM to check o/s payments for Sept & Oct rec'd or ask ■ to raise by 30.11.24. SBM asked ■ to send reminders out to parnets for Nov payments. SBM to rec Nov payments in Dec.	Aug-24

3.2	Significant	At the earliest opportunity, notification should be issued that all payments are to be made electronically via ParentPay and cash will no longer be accepted by the College. In the meantime, whilst cash is still being accepted at the College, the weekly reconciliation of cash to the income received spreadsheet should be documented and authorised to demonstrate a segregation of duties.	This has been implemented and NO CASH received at reception. There is the occasional income but minimal. This is now directly received by Finance Assistant and recorded in manual ledger, held in safe for SBM to record on Parentpay and bank at HSBC or pay into Parentpay via Paypoint.	KD	Mar-24	Finance Policy has change at Resources cttee mtg 09.10.24. Between May and July 12 cash payments and 1 cheque payment were received. Cheque (Lettings) and one payment (Fundraiser for Prom) were paid into School Fund, totalling £497.20, other payments received were paid into Parentpay at paypoints by SBM, totalling £174.00. 2 cash payments received in September and paid into Parentpay via Paypoint by SBM, totalling £17.50. None received since. Staff print barcodes and hand to staff or parents to make payments at paypoint.	SBM continue to monitor. Fundraiser events are problematic. Trialed one fundraiser on new tills for collection of funds but proved problematic. Future fundraisers will be paid direct to charity at bank or to School Fund if raised for school department. Funds to be transferred to budget on half termly basis.	Mar-24
3.3	Significant	All monies received should be banked intact and not used for purposes other than the payee intended.	This was rectified immediately after the completion of the audit and funds are banked when received. SBM introduced a cash ledger held by Finance Assistant who receives any income. It is logged in the ledger on receipt. Countersignature by SBM when received to bank. All other admin staff have been informed they are NOT to receive cash/payments from anyone and direct to Finance Assistant.	KD	Mar-24			Apr-24
3.4	Requires Attention	The weekly reconciliation of income performed by the School Business Manager should be reviewed by the Headteacher and the review should be evidenced (Updated from recommendation made and agreed in 2019/20 and 2021/22).	Invoice/lettings income reviews are carried out for each Financial Report to R&P cttee Mtg. Income review reconciliation will be submitted to HT commencing with current financial year reports. This will be easier to monitor with invoices now being raised on ERP.	KD	Sep-24	SBM has reconciled for report to mtg 9.10.24. Reconciled for November Meeting, yet to share with Headteacher. Invoices are now raised on ERP.	SBM detailed reconciliation to Headteacher prior to November cttee mtg.	Continual
3.5	Significant	A Lettings Policy should be produced and presented to governors for review and approval at the earliest opportunity. This should include an up to date scale of charges. (As recommended and agreed in 2021/22)	Lettings Policy has been drafted and approved by the R&P cttee and will be submitted to Full Governing Body next meeting for approval. Discussion on charges took place at last R&P cttee mtg and charges will be reviewed on an annual basis at the end of each financial year.	KD	May-24	Review charges Mar-25. Reviewed charge for football club June 2024.		Mar-25
3.6	Significant	All invoices for lettings should be raised through the ERP in line with the charges approved by Governors. This would ensure outstanding monies are chased by the debt recovery team and all necessary payment terms are included on invoices.	ERP invoicing commenced on 1st April 2024. To date working well. Needed additional assistance in September to establish reconciliation of payments to invoices raised.	KD	Apr-24			Apr-24
3.7	Significant	The Gov.uk criteria for VAT exempt sports lettings (notice 742) should be consulted to ensure exemptions are only applied where necessary.	This has been reviewed and VAT details included in the Lettings Policy. Now being implemented on Sports related invoices. If unsure of charges, ■ consults SBM. SBM refers to Govs resources if a review is required.	BG	Apr-24			Apr-24
3.8	Significant	All lettings income should be paid directly into school budget. A formal reconciliation should be performed periodically to identify outstanding invoices which should then be reviewed and evidenced by another officer.	Invoice payments received by cheque or through old lettings system to School Fund has been transferred to budget prior to year end. Lettings now being paid direct to budget as ERP system now implemented. Outstanding invoices will be easily identifiable on ERP system and checked when producing financial report for governors on half termly basis.	KD	Sep-24	One cheque payment received from old system in June from rugby Club £200. Paid to School fund.		Sep-24

**Management Control Objective: Regular budget monitoring is performed and any significant variations are investigated.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update	Completion Date
4.1	Fundamental	A recovery plan for the College's deficit budget should be produced in line with statutory guidance available on the SLG, to help ensure continued reduction. If the deficit is deemed to sit outside of the statutory requirement, documented approval needs to be sought from the Assistant Director for Education and Achievement.	An email is held on account detailing that Shropshire Council accepts the school is not able to produce a realistic debt recovery plan for the deficit. The school is required to maintain an In-year break even or surplus balance each year and not increase the deficit. Copy of email to be held in audit file records.	RT	Mar-24		Mar-24

**Management Control Objective: Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update	Further Action	Completion Date
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5.1	Significant	In line with the School's Finance Policy, which was updated in September 2020, contracts, or purchases over £1,000 should be supported with evidence of three quotes and three competitive written quotes should be invited from suitable suppliers for contract or purchases over £5,000. (As recommended and agreed in 2019/20 and 2021/22).	<b>Review of order process was carried out immediately after the audit. From 1st April 2024 SBM reviewed all costs and identified On Call Orders for 2024-25 which will reduce the number of orders being processed on the system in breach of the college finance policy. Finance Officer to retain evidence of quotes with orders in excess of £1000. Finance Officer to bring to attention of SBM or Headteacher any invoices received that breach the order value. A half termly review to take place by SBM and HT. Review of Finance Policy to take place in September 2024 and be more detailed and relates to ERP procedures.</b>	JD KD RT Governors	Apr-24	Checks of orders to take place in July. Policy review in Sept-24. SBM has reviewed the system and has recommended change to policy - 9.10.24 meeting. May change further as continue to review processes. SBM has changed order form and process and introduced a referral form for invoices received but no order to be given to Headteacher for discussion with staff member.	Still receiving issues from some staff members/activities - such as DofE. Headteacher now taken lead of DofE. Finance Assistant from 01.10.24 to upload all internal order forms, 3 quotes, etc to ERP orders. On Call orders have been put on incorrectly, in process of changing. SBM now has weekly meeting with Finance Officer to review orders and invoices.	Next review Dec-24 to make any further adjustments.
5.2	Significant	As per the Finance Policy, tenders for all contracts that exceed £50,000 should be sought and submitted to the Full Governing Body for approval.	Need to review the contracts detailed in the audit report. The bus contracts are for individual bus routes and quotations sought independently of each other, not collective. Need to review Shropshire Council's tendering procedures. Food supplier is not a Contract and orders are placed on a weekly basis. Supplier at any given time. A review to take place during the Summer break by SBM, actions discussed by HT in September 2024 and review by R&P cttee in October 2024.	KD	Oct-24	Bus tenders/quotes were obtained in June 24 for 24-25 academic year and are held on file. There are no changes to catering suppliers as this is not contracted out. Bus costs have increased greatly.	Need to seek additional advice prior to quotations for buses next year and obtaining quotes for new grounds contract SBM putting together. Who to ask at Shropshire Council?	Dec-24
5.3	Requires Attention	The contract spreadsheet set up by the Business Manager should continue to be updated to ensure that all contracts and their required details are recorded. Once complete the spreadsheet should continue to be maintained and reviewed on a regular basis to ensure that the renewal of contracts is considered in enough time to enable quotes or tenders to be gathered and considered to ensure that the school is receiving the services required and value for money. (As recommended and agreed in 2019/20 and 2021/22).	This is an on-going review as this did not exist for previous audit and no real improvement made during pandemic period. SBM to review during summer break and have up to date contract dates on Calendar. Add to R&P cttee meeting agenda once per term to ensure contracts register is being maintained and cttee aware of contracts due for renewal.	KD	Aug-24	Continuing to work this as the college is transferring to Telford & Wrekin. Details of ICT contracts was tabled to governors in summer term.	Add to Resources agenda ICT Review Nov mtg, Agenda Item for Feb 25 meeting - Contract Register - to be tabled and recorded with minutes.	Feb-24
5.4	Significant	Formal, up-to-date contracts should be in place with suppliers and where appropriate this should include a data processing agreement. The contracts should be signed by both parties in line limits detail in the Finance Policy.(Updated from recommendation made and agreed in 2019/20 and 2021/22).	<b>Some of the contracts signed on behalf of the school by the SBM had been discussed and agreed and the R&amp;P cttee were aware and the Headteacher. However this is still a breach due to authorising levels. SBM has actioned by HT signing renewal contracts after audit received in Mar-24. The majority of the breaches identified in the audit have subsequently been replaced. SBM will review those that require a review during the summer break review identified in 5.3. SBM to detail contract that require signatures from both parties and submit for review to HT in Sept '24.</b>	KD	Aug-24	HAS NOT ACTIONED - SBM review with HT after Half term. All new contracts have been tabled to Headteacher and signed by Headteacher.		Dec-24
5.5	Requires Attention	To ensure that a purchase order is raised prior to an order being placed, staff should be required and reminded as per the school's Order/Invoice procedure to complete an internal order form (requisition) for approval prior to any orders being placed. Following the authorisation of the internal order form a subsequent requisition should be raised on Business World. The authorised internal order form should be attached to the Business World requisition to provide evidence of the initial authorisation. Staff should be reminded of this procedure and the Council's No PO No Pay policy. (As previously recommended and agreed in 2021/22)	This has been a significant issue. SBM reviewed with finance assistant immediately following audit and implemented new system from 1st April 2024. Any invoices received without an order placed on the system, will be recorded on a Financial Regulation Breach Identification Form, submitted to the Headteacher if a second occurrence takes place with a member of staff, to be actioned. Details of action will be held on file.	JD KD	Apr-24	Improving but we still have some issues. We now have a breach system implemented and all are reported to the Headteacher who takes action which is then noted. New order form has been introduced in October 2024. SBM now commenced weekly meetings with finance asistant to review orders and invoices.	Still have issues from some staff/activities - working through to reduce and eliminate.	Jun-24
5.6	Requires Attention	Outstanding orders should be reviewed and cleared, where possible, at the earliest opportunity. Where orders do not close correctly Purchase Ledger should be contacted for advice. (Updated from recommendation made and agreed in 2021/22)	New system implemented from 1st April 2024. SBM no longer hold on electronic spreadsheet. SBM prints out on fortnightly basis all outstanding orders for finance assistant, identifying items orders that need to be deleted. Finance Officer to retain spreadsheets for evidence.	JD KD	Apr-24	SBM reviewing fortnightly and forwarding list to ■ to update system	Action was ineffective - SBM commenced weekly meetings with Finance Assistant. This has been effective.	Oct-24
5.7	Requires Attention	Invoices should be submitted to Proactis for payment as soon as the goods and services have been provided. Where invoices are not provided promptly these should be requested from suppliers.	Invoices are being processed more efficiently but some issues were caused by not knowing if goods had been received, staff absence but we also have issues with needing to process New Suppliers on ERP which delays the process. SBM does not know how to check these payment dates on ERP to see if improrvment been made.	JD KD	Apr-24	Some delays are due to issues with deliveries, several have arisen in the last 2 months. ■ has been requested to detail on invoices as we retain them for future reference.		Oct-24

5.8	Significant	In line with the Council's Purchasing Card Procedures and Guidelines, purchasing cards must not be used to buy gifts. Where purchases are funded through ticket sales or donations there should be a clear reconciliation of income and expenditure. This applies to purchases through imprest, purchasing cards and school fund. (Updated from recommendation made and agreed in 2019/20 and 2021/22).	All purchases made were explained, evidence of income other than budget funds were identified to cover the purchases, however some income was still held in School Fund account. This income was transferred prior to the financial year end. All staff gifts are now being processed through an independent website called The Honey Pot Collection. Animal feed, etc will still be purchased as these are for the animals that reside in Student Support and are an integral part of supporting student wellbeing.	KD	Apr-24	Invoices are now required to be uploaded to the Natwest Card transaction review.		Apr-24
5.9	Requires Attention	Purchasing card transactions should be authorised in a timely manner.	Since July'23 transactions are reviewed on a monthly basis.	KD	Jul-23			Jul-23

**Management Control Objective: The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update		Completion Date
6.1	Requires Attention	A valid receipt or invoice should be obtained and submitted for all imprest transactions to support the spend and provide VAT details where applicable so that VAT can be identified and reclaimed. In addition to receipts and invoices being valid they should be submitted for reimbursement in a timely manner. (As previously recommended and agreed in 2021/22)	The Imprest Claim has not been processed as schools had been informed that the imprest accounts were being removed and the finance assistant was expecting further instructions. However, this was an error. The SBM and HT are ensuring that all claims have the correct documentation. Finance Assistant and SBM have yet to review to imprest claim mentioned to identify the items without correct paperwork. We suspect this is in regard to a salary sub payment to a staff member as advised by HR Officer.	JD KD RT	Apr-24	Investigate the items identified in the audit for clarification. If unsuccessful then will contact audit for details. Complete this task in summer break.		NOT ACTIONED TO DATE
6.2	Requires Attention	To confirm that expenditure is appropriate, or not, and to ensure that VAT can be reclaimed where relevant, all purchasing card transactions should be supported by a VAT invoice or receipt. These should be retained for six years.	Imprest Claims are scrutinised by Shropshire Council when submitted and VAT queries and possible missing invoices are identified at this time. The Post office claims being coded as zero-rated instead of exempt has not been notified to us. Finance Assistant to request Imprest guidelines from Shropshire Council and review with SBM. SBM will review claim form checking VAT codes in addition to VAT documentation prior to sending to Shropshire Council, with Finance Assistant.	JD KD	Jul-24	Unaware of any issues going forward. 6.1 and 6.2 are reasons some of the reasons we would like to have 2 purchase cards as it will help with imprest issues.		
6.3	Significant	Payments should be made directly to the correct bank account. Payments should not be made to staff to be transferred at a later date.	This was relating to one payment made to SBM for reimbursement of 29 purchases over a significant period. Records submitted detail VAT transactions and Non VAT transactions. Some funds had been transferred to SBM to cover some of the cost. This was bad practice that SBM carried out when significant purchases were required, when the purchase card limit had been reached, that purchasing through School Fund would of meant VAT could not be reclaimed and increased the cost to the school. SBM carried out this in good faith to assist the school purchasing through own account. Documentation to evidence all payments is available in financial records. THIS WILL NOT TAKE PLACE AGAIN. LESSON LEARNED. Counter signatures as identified in Secion 8 will ensure this cannot take place in the future.	KD RT	Apr-24	SBM has had to purchase currency for a trip as the post office could not accept the purchase card due to driving licence address different to card address. Had to purchase from own account and be reimbursed. If purchase card has reached limit then SBM will not process until the next month. Resources cttee agreed in October to have limit raised on purchase card for SBM to £5K and new card for DHT for £2.5K. - Oct-24	SBM to complete purchase card forms. Oct-24	Apr-24
6.4	Requires Attention	The Petty Cash record should be complete with dates and signed by the payee. The petty cash should be checked and signed off by a member of staff not involved in the distribution of petty cash.	Finance Assistant needs to adjust record book to gain payee signatures. To be Actioned. Since Audit SBM has checked all petty cash claims, authorised and checked record book at the end of each claim. Pettycash usage has been reviewed and reduced since audit. SBM instigated claims to be reimbursed by cheque as most people can now bank using banking apps. Only 2 pettycash items reimbursed in May and July. None since. SBM purchasing items such as exam postage, paracetamol etc with purchase card to reduce cash.	JD KD	Jun-24	Signatures are in book		Jun-24
6.5	Significant	Imprest claims should be submitted a minimum of termly. Bank reconciliations should be completed on a monthly basis on the receipt of the bank statement. The reconciliation should be signed off by a second member of staff who is not involved in the administration of the imprest account.	As identified in the audit claims were being processed regularly which lapsed in 2022 and 2023. This has now been rectified to half termly. It is easier to reconcile and process when smaller number of transactions involved and less risk of errors. Claims are being processed on half term basis. Claims to date 28.1.24 443.65, 26.3.24 1095.85, 19.6.24 291.28, 31.8.24 622.69, next on 19.11.24.	JD	Apr-24	SBM to report to HT when claim has been submitted. ■ has submitted claims as SBM checked.		Jun-24

**Management Control Objective: Payment is made to bona fide employees only for the work performed through the Payroll system.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update		Completion Date
7.1	Requires Attention	As per the Shropshire Council Code of Conduct employees with a personal relationship should not have line management responsibilities. Where this is unavoidable within electronic systems compensating controls should be put in place to ensure that a second authoriser is included.	SBM always sought verbal approval from HT for any financial issues relating to relative. This was an error and should of gained written records. Partner is retiring 31st August 2024 and therefore this potential issue will cease. Until this time any further financial or personnel issues will be documented in writing adn HT signature will be sought.	KD	Mar-24			Mar-24

7.2	Requires Attention	The payroll batch headers, authorised by the headteacher, and the PR28 payroll spreadsheet returns should agree, with no differences, to the additional hours and days teaching supply paid in the ERP in all cases. Any differences or late payments should be highlighted and an explanation provided.	No discrepancies have been identified on review. PR28 is checked by HT monthly. SBM is now ensuring that the payments are being checked on ERP payroll on a monthly basis. These are held electronically on ERP spreadsheets by SBM and are available for perusal if required by HT.	KD	Mar-24			Mar-24
7.3	Requires Attention	There should be a review of the documents which support the PR28 payroll spreadsheet, to ensure that they clearly evidence that accurate and appropriate claims have been made by employees.	<b>The 1.1 supply days highlighted in the audit report refers to cover for 5 lessons - 5 hours, plus cover of Coaching Group at the end of the day - 30 mins. SBM was not asked for details of this during the audit. SBM will review the Additional Hours Claim Form during the summer break, to include times so that 30 minute breaks can be identified in the day.</b> SBM does this on reviewing the current claim forms as aware of staff work day patterns and hours so able to calculate before authorising. <b>The claim forms are authorised by the SBM who is the line manager in all cases of additional hours as none are paid unless prior knowledge of event. This will be detailed on review of form in summer break and HT signature is to be gained on all forms. [redacted] signature on all Supply Staff claims as Cover Administrator.</b>	KD RT RN	Sep-24	New forms were introduced for staff to complete in Sept-24.		Sep-24
7.4	Significant	There should be a review of the staff sickness insurance claims with regards to the level of insurance cover against the policy cost to ensure that the most cost effective level of cover is purchased.	A review of the sickness absence and possible days of claims has been carried out and compared to the option of 3 day cover. This was completed including the details of the years that were effected by Covid19 pandemic. R&P cttee agreed that it would not give a financial saving given the increase in cost for the insurance premium. This is recorded in the cttee minutes. SBM was not asked if this was reviewed.	KD	Apr-24	SBM is carrying out a financial analysis for HT & SLT consideration with regard to change in procedure - purchasing additional laptops, cover in the hall/dining hall, employ cover supervisor.	SBM continuing to monitor Cover Co-ordinator impact and SBM looking at reduced insurance cover for Apr 2025.	Following SRMA audit cover Sup employed 1.9.24
7.5	Significant	The staff sickness insurance claims process should be reviewed to ensure that it clearly states what details should be obtained to support the claim for all eligible staff absences. Payments received from the insurance provider should be checked for accuracy, against the submitted claims and the remittance advices provided agree to the claim amounts recorded as received. Once in place, staff should ensure this process is understood, followed with appropriate documents held and payments for claims are correct.	There was no claims missed as SBM checked absence records on ERP to confirm. Issue has arisen due to departure of [redacted] and there was no insurance claims required following her departure up to audit taking place. Oversight of SBM for not ensuring all records had been received from [redacted] prior to departure and was unable to produce ofr audit. SBM has implemented Sickness Claim Records file where all evidence is collated for each claim and correposnding remittance advice is held for reconilitation purposes.	KD	Apr-24			Apr-24
7.6	Significant	All employees records including any personal and sensitive information should be appropriately secured and access restricted to relevant staff. All employees records including any personal and sensitive information should be secured and retained in accordance with the retention policy for a suitable period of time.	SBM can confirm that Staff details were secure in a locked cabinet, in a locked office but SBM did not have access. SENCO (member of SLT) discovered records when accessing SEN records and immediately brought to SBM Office. SBM now has ownership of sickness claim forms going forward.	KD	Apr-24	Personnel records have been moved to Headteacher's PA office as she now has responsibility for HR Forms and personnel duties - Sept24		Apr-24

**Management Control Objective: The school fund is operated in accordance with the school fund notes of guidance.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update	Completion Date
8.1	Fundamental	The school fund accounts since 2019 should be audited and presented to Governors. The auditor needs to have sufficient knowledge and experience of auditing school funds to ensure correct identification of official income and school fund income. (Updated from recommendation made and agreed in 2019/20 and 2021/22).	SBM has contacted Whittingham Riddell Accountants, who have advised they do not carry out School Fund Audits. SBM discussed with HT and contacted [redacted], past Shropshire Council Schools Funding Officer, who lives locally to ask if she would complete the required audit. No response was received from [redacted], Gov and mayor contacted Town Council auditor who audits for public bodies - unable to assist. SBM contacted three national companies who advertise as School Fund auditors. One not responded, one based Oxford - difficult with paperwork, one in Birmingham - expensive but able to assist. Made contact with Morgan Griffiths - accountants based in Newtown who have indicated they are happy to assist the college and carry out the audits.	SBM	May-24	School Fund accounts from 19/20, 20/21, 21/22,22/23 are ready fdoor audit. SBM has contacted [redacted] Morgan Griffiths regarding dates for audit to be booked in and to deliver files.	ASAP

8.2	Significant	To ensure that income received is being used as intended action should be taken to identify and transfer all income owed to the relevant organisation. Budget income should not be collected into School Fund. All income should be kept in the correct system and not mixed. Consideration should be given to transferring the value of the gold coins to a savings account whilst the foundation is established. The school should ensure that the balances are protected and can be compensated in full under the Financial Services Compensation Scheme, should the bank fail. (Updated from the recommendation made and agreed in 2019/20 and 2021/22).	School Fund Income is being recorded in a ledger book by finance assistant and banked by SBM. All transactions are being recorded on an excel spreadsheet and the identified in columns. Budget income has been significantly reduced in the School Fund Account. The School Fund is now a F&P Gov Cttee Agenda Item and the current records presented at each meeting so that budget income is identified and transferred. Deposit account to hold gold coins funds will be opened once the account mandate has been updated by HSBC (SBM querying the delay). SBM to identify all charity income raised and present to HT evidence of amounts and payments to be authorised. Land transfer documents have been completed June-24 and Trust can then be created for transfer of funds.	SBM & HT	Jul-24	School Fund is submitted for scrutiny at each Resources cttee mtg. Mandate for signatories has been returned by bank 3 times. SBM has now received paper copy from bank and can submit by old method not electronic. Deposit account cannot be opened until this has completed. School holds to accounts with HSBC - gold coins funds have been transferred to this account until deposit/trust can be opened.	SBM has been going through charity list and gaining details from staff members who organised events. Some of funds are meant for school activities. Detailed list to be submitted to resources cttee mtg on 20.11.24 and payments to external charities made.	Nov-24
8.3	Significant	Payroll payments should not be made outside of the payroll system. The two outstanding payments should be chased with the staff members to be paid back as soon as possible.	All Salary Subs to staff have all been repaid to the school since the Audit. An agreement has been implemented by the SBM following the audit that is signed by the staff member and Headteacher with agreed repayment dates.	SBM	Feb-24	Used once in month following audit and implemented prior to receiving report. Contracts and payroll have been set up in time for new staff since audit, however staff turnover is low.	given sub in Sept as her contract change (submitted in July was not processed on ERP). Received back pay in Oct and repaid School Fund as per agreement. Authorised by Headteacher.	Mar-24
8.4	Significant	Cash which is received by the school should be recorded in a permanent record and held securely in the safe. There should be no mixing of funds.	A Cash book ledger was implemented immediately on receipt of the draft audit report. Any monies received is to be handed to the Finance Assistant and no other admin staff. will record all monies in the ledger, and place in cash box in safe. to transfer funds to SBM for banking at HSBC or to Parentpay via Paypoint. SBM signs for funds. School Fund income is recorded on Parentpay as bank reconciliation. Banking records to be presented to HT on half term basis for scrutiny and signing. Cash amounts have been significantly reduced following promotional drive for online payments only and issuing parents with Paypoint Barcodes if they wish to pay by Cash. SBM to carry out further training with Fin Ass regarding processing banking on Parentpay and production of Barcodes.	JD K RT	Mar-24	Training on Parentpay will take place as funds are received. This term - Prom Fundraiser. now processing more deposits on Parentpay - lacking confidence. SBM supporting.	There has been no cash or cheque deposits to school fund this academic year.	Continual - Aug-25
8.5	Significant	Segregation should be built into the administration of the school fund. This includes evidence of an independent review of school fund expenditure and a monthly reconciliation undertaken when bank statements are received, including the following: • Closing balance of the previous statement. • Income received. • Expenditure. • Unpresented cheques. • Cash in transit. This reconciliation should be signed by the person completing the checks and should be reviewed by the Head Teacher to ensure it is undertaken on a timely basis and is accurate. Any discrepancies should be investigated. (As previously recommended and agreed in 2019/20 and 2021/22).	Reconciliation has been produced every half term. Records of payments and income have been viewed and signed by the HT. SBM to sign reconciliations and hold in file rather than destroy and replace with latest reconciliation. SBM to ensure second signatory signs online payment details.	KD IW RT	Jul-24	SBM missed details relating to second signature and sign reconciliation. To review all payments with for signatory.	SBM also calculating transfer of fund from School Fund to Budget. Mix up with Tanzania trip, some of income paid on Parentpay went to Shropshire Council account and some to School Fund. Flight costs less deposits and bus transport paid form budget, other costs from school fund. SBM reconciling so that funds can be transferred to budget.	Nov-24
8.6	Requires Attention	Payments made via bank transfer should be supported by appropriate documentation. This should include authorisation prior to payment and evidence that the payment has been reviewed following transfer.	Bank transfers are performed by SBM. HT and DHT signatures are to be gained on all transfers.	KD IW RT	Jul-24	has signed all to date. SBM to review with at same time as 8.5	Only four payments made this academic year - 3 tanzania trip 25 - requested by, 1 sub to teacher authorised by HT.	Nov-24

**Management Control Objective: Income from school meals is properly recorded, fully accounted for and banked promptly and intact by the cash collection agent.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update		Completion Date
9.1	Requires Attention	Eligibility for FSMs for the student should be discussed with the Local Authority. In the meantime, the negative catering balance should be cleared using the funds raised on a half-termly basis. Any remaining funds when the pupil has left the College should be presented to Governors and approval sought prior to use.	██████████ SBM will adjust the balance and transfer funds by journal entry on ERP. This will take place once the new till system Blue Runner is installed. ██████████ will contact student sponsor regarding application for FSM.	SBM	14.06.24	Blue Runner installed on 10.06.24. COMPLETED ON NEW TILLS.		Sep-24

**Management Control Objective: Only pupils entitled to a free school meal receive them. Adult free meals are authorised.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update		Completion Date
10.1	Requires Attention	A regular reconciliation should be performed of the College's FSM list to Synergy in order to identify any anomalies. These should then be rectified at the earliest opportunity to ensure the accuracy of records.	The FSM list is regularly checked against Synergy and is detailed on the list that is held in the Census file. Following the audit SBM was contacted by SC FSM team who discussed the differences and updated their system. SBM was informed that the FSM team need thr school to inform them of any students starting, transferring or leaving the college so they can update their system. The FSM records on Synergy do not automatically link with the admission data held on Synergy. SBM has subsequently trained member of admin team to carry out this task following completion of Admin Dept Restructure.	SBM	May-24	Now being completed by ██████████ on fortnightly basis or when received information from parent that their child is now in receipt of FSM.	SBM checked records for Oct24 census and will check again for Jan25 census.	Completed May-24
10.2	Requires Attention	The policy for adult free meals should be documented as part of the Charging & Recharging Policy and presented to the Resources Committee for approval.	Details were added to Finance Policy at last Resources & Personnel Gobs Mtg. Following HT meeting with Union Rep, a further update to be reviewed at meeting on 11.06.24	HT	Jun-24	COMPLETED		11.06.24

**Management Control Objective: Disclosure and Barring Service (DBS) checks have been performed for relevant staff.**

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update		Completion Date
11.1	Significant	As per the government guidance (Keeping Children Safe in Education) a written risk assessment should be completed for volunteers. The risk assessment should consider: · the nature of the work with children, especially if it will constitute regulated activity, including the level of supervision · what the establishment knows about the volunteer, including formal or informal information offered by staff, parents and other volunteers · whether the volunteer has other employment or undertakes voluntary activities where referees can advise on their suitability, and whether the role is eligible for a DBS check, and if it is, the level of the check, for volunteer roles that are not in regulated activity.	NO ACTION REQUIRED. This is inaccurate. SBM informed audit that the school will ensure there is a DBS in place if a volunteer is due to visit more than 3 times, such as Enrichment activities. Volunteers are NOT left with students without a member of staff supervising if no DBS in place. Not aware of any breach of a volunteer being left with a student that has not received a risk assessment and has a DBS in place. The school has a good record of Safeguarding an no issues raised during Ofsted Inspection. Entrysign has recently been introduced which also assists with tracking visitors and volunteers visits to the college. The SBM raised that we sometimes have issues with other agency staff attending the school to work with students and that we have no prior information/details of meeting and this can cause issues to ensure safeguarding is met.			School admin staff have turned social workers from Powys, etc away from meetings who have not produced DBS details. This has had an impact of ensuring the staff members who organise meetings inform admin staff and also ask visiting agency to bring their DBS details.		

Management Control Objective: Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

Audit Ref	Rec Rating	Recommendation	Action	By	Implementation Date	Action Update		Completion Date
12.1	Significant	Fraud awareness and anti-money laundering training should be made available for staff involved in administration and handling of income.	<p>Training Course Identified by SBM for self and [redacted] (finance assistant) COURSE CONTENT</p> <p>Session 1 Introduction to accounting, How schools are funded &amp; how schools spend, The accounting process in schools, Double entry bookkeeping</p> <p>Session 2 Financial regulations &amp; procedures, Appropriate use of funds, Value for Money, Separation of duties, Authorisation, Record keeping External Audit &amp; consequences of problems.</p> <p>Session 3 Financial Terminology and concepts Management accounting - Understanding &amp; Reviewing budgets Financial accounting - Understanding &amp; Reviewing Financial Reports</p> <p>Session 4 Period End procedures including VAT &amp; Gift Aid Financial Housekeeping Internal Audit</p>	SBM & JD	Summer Term	Commenced course on 2.10.24. Downloadable details also available. To be completed at half term. SBM also attending income generation course.	Finance Assistant not completed course in half term. SBM will ensure course is attended in PD day Jan25.	Jan-25
12.2	Requires Attention	The password criteria and policy should be updated to comply with the current best practice guidance. This should be subject to an annual review.	Review to take place by HT and ICT Manager	RT & GLM	02.09.24	Being implemented with upgrade to new licences on Microsoft 365 and migration to Telford & Wrekin ICT services.	Completed October half term. All password changes have been implemented on all systems.	Oct-24
12.3	Significant	The privacy notice should be reviewed and updated to ensure that it accurately reflects all parties that student data is shared with and the type of data shared with those parties.	Review of Privacy Notice by HT and DPO	RT & GLM	02.09.24	Completed - tabled to resources on 9.10.24. Uploaded to website.		Sep-24



## Committee and Date

Audit Committee  
28<sup>th</sup> November 2024

Cabinet  
4<sup>th</sup> December 2024

Council 12<sup>th</sup> December  
2024

Item

Public



## Treasury Strategy 2024/25 Mid-Year Review

<b>Responsible Officer:</b>	James Walton
email: <a href="mailto:james.walton@shropshire.gov.uk">james.walton@shropshire.gov.uk</a>	Tel: 01743 258915
<b>Cabinet Member (Portfolio Holder):</b>	Cllr Gwilym Butler, Finance & Corporate Support

### 1. Synopsis

*As at 30 September 2024 the Council held £22m in investments and had £311m of borrowing. The report confirms compliance with Treasury and Prudential limits agreed by Full Council.*

### 2. Executive Summary

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

- An economic update for the first six months of 2024/25
- A review of the Treasury Strategy 2024/25 and Annual Investment Strategy
- A review of the Council's investment portfolio for 2024/25
- A review of the Council's borrowing strategy for 2024/25
- A review of any debt rescheduling taken
- A review of compliance with Treasury and Prudential limits for 2024/25

### 3. Recommendations

Members of the Audit Committee and Cabinet are asked to:

- 3.1. Agree the Treasury Strategy activity as set out in the report.
- 3.2. Recommend to Council the revision to the Prudential Indicators as set out in section 9 of the report.
- 3.3. To note that the changes to prudential indicators reflect the reduction of internal cash balances and the need to externalise debt; this is a straightforward liquidity requirement unrelated to other financial matters and would have been required at this time regardless of the wider financial position.
- 3.4. To note that provision for additional borrowing costs in revenue budgets was included in the 2024/25 budget.

Members of Council are asked to:

- 3.5. Agree the Treasury Strategy activity as set out in the report.
- 3.6. Approve the revision to the Prudential Indicators as set out in section 9 of the report.
- 3.7. To note that the changes to prudential indicators reflect the reduction of internal cash balances and the need to externalise debt; this is a straightforward liquidity requirement unrelated to other financial matters and would have been required at this time regardless of the wider financial position.
- 3.8. To note that provision for additional borrowing costs in revenue budgets was included in the 2024/25 budget.

## 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. The main risk relating to undertaking Treasury Management activities is a potential financial loss and this is considered in the table below:

<i>Risk</i>	<i>Mitigation</i>
Potential financial loss arising from undertaking Treasury Management activities	All Treasury Management practices are in compliance with the CIPFA Code of Practice on Treasury Management, the Council's Treasury Policy Statement, and the Prudential Code for Capital Finance, together with rigorous internal controls.
	Council's Audit Committee is the committee responsible for ensuring effective consideration of the



## 5. Financial Implications

- 5.1. Shropshire Council is currently managing an unprecedented financial position as budgeted for within the Medium Term Financial Strategy approved by Council on 29 February 2024 and detailed in our monitoring position presented to Cabinet on a monthly basis. This demonstrates that significant management action is required over the remainder of the financial year to ensure the Council's financial survival. While all Cabinet Reports provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. Where non-essential spend is identified within the Council, this will be reduced. This may involve
- scaling down initiatives,
  - changing the scope,
  - delaying implementation, or
  - extending delivery timescales.
- 5.2. 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.
- 5.3. The 2024/25 six-month performance is marginally below benchmark but has delivered net income of £1.059m.
- 5.4. During 2024/25, there is a £0.977m saving on interest payable, as a result of a renegotiation of the future terms of two market loans that the council holds.

## 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 to achieve this. There are no direct 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 defines its treasury management activities as "the management of the authority's borrowing, investments and cash flows, its banking, money market and capital market transactions, the effective control of the risks associated with the activities, and the pursuit of optimum performance consistent with those risks."

Broadly, cash received by the Council raised during the year will meet its cash expenditure. Treasury Management operations ensure this cash flow is planned and managed. Temporary surplus balances are invested in low-risk counterparties (providing security), ensuring cash availability (liquidity), and only considering investment return (yield) last.

- 7.2. Cash flow management covers in-year (revenue) costs as well as the funding of the Council’s long term (capital) plans. Capital plans provide a guide to the future borrowing need of the Council and may involve arranging long or short-term borrowing. Occasionally existing debt may be restructured as opportunities allow.
- 7.3. In December 2017, the Chartered Institute of Public Finance and Accountancy, (CIPFA), issued revised Prudential and Treasury Management Codes. As from 2019/20, all local authorities are required to prepare a Capital Strategy which is intended to provide the following: -
  - A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
  - An overview of how associated risk is managed
  - The implications for future financial sustainability
- 7.4. A report setting out the Council’s Capital Strategy was taken to full Council in February 2024. This report informs Members of the treasury activities of the Council for the first six months of the financial year.
- 7.5. To secure specialist advice on long-term borrowing and investment, the Council works with Link Asset Services, who provide the detailed analysis set out in this report.

## 8. Economic Update and Forecast

- 8.1. Since the Council’s Treasury and Capital strategies were agreed in February 2024, there has been further change in terms of the economic environment. The Bank of England has initiated its easing cycle by lowering interest rates from bank base rate has reduced over the period from 5.25% to 4.75%. A detailed commentary can be found in Appendix D.
- 8.2. Link Asset Services forecast interest rates over the next 36 months. Their latest interest rate forecasts are shown below.

Link Group Interest Rate View	28.05.24									
	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
<b>BANK RATE</b>	4.50	4.00	3.50	3.25	3.25	3.25	3.25	3.00	3.00	3.00
3 month ave earnings	4.50	4.00	3.50	3.30	3.30	3.30	3.30	3.00	3.00	3.00
6 month ave earnings	4.40	3.90	3.50	3.30	3.30	3.30	3.30	3.10	3.10	3.20
12 month ave earnings	4.30	3.80	3.50	3.40	3.40	3.40	3.40	3.20	3.30	3.40
5 yr PWLB	4.50	4.30	4.10	4.00	3.90	3.90	3.90	3.90	3.90	3.80
10 yr PWLB	4.60	4.40	4.30	4.10	4.10	4.10	4.00	4.00	4.00	3.90
25 yr PWLB	5.00	4.80	4.70	4.50	4.50	4.40	4.40	4.40	4.30	4.30
50 yr PWLB	4.80	4.60	4.50	4.30	4.30	4.20	4.20	4.20	4.10	4.10

## 9. Treasury Strategy Update

- 9.1. The Treasury Management Strategy (TMS) for 2024/25 was approved by Full Council on 29 February 2024. The underlying TMS approved previously requires revision in the light of economic and operational movements during the year. The proposed changes and supporting detail for the changes are set out below:

Prudential Indicator 2024/25	Original £m	Revised Prudential Indicator £m
Borrowing Need – Gross Borrowing	285	437
Borrowing Need – Net Borrowing	235	387
Operational Boundary	480	632
Authorised Boundary	546	698

## Borrowing Need

The capital financing requirement (CFR) is the maximum we would expect to borrow based on the total historic outstanding capital expenditure which has not been paid for from either revenue or capital resources. Therefore it is essentially a measure of the Authority's underlying borrowing need.

The gross borrowing undertaken reflects the estimated position on borrowing to be undertaken. In previous years, the Council has 'internally' borrowed for capital schemes whilst cash balances were significant to reduce the borrowing costs for the Council. This has been possible due to the availability of internal cash balances but led to a high level of 'under-borrowing' against the indicative level of borrowing. In 2024/25 it is now intended that external borrowing will be necessary to address the previously under-borrowed position of the Council, and this has now been reflected in the revised gross and net borrowing anticipated for 2024/25 below. It is acceptable to revise estimated borrowing need up or down as the situation changes; by setting a new threshold in advance, the Council will comply with the requirement to be open and transparent over its borrowing intentions.

Gross Borrowing less than CFR	Original Estimate £m	Amendment £m	Revised Prudential Indicator £m
<b>Capital Financing Requirement:</b>			
Non HRA Capital Financing Requirement	345	0	345
HRA Capital Financing Requirement	111	0	111
<b>Total CFR</b>	<b>456</b>	<b>0</b>	<b>456</b>
<b>Movement in CFR represented by</b>			
Net financing need for the year	32	0	32
Less MRP/VRP and other financing movements	1	0	1
<b>Movement in CFR</b>	<b>33</b>	<b>0</b>	<b>33</b>
Gross Borrowing (including HRA)	285	0	285
Borrowing to replace previous Internal Borrowing	0	152	152
<b>Amended Gross Borrowing</b>	<b>285</b>	<b>185</b>	<b>437</b>
Investments	50	0	50
<b>Net Borrowing</b>	<b>235</b>	<b>185</b>	<b>387</b>

## Operational Boundary

This indicator shows the maximum permitted amount of outstanding debt for all purposes. The initial starting point for the calculation is the external borrowing currently undertaken and any additional anticipated borrowing required for the capital programme in year. The original estimate did not include any provision for transferring the internal borrowing to external borrowing and so this has now been included. It is acceptable to revise the operational boundary indicator up or down as the situation changes; by setting a new threshold in advance, the Council will comply with the requirement to be open and transparent over its borrowing intentions.

Operational Boundary	Original Estimate £m	Amendment £m	Revised Prudential Indicator £m
Debt	394	152	546
Other long term liabilities	86	0	86
<b>Total</b>	<b>480</b>	<b>152</b>	<b>632</b>

## Authorised Boundary

This is a key prudential indicator and represents a control on the maximum level of borrowing. The initial starting point for the calculation is the external borrowing currently undertaken and any additional anticipated borrowing required for the capital programme and strategy. The original estimate did not include any provision for transferring the internal borrowing to external borrowing and so this has now been built in. Again, It is acceptable to revise the Authorised Boundary up or down as the situation changes; by setting the new threshold in advance, the Council will comply with the requirement to be open and transparent over its borrowing intentions.

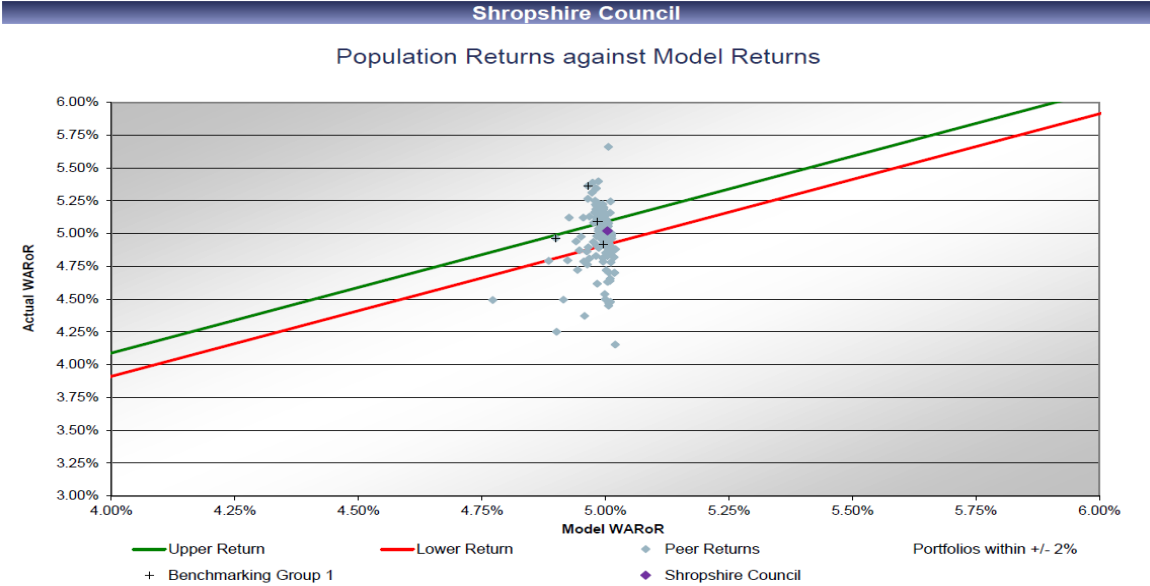
Authorised Boundary	Original Estimate £m	Amendment £m	Revised Prudential Indicator £m
Debt	460	152	612
Other long term liabilities	86	0	86
<b>Total</b>	<b>546</b>	<b>152</b>	<b>698</b>

## 10. Annual Investment Strategy

- 10.1. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. In the current economic climate, it is considered appropriate to keep investments short term to cover cash flow needs, but also to seek out value available in periods up to 12 months with high credit quality financial institutions, using the Link suggested creditworthiness approach, including a minimum sovereign credit rating and Credit Default Swap (CDS) overlay information.

10.2. The average level of funds available for investment purposes during the first half of the financial year was £41.48m. These funds were available on a temporary basis, and the level of funds available was mainly dependent on the timing of precept payments, receipt of grants and progress on the capital programme.

10.3. In the first six months of 2024/25 the internal finance team’s return achieved was marginally lower than its benchmark by 0.01%. The gross investment return was 5.11% compared to the benchmark of 5.12%. As cash balances held are lower than in previous years, the Council need to ensure cash balances are highly liquid, resulting in lower interest rates on short term deals. Whilst returns on investment are important, as we strive to achieve the best investment we can, the Council’s priority is always to ensure security of funds and ensure we hold sufficient liquid balances. With this in mind, this will often mean that we cannot secure the higher rate investments as these are offered to longer term deals. The Council does receive benchmarking analysis of its investments in relation to its comparative group and throughout the second quarter of 2024/25, its performance on investment were considered in line with the other organisations.



10.4. A full list of investments held as at 30 September 2024, compared to Link’s counterparty list, and changes to Fitch, Moody’s and Standard & Poor’s credit ratings are shown within Link’s Monthly Investment Analysis Review at Appendix 1. None of the approved limits within the Annual Investment Strategy were breached during the second quarter of 2024/25. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.

10.5. Recent investment rates available in the market have decreased due to the central bank rate reducing to 5.00% in August 2024.

10.6. The interest receivable budget is expected to deliver, as a minimum, net income of £1.059m in the first six months of the year. Projections on income will be reviewed monthly. The current estimates are based on assumptions of the value of investment balances. There are also savings of £0.977m projected against interest

payable budgets, as a result of a renegotiation of two Market Loans.

## 11. Borrowing

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

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

Council, 29 March 2024, Treasury Strategy 2024/25.

Council, 29 February 2024, Financial Strategy 2024/25 – 2028/29 and Setting the Council Tax Resolution 2024/25

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**Local Member:** N/A

**Appendices** [Please list the titles of Appendices]

Appendix A – Investment Report as at 30 September 2024

Appendix B – Prudential Limits

Appendix C – Prudential Borrowing Schedule

Appendix D – Economic Background and Borrowing Update

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# Shropshire Council

## Monthly Investment Analysis Review

September 2024

## Monthly Economic Summary

### General Economy

The preliminary reading of the UK Manufacturing PMI fell to 51.5 in September from 52.5 in August, below market expectations. While still indicative of expansion, the slower growth was attributed to a wait-and-see approach that respondents took ahead of the Autumn Statement. Job cuts increased, and subdued demand led to leaner inventory strategies. Furthermore, delivery times have lengthened to the greatest extent since April, with freight delays being attributed to the ongoing Red Sea crisis. On the price front, purchase price inflation hit its highest level since January 2023. Meanwhile, the UK services PMI dropped to 52.8 in September from 53.7 in August in its preliminary reading, missing market expectations of 53.5. Despite the slowdown in growth, this marked the eleventh consecutive monthly expansion, supported by steady inflows of new business. On the price front, input cost inflation rose on the month due to increased labour and shipping costs. Combined, these saw the preliminary UK composite PMI headline rate fall to 52.9 in September from 53.8 in the previous month, also below market expectations of 53.5. Separately, the UK Construction PMI fell to 53.6 in August from 55.3 in July (it is released on a one-month lag to other sector reports), below forecasts of 54.9. Nevertheless, as with other readings, it still indicated expansion in the sector, with output volumes underpinned by robust new order growth and a more supportive economic backdrop.

The UK economy stalled once again in July, mirroring June's performance, and below market expectations of a 0.2% increase. Services output rose by 0.1% but this was offset by industrial production output falling 0.8% and construction output dropping 0.4% on the month. Elsewhere, the UK's trade deficit increased to £7.51 billion in July from £5.32 in June. Imports shrank 1.5%, while exports fell by a larger 4.7%, marking the largest trade gap since April.

The UK recorded a 265k rise in jobs in the three months to July, following the 97k increase in the previous period. This marked the largest growth in job creation since November 2022, and it was the third consecutive period of growth, largely driven by an increase in full-time employees. Meanwhile, average weekly earnings (including bonuses) increased 4% y/y in the three months to July, compared to the upwardly revised 4.6% in the previous period. The unemployment rate fell to 4.1% between May and July, matching market expectations.

The monthly Consumer Price Index (CPI) rose by 0.3% in August, and in line with market expectations, leaving the headline annual rate unchanged at 2.2%, matching market forecasts. The largest upward contribution came from air fares, while the largest offsetting contributions came from motor fuels.

The Bank of England kept Bank Rate unchanged at 5% during its September meeting. This decision met market expectations, though one member favoured a further 0.25 percentage point cut to 4.75%. In addition to the 8-1 vote, a more moderate expected pace of rate cuts was evidenced by the tweak in the accompanying statement, which said "...in the absence of material developments, a gradual approach to removing policy restraint remains appropriate." In the retail sector, overall sales rose by 1% in August, after an upwardly revised 0.7% rise in July. This was materially higher than markets had expected, with sales jumped 1.8% in food stores, while those at non-food stores increased by 0.4%.

Meanwhile, the GfK Consumer Confidence indicator fell sharply to -20 in September, missing forecast for a third straight reading of -13. Elsewhere, public sector borrowing, excluding public sector banks, rose to £13.7 billion in August compared to market expectations of £12.4 billion. Total public sector spending increased by £7 billion, driven by rising central government expenditure on public services and benefits. While receipts also rose, the gain of £3.8 billion was modest compared to outflows.

### US Economy

The US economy added 142k jobs in August, more than a downwardly revised 89k in July and below market expectations of 165k. The main areas of gain were construction, healthcare, government and social assistance, while manufacturing lost jobs. The US economy expanded an annualised 3% in Q2, up from an upwardly revised 1.6% increase in Q1 and matching market expectations. The US inflation rate fell for a fifth consecutive month to 2.5% in August, the lowest since February 2021, and below market forecasts. On the monetary policy front, the Fed delivered a 50bps rate cut, its first since 2020 and above market expectations of a 25bps move, with the central bank seemingly placing more emphasis on supporting growth, especially the labour market, than concerns over inflation.

### EU Economy

Eurozone's inflation rate eased to 2.2% in August, from 2.6% in July. This matched market expectations and was the lowest rate since July 2021. Meanwhile, the core rate, excluding food and energy prices, slowed to 2.8% from 2.9% in the previous month. GDP in the bloc expanded by 0.2% in Q2, matching market forecasts. Across the key economies France, Italy and Spain all expanded while Germany contracted. Away from data releases, the ECB cut its Deposit Facility Rate by 25 bps to 3.5%, following up the first move it made in its downcycle in June.

### Housing

The Halifax House Price index rose 4.3% y/y in August, the biggest rise since November 2022, above the upwardly revised 2.4% rise in July. The Nationwide House Price Index rose by 3.2% y/y in September 2024, the fastest pace since November 2022 and above the 2.4% increase in August.

### Currency

Sterling appreciated against the Euro and Dollar over the month.

September	Start	End	High	Low
GBP/USD	\$1.3153	\$1.3414	\$1.3414	\$1.3015
GBP/EUR	€1.1882	€1.2019	€1.2019	€1.1821

### Interest Rate Forecasts

Link Group did not revise their forecasts, however Capital Economics now forecast a slower pace of rate cuts to a low of 3.00%.

Bank Rate	Now	Dec-24	Mar-25	Jun-25	Sep-25	Dec-25	Mar-26	Jun-26	Sep-26	Dec-26	Mar-27
Link Group	5.00%	4.50%	4.00%	3.50%	3.25%	3.25%	3.25%	3.25%	3.00%	3.00%	3.00%
Capital Economics	5.00%	4.75%	4.50%	4.25%	3.75%	3.25%	3.00%	3.00%	3.00%	3.00%	-

# Shropshire Council

## Current Investment List

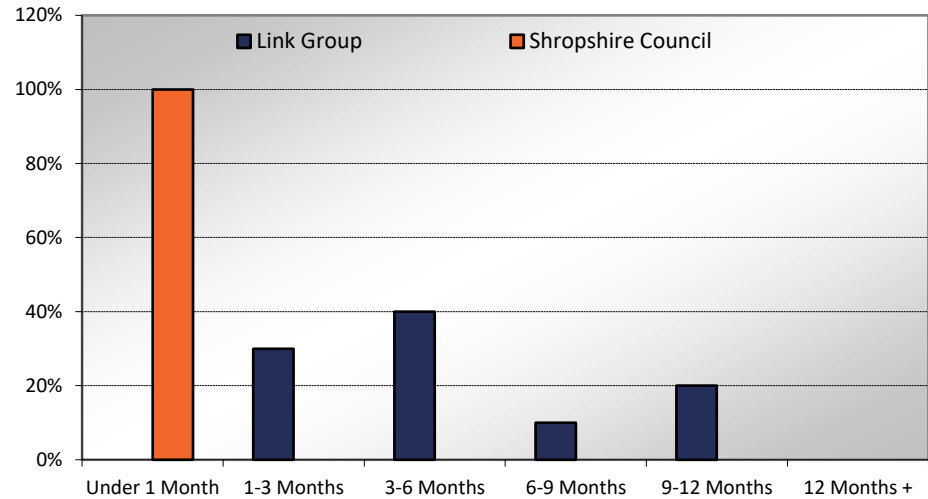
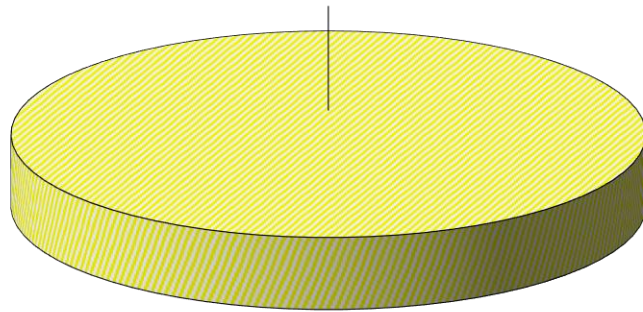
Borrower	Principal (£)	Interest Rate	Start Date	Maturity Date	Lowest LT / Fund Rating	Historic Risk of Default	Expected Credit Loss (£)
Aberdeen City Council	7,000,000	5.02%		Call	AA-	0.000%	0
MMF Insight	15,000,000	5.02%		Call	AAAm		
<b>Total Investments</b>	<b>£22,000,000</b>	<b>5.02%</b>				<b>0.000%</b>	<b>£0</b>

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

The Historic Risk of Default column is based on the lowest long term rating. If clients are using this % for their Expected Credit Loss calculation under IFRS 9, please be aware that the Code does not recognise a loss allowance where the counterparty is central government or a local authority since relevant statutory provisions prevent default. For these instruments, the Expected Credit Loss will be nil. Please note that we are currently using Historic Default Rates from 1990-2023 for Fitch, 1983-2023 for Moody's and 1981 to 2023 for S&P.

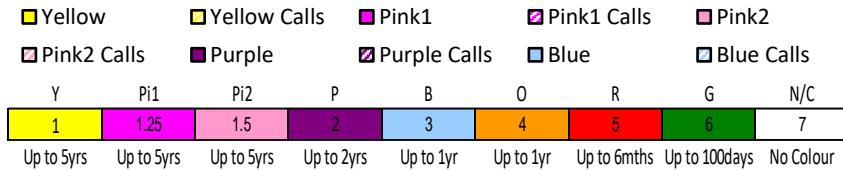
Where Link Group have provided a return for a property fund, that return covers the 12 months to June 2024, which are the latest returns currently available.

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = 1.00

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

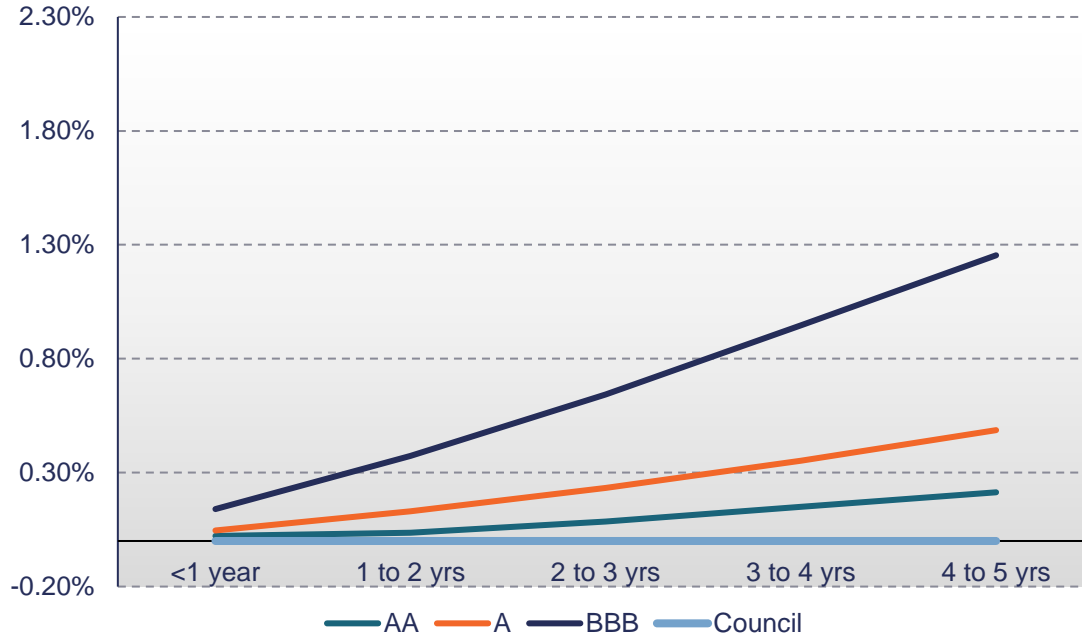


	% of Portfolio	Amount	% of Colour in Calls	Amount of Colour in Calls	% of Call in Portfolio	WARoR	WAM	Excluding Calls/MMFs/USDBFs		
								WAM at Execution	WAM	WAM at Execution
Yellow	100.00%	£22,000,000	100.00%	£22,000,000	100.00%	5.02%	0	0	0	0
Pink1	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Pink2	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Purple	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Blue	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Orange	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Red	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
Green	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
No Colour	0.00%	£0	0.00%	£0	0.00%	0.00%	0	0	0	0
<b>Total</b>	<b>100.00%</b>	<b>£22,000,000</b>	<b>100.00%</b>	<b>£22,000,000</b>	<b>100.00%</b>	<b>5.02%</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

# Shropshire Council

## Investment Risk and Rating Exposure

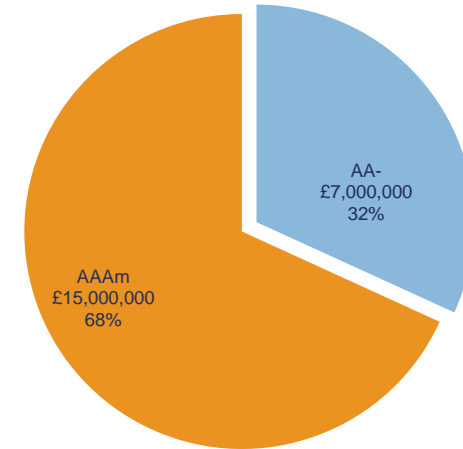
Investment Risk Vs. Rating Categories



Historic Risk of Default

Rating/Years	<1 year	1 to 2 yrs	2 to 3 yrs	3 to 4 yrs	4 to 5 yrs
AA	0.02%	0.04%	0.09%	0.15%	0.21%
A	0.05%	0.13%	0.23%	0.35%	0.49%
BBB	0.14%	0.37%	0.64%	0.95%	1.25%
Council	0.00%	0.00%	0.00%	0.00%	0.00%

Rating Exposure



### Historic Risk of Default

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

### Chart Relative Risk

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

### Rating Exposures

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

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

# Shropshire Council

## Monthly Credit Rating Changes FITCH

Date	Update Number	Institution	Country	Rating Action

# Shropshire Council

## Monthly Credit Rating Changes MOODY'S

Date	Update Number	Institution	Country	Rating Action
09/09/2024	2041	Clydesdale Bank PLC	United Kingdom	The Long Term Rating was Upgraded to A1 from A3 and the Short Term Rating was Upgraded to P-1 from P-2. The Positive Watches were removed and replaced with Stable Outlooks.
09/09/2024	2042	Standard Chartered Bank	United Kingdom	The Long Term Rating and Short Term Rating Outlooks were changed to Positive from Stable.
25/09/2024	2044	National Bank of Canada	Canada	The Positive Outlook on both Long Term and Short Term Rating were replaced by Positive Watch.



# Shropshire Council

## Monthly Credit Rating Changes S&P

Date	Update Number	Institution	Country	Rating Action
20/09/2024	2043	Swedbank	Sweden	The Outlook on both Long Term and Short Term Ratings were Upgraded to Positive from Stable.

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

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## APPENDIX B – PRUDENTIAL INDICATORS FOR QUARTER 2

Prudential Indicator	2024/25 Indicator £m	Quarter 1 – Actual £m	Quarter 2 – Actual £m	Quarter 3 – Actual £m	Quarter 4 – Actual £m
Non HRA Capital Financing Requirement (CFR)	345	336	336		
HRA CFR	111	105	105		
Gross borrowing	285	311	311		
Investments	50	21	22		
Net borrowing	235	290	289		
Authorised limit for external debt	546	311	311		
Operational boundary for external debt	480	311	311		
Limit of fixed interest rates (borrowing)	546	311	311		
Limit of variable interest rates (borrowing)	273	0	0		
Internal Team Principal sums invested > 364 days	70	0	0		
<b>Maturity structure of borrowing limits</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>	<b>%</b>
Under 12 months	15	10	10		
12 months to 2 years	15	0	0		
2 years to 5 years	45	0	2		
5 years to 10 years	75	24	26		
10 years to 20 years	100	26	22		
20 years to 30 years	100	20	25		
30 years to 40 years	100	11	6		
40 years to 50 years	100	2	2		
50 years and above	100	7	7		

The Gross Borrowing Prudential Indicator for 2024/25 was based on existing known borrowing taken out as at the end of January 2024. This borrowing position was based on the policy of utilising internal borrowing rather than external borrowing for capital schemes, whilst cash balances allowed this to continue, in order to minimise the interest cost to the Authority. As at the end of the 2023/24 financial year, it was deemed necessary to re-evaluate the under-borrowed position of the Council, and as a result, PWLB borrowing of £30m over a 12 month period was secured to fund existing capital schemes, and in order to manage the treasury management position of the authority. No further PWLB or borrowing has been undertaken since this period, although this accounts for the reason why the position in the first two quarters is greater than the 2024/25 indicator, as highlighted in the table above. It is anticipated that the Council will be undertaking more borrowing before the end of the calendar year, as we look to re-address the under-borrowed position and remove the reliance on internal borrowing through the use of cash balances.

The key prudential indicators which dictate the level of borrowing that can be undertaken by the Authority are the Operational Boundary which determines the likely level of borrowing that may be required to deliver the known commitments of the capital programme; and the Authorised limit provides the total borrowing that the Council may undertake if it should progress all plans as laid out in the Capital Strategy. As noted in the table above, the borrowing level undertaken during the first two quarters is well within the parameter of the Operational and Authorised limit for external debt.

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## Economic Background and Borrowing Update

### Economic Background

The second quarter of 2024/25 saw:

- GDP growth stagnating in July following downwardly revised Q2 figures (0.5% q/q)
- A further easing in wage growth as the headline 3myy rate (including bonuses) fell from 4.6% in June to 4.0% in July;
- CPI inflation hitting its target in June before edging above it to 2.2% in July and August;
- Core CPI inflation increasing from 3.3% in July to 3.6% in August;
- The Bank of England initiating its easing cycle by lowering interest rates from 5.25% to 5.0% in August and holding them steady in its September meeting;
- 10-year gilt yields falling to 4.0% in September.

The economy's stagnation in July points more to a mild slowdown in GDP growth than a sudden drop back into a recession. Moreover, the drop in September's composite activity Purchasing Managers Index, from 53.8 in August to 52.9, was still consistent with GDP growth of 0.3%-0.4% for the summer months. This is in line with the Bank of England's view, and it was encouraging that an improvement in manufacturing output growth could be detected, whilst the services PMI balance suggests non-retail services output grew by 0.5% q/q in Q3.

The 1.0% m/m jump in retail sales in August was stronger than the consensus forecast for a 0.4% m/m increase. The rise was reasonably broad based, with six of the seven main sub sectors recording monthly increases, though the biggest gains came from clothing stores and supermarkets, which the ONS reported was driven by the warmer-than-usual weather and end of season sales.

The government's plans to raise public spending by around £16bn a year (0.6% GDP) have caused concerns that a big rise in taxes will be announced in the Budget, which could weaken GDP growth in the medium-term. However, if taxes are raised in line with spending (i.e., by £16bn) that would mean the overall stance of fiscal policy would be similar to the previous government's plan to reduce the budget deficit. Additionally, rises in public spending tend to boost GDP by more than increases in taxes reduce it.

The further easing in wage growth will be welcomed by the Bank of England as a sign that labour market conditions are continuing to cool. The 3myy growth rate of average earnings fell from 4.6% in June to 4.0% in July. On a three-month annualised basis, average earnings growth eased from 3.0% to 1.8%, its lowest rate since December 2023.

CPI inflation stayed at 2.2% in August, but services inflation rose from a two-year low of 5.2% in July to 5.6%, significantly above its long-run average of 3.5%. Food and fuel price inflation exerted some downward pressure on CPI inflation, but these were offset by the upward effects from rising furniture/household equipment inflation,

recreation/culture inflation and a surprisingly large rise in airfares inflation from -10.4% in July to +11.9% in August. As a result, core inflation crept back up from 3.3% to 3.6%. CPI inflation is also expected to rise in the coming months, potentially reaching 2.9% in November, before declining to around 2.0% by mid-2025.

Looking ahead, CPI inflation will likely rise in the coming months before it falls back to its target of 2.0% in mid-2025. The increasing uncertainties of the Middle East may also exert an upward pressure on inflation, with oil prices rising in the aftermath of Iran's missile attack on Israel on 1 October. China's recent outpouring of new fiscal support measures in the latter stages of September has also added to the upshift in broader commodity prices, which, in turn, may impact on global inflation levels and thus monetary policy decisions. Despite these recent developments, our central forecast is still for rates to fall to 4.5% by the end of 2024 with further cuts likely throughout 2025. This is in line with market expectations, however, although a November rate cut still looks likely, December may be more problematic for the Bank if CPI inflation spikes towards 3%.

Looking at gilt movements in the first half of 2024/25, and you will note the 10-year gilt yield declined from 4.32% in May to 4.02% in August as the Bank's August rate cut signalled the start of its loosening cycle. Following the decision to hold the Bank Rate at 5.0% in September, the market response was muted, with the 10-year yield rising by only 5bps after the announcement.

### **A summary overview of the future path of Bank Rate**

The Bank of England's Monetary Policy Committee (MPC) voted 5 -4 to reduce the Bank Rate by 25bps to 5% in the August meeting. However, subsequent speeches from MPC members have supported Governor Bailey's tone with its emphasis on "gradual" reductions over time. Markets thought there may be an outside chance of a further Bank Rate reduction in September, but this came to nothing. Nonetheless, November still looks most likely to be the next month to see a rate cut to 4.75% but, thereafter, inflation and employment data releases, as well as geo-political events, are likely to be the determinant for what happens in the remainder of 2024/25 and into 2025/26.

### **Borrowing**

The Authority's capital financing requirement (CFR) for 2024/25 is £456m. The CFR denotes the Authority's underlying need to borrow for capital purposes. If the CFR is positive the Authority may borrow from the PwLB or the market (external borrowing), or from internal balances on a temporary basis (internal borrowing). The balance of external and internal borrowing is generally driven by market conditions.

It is a statutory duty for the Council to determine and keep under review the "Affordable Borrowing Limits". The Council's approved Treasury and Prudential Indicators (affordability limits) are included in the approved Treasury Management Strategy. A list of the approved limits is shown in Appendix B. The Prudential Indicators were not breached during the second quarter of 2024/25 and have not



been previously breached. The schedule at Appendix C details the Prudential Borrowing approved and utilised to date.

No new external borrowing has currently been undertaken to date in 2024/25.

The Council has not undertaken any new borrowing for a number of years, and has been utilising cash balances to internally “borrow” for prudential borrowing schemes. This has enabled the Council to benefit from increased interest costs compared to the returns that could be generated on the cash balances. This approach has been effective during a period where the Council has held significant cash balances.

Cash balances have now reduced as a result of reduced levels of reserves being held and loans continuing to reach their maturity dates. It is therefore planned that significant levels of borrowing will be required in 2024/25 to fund any new capital borrowing requirement, and also re-instate cash balances used for internal borrowing.

PWLB rates reduced over the second quarter, which is to be expected as the Base Rate has also decreased over the period. The table below shows the high/low/average PWLB rates for the first six months of the financial year.

	1 Year	5 Year	10 Year	25 Year	50 Year
<b>02/04/2024</b>	5.39%	4.72%	4.80%	5.28%	5.07%
<b>30/09/2024</b>	4.95%	4.55%	4.79%	5.33%	5.13%
<b>Low</b>	4.78%	4.31%	4.52%	5.08%	4.88%
<b>Low date</b>	17/09/2024	17/09/2024	17/09/2024	17/09/2024	17/09/2024
<b>High</b>	5.61%	5.14%	5.18%	5.61%	5.40%
<b>High date</b>	29/05/2024	01/05/2024	01/05/2024	01/05/2024	01/05/2024
<b>Average</b>	5.21%	4.76%	4.88%	5.35%	5.14%
<b>Spread</b>	0.83%	0.83%	0.66%	0.53%	0.52%

## Debt Rescheduling

Debt rescheduling opportunities have increased over the course of the past six months and will be considered if giving rise to long-term savings.

The Council was provided with an opportunity to renegotiate two of the Market Loans held. This involved a reduction in the maturity date of the loans, but also a lower interest rate was negotiated. This has delivered a benefit in 2024/25 of £0.977m.

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	<b>Committee and Date</b>	Item
	Audit Committee	
	28 <sup>th</sup> November 2024	
	10:00am	Public
   		

## Audit Committee Self-Assessment 2024

<b>Responsible Officer:</b>	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258915
<b>Cabinet Member (Portfolio Holder):</b>	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder – Finance, Corporate Resources and Communities		

### 1. Synopsis

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

### 2. Executive Summary

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

### 3. Recommendations

Members are asked to:

- 3.1. Consider the self-assessment of good practice attached at **Appendix A and D**. Identify any errors or amendments required.

# Report

## 4. Risk Assessment and Opportunities Appraisal

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

## 5. Financial Implications

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

## 6. Climate Change Appraisal

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

## 7. Background

- 7.1. The Chartered Institute of Public Finance and Accountancy, CIPFA, produced guidance on the function and operation of audit committees; 'Audit Committees in Local Authorities and Police, 2022 edition'. The guidance represents CIPFA's view of best practice for Audit Committees in local authorities throughout the UK.
- 7.2. Shropshire Council has used this guidance to self-assess the Audit Committee against this recommended practice as an indicator of the Committee's effectiveness; following which any changes or improvements identified to enhance the Committee's performance should be managed. The updated 2022 guidance included a revised self-assessment which mirrored the original with some changes to the phrasing of the questions and the order in which they appear. **Appendices A and D** are the updated versions with the responses mapped across. **Appendix D** includes reference to the evidence support supporting compliance.

- 7.3. Audit Committee members were asked to complete two questionnaires in September 2024, the first relating to the Audit Committee Self-Assessment and the second relating to the skills framework. A session was held with Members following the completion of the questionnaires to review the results and for them to determine what, if any, action they want to take. The responses have been collated and the results shown in **Appendix A / C**.
- 7.4. In addition to the formal Audit Committee meetings, the chair and vice chair of the Committee have monthly informal meetings with the CAE, Section 151 Officer and the Internal Audit Manager to update on Internal Audit activity completed in the month.
- 7.5. There have been two changes to the core membership of the Audit Committee since the previous training skill evaluations were completed, these being Cllr Halliday joining as a full member and Cllr Dartnall moving to substitute member. Continued learning from the original training self-assessments is important and the data extracted has continued to be used to inform training sessions and identify areas for continued improvement during 2024/25. Information from self-assessments is considered against ongoing requests from committee members in response to current topics.
- 7.6. Training sessions provided since the November 2023 report include:
- Asset disposal procedures
  - Interpreting audit performance reports
  - Risk Management
  - Treasury Management
  - Procurement Act 2023
  - Council operating model
- 7.7. In addition to training sessions the following information has been shared with and between members:
- NAO guidance for Audit Committees on cloud services
  - NAO publication Making Public Money work harder
  - CIPFA Better Governance Forum updates on sectorial issues and best practice.
- 7.8. Following the current review of the Audit Committee self-assessment of good practice, three areas were scored overall as partial compliance which are detailed below at **Appendix B**. Whilst they have been identified by the committee as areas of partial compliance, it was agreed at the moderation session in September that this score may be reflective of the relatively new members to the committee that have not received the full cycle of training. It was agreed that a SharePoint site would be created for Audit Committee members to easily access key documents and training materials. The timescale for this has not been agreed, however this will be in place in time for the new members following the May 2025 elections.
- 7.9. The Knowledge and Skills Baseline Assessment will be used to inform future training sessions for members, however it should be noted that with elections due in May 2025 it will need to be refreshed for new members at that point.

Question 1: Do Members wish to make any adjustments to the self-assessment?

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

CIPFA: Audit Committees in Local Authorities and Police, 2022 edition

**Local Member:** N/A

**Appendices**

**Appendix A** - Self-assessment of good practice November 2024

**Appendix B** - Improvement plan for an effective Audit Committee

**Appendix C** - Knowledge and Skills Baseline Assessment November 2024

**Appendix D** - Self-assessment of good practice showing evidence November 2024

**Appendix A: Self-assessment of Good Practice – November 2024**

Good practice questions		Yes	Partly	No
<b>Audit Committee purpose and governance</b>				
1.	Does the authority have a dedicated audit committee that is not combined with other functions (e.g. standards, ethics, scrutiny)?	✓		
2.	Does the audit committee report directly to the governing body (PCC and chief constable/full council/full fire authority, etc)?	✓		
3.	Has the committee maintained its advisory role by not taking on any decision-making powers?	✓		
4.	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?	✓		
5.	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?	✓		
6.	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?	✓		
7.	Does the governing body hold the audit committee to account for its performance at least annually?	✓		
8.	Does the committee publish an annual report in accordance with the 2022 guidance, including: <ul style="list-style-type: none"> <li>• compliance with the CIPFA Position Statement 2022</li> <li>• results of the annual evaluation, development work undertaken and planned improvements</li> <li>• how it has fulfilled its terms of reference and the key issues escalated in the year?</li> </ul>	✓		

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Good practice questions		Yes	Partly	No
<b>Functions of the committee</b>				
9.	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?			
	Governance arrangements	✓		
	Risk management arrangements	✓		
	Internal control arrangements, including: <ul style="list-style-type: none"> <li>• financial management</li> <li>• value for money</li> <li>• ethics and standards</li> <li>• counter fraud and corruption</li> </ul>	✓		
	Annual governance statement	✓		
	Financial reporting	✓		
	Assurance framework	✓		
	Internal audit	✓		
	External audit	✓		
10.	Over the last year, has adequate consideration been given to all core areas?	✓		
11.	Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?	✓		
12.	Has the committee met privately with the external auditors and head of internal audit in the last year?		✓	

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Good practice questions		Yes	Partly	No
<b>Membership and support</b>				
13.	Has the committee been established in accordance with the 2022 guidance as follows?	✓		
	<ul style="list-style-type: none"> <li>• Separation from the executive</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>• A size of committee that is not unwieldy and avoids the use of substitutes</li> </ul>	✓		
	<ul style="list-style-type: none"> <li>• Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation</li> </ul>	✓		
14.	Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?	✓		
15.	Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?	✓		
16.	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?	✓		
17.	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?	✓		
18.	Is adequate secretariat and administrative support provided to the committee?	✓		
19.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO?	✓		
<b>Effectiveness of the committee</b>				
20.	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	✓		

Good practice questions		Yes	Partly	No
21.	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?	✓		
22.	Are meetings effective with a good level of discussion and engagement from all the members?	✓		
23.	Has the committee maintained a non-political approach to discussions throughout?	✓		
24.	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	✓		
25.	Does the committee make recommendations for the improvement of governance, risk and control arrangements?	✓		
26.	Do audit committee recommendations have traction with those in leadership roles?	✓		
27.	Has the committee evaluated whether and how it is adding value to the organisation?	✓		
28.	Does the committee have an action plan to improve any areas of weakness?		✓	
29.	Has this assessment been undertaken collaboratively with the audit committee members?		✓	

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**Appendix B: Improvement plan for an effective Audit Committee to be refreshed annually in November**

<b>SAR<sup>1</sup></b>	<b>Partial compliance</b>	<b>Proposed action</b>
12	Has the committee met privately with the external auditors and head of internal audit in the last year?	Audit Committee members should arrange further meetings as required.
28	Does the committee have an action plan to improve any areas of weakness?	As part of this self-assessment three areas for improvement have been identified. Given the planned elections for May 2025, this action plan will be highlighted to new members at that point.
29	Has this assessment been undertaken collaboratively with the audit committee members?	This has been completed, following the completion of the assessment a moderation session was held in September.

<sup>1</sup> SAR = Self-assessment reference

## Appendix C: Audit Committee – self assessment supporting information: Knowledge and Skills Baseline Assessment November 2024

This is used as a baseline and therefore not revisited every year. In line with the 2022 guidance this will be refreshed in 2026.

Knowledge Area / Skills	Confident	Comfortable	Not Confident	Overall score
Overview of the governance structures of the Council and decision-making processes. Knowledge of the organisational objectives and major functions of the Council.	3	2	0	Confident
An understanding of the audit committee's role and place within the governance structures. Familiarity with the committee's terms of reference and accountability arrangements. Knowledge of the purpose and role of the audit committee.	4	1	0	Confident
Knowledge of the seven principles as outlined in Delivering Good Governance in Local Government Framework. The requirements of the AGS. How the principles of governance are implemented locally as set out in the local code of governance.	3	1	1	Comfortable
An awareness of the key principles of the PSIAS and LGAN. Knowledge of the arrangements for delivery of the internal audit service in the authority and charter. How the role of the head of internal audit is fulfilled. Details of the most recent external assessment and level of conformance with the standards. Internal audit's strategy, plan and most recent annual opinion.	3	1	1	Comfortable
Awareness of the financial statements that a local authority must produce and the principles it must follow to produce them. An understanding of good financial management practice as set out in the CIPFA Financial Management CODE (FM Code) and the level of compliance with it. Knowledge of how the organisation meets the requirements of the role of the chief financial	3	1	1	Comfortable

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Knowledge Area / Skills	Confident	Comfortable	Not Confident	Overall score
officer, as required by the CIPFA Statement on the Role of the Chief Financial Officer in Local Government. An overview if the principal financial risks the council faces.				
Knowledge of the role and functions of the external auditor and who currently undertakes this role. Knowledge of the key reports and assurances that external audit will provide. Familiarity with the auditor's most recent plan and the report opinions. Knowledge about the arrangements for the appointment of auditors and quality management undertaken.	4	1	0	Confident
Understanding of the principles of risk management, including how it supports good governance and decision making. Knowledge of the risk management policy and strategy of the organisation. Understanding of risk governance arrangements, including the role of members and of the audit committee. Knowledge of the current the current risk maturity of the organisation and any key areas of improvement.	3	1	1	Comfortable
An understanding of the main areas of fraud and corruption risk the organisation is exposed to. Knowledge of the principles of good fraud risk management practice in accordance with the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Knowledge of the organisation's arrangements for tackling fraud.	3	2	0	Confident
Knowledge of the Seven Principles of Public Life. Knowledge of the authority's key arrangement to uphold ethical standards for both members and staff. e.g. code of conduct. Knowledge of the whistleblowing arrangements in the council.	3	2	0	Confident

Knowledge Area / Skills	Confident	Comfortable	Not Confident	Overall score
Aware that the Effectiveness Scrutiny of Treasury Management is an assessment tool for reviewing the arrangements for undertaking scrutiny of treasury management. The key knowledge areas identified are: - <ul style="list-style-type: none"> <li>regulatory requirements</li> <li>treasury risks</li> <li>the organisation's treasury management strategy</li> <li>the organisation's policies and procedures in relation to treasury management.</li> </ul>	3	1	1	Comfortable
Able to focus on material issues and overall position, rather than being side-tracked by detail.	2	2	1	Comfortable
Able to frame questions that draw out relevant facts and explanations, challenging performance and seeking explanation while avoiding hostility or grandstanding.	3	2	0	Confident
Ensuring there is a clear plan of action and allocation of responsibility.	2	3	0	Comfortable
Able to understand the practical implications of recommendations to understand how they might work in practice.	4	1	0	Confident
Support the use of plain English in communications, avoiding jargon, acronyms, etc.	3	2	0	Confident
Evaluate information based on evidence presented avoiding bias or subjectivity.	3	2	0	Confident
Chair the meeting effectively: summarise issues raised, ensure all participants can contribute and focus on the outcome and actions from the meeting.	4	1	0	Confident

## Appendix D: Self-assessment of Good Practice showing evidence

	Good practice questions	Yes/ No/ Partially	Evidence
<b>Audit Committee purpose and governance</b>			
1.	Does the authority have a dedicated audit committee that is not combined with other functions (e.g. scrutiny standards and ethics)?	Yes	Constitution, Terms of Reference Actual meetings, details on internet.
2.	Does the audit committee report directly to the governing body e.g full council?	Yes	ToR <sup>2</sup> paragraph (para) 42 reviewed, revised and reapproved at November Audit Committees.
3.	Has the committee maintained its advisory role by not taking on any decision-making powers?	Yes	ToR paragraph (para) 45. The Committee will have no delegated powers, other than those assigned from Council to approve the Statement of Accounts when required, but can require relevant officers, members and agencies to attend at any meeting where such attendance would be expedient to the work of the Committee.
4.	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's 2022 Position Statement?	Yes	ToR from para 9 reviewed, revised and reapproved at November Audit Committees.
5.	Do all those charged with governance and in leadership roles have a good understanding of the role and purpose of the committee?	Yes	Key officers and members are aware. Awareness is worked on by key members and officers at every opportunity. Officers and Portfolio Holders are invited to Audit Committee to discuss major risks and control issues. Discussions take place between the Chairman, CEO, senior officers and Portfolio Holders as required. The annual report from Committee to Council informs all members of the Committee's activities.
6.	Does the audit committee escalate issues and concerns promptly to those in governance and leadership roles?	Yes	ToR para 9-18. ToR Para 44.

<sup>2</sup> Terms of reference

	Good practice questions	Yes/ No/ Partially	Evidence
			<p>The Committee's work plan identifies areas of governance that it provides support on, this is further demonstrated by Committee agendas.</p> <p>The Annual Assurance report to Council presented to the June/ July Committee confirms this and the Annual Governance Statement identifies significant areas for improvement which the Committee can focus on.</p>
7.	Does the governing body (full council) hold the audit committee to account for its performance at least annually?	Yes	<p>No complaints from Council. Annual report to Council appears on July Audit Committee agenda allows members to comment and challenge the Committee's work.</p> <p>Evidence that the Committee is reviewing issues aligned to the Strategic Risks of the Council and the Annual Governance Statement action plans.</p>
8.	Does the committee publish an annual report in accordance with the 2022 guidance, including:	Yes	
	<ul style="list-style-type: none"> <li>compliance with the CIPFA Position Statement 2022</li> </ul>	Yes	Detailed within the annual report to Council July 2024.
	<ul style="list-style-type: none"> <li>results of the annual evaluation, development work undertaken and planned improvements</li> </ul>	Yes	Detailed within the annual report to Council July 2024.
	<ul style="list-style-type: none"> <li>how it has fulfilled its terms of reference and the key issues escalated in the year?</li> </ul>	Yes	Detailed within the annual report to Council July 2024.
<b>Functions of the committee</b>			



	Good practice questions	Yes/ No/ Partially	Evidence
9.	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement as follows?	Yes	
	<ul style="list-style-type: none"> <li>Governance arrangements</li> </ul>	Yes	ToR para 9+
	<ul style="list-style-type: none"> <li>Risk management arrangements</li> </ul>	Yes	ToR para 13+
	<ul style="list-style-type: none"> <li>Internal control arrangements, including:                             <ul style="list-style-type: none"> <li>financial management</li> <li>value for money</li> <li>ethics and standards</li> <li>counter fraud and corruption</li> </ul> </li> </ul>	Yes	ToR para 11+ ToR para 47 (f) ToR para 4
	<ul style="list-style-type: none"> <li>Annual governance statement</li> </ul>	Yes	ToR para 9, 10
	<ul style="list-style-type: none"> <li>Financial reporting</li> </ul>	Yes	ToR para 37+
	<ul style="list-style-type: none"> <li>Assurance framework</li> </ul>	Yes	ToR para 12
	<ul style="list-style-type: none"> <li>Internal audit</li> </ul>	Yes	ToR para 19+
	<ul style="list-style-type: none"> <li>External audit</li> </ul>	Yes	ToR para 31+
10.	Over the last year, has adequate consideration been given to all core areas?	Yes	Evaluation is through the: <ul style="list-style-type: none"> <li>Self-assessment of compliance with this best practice document, reported in December.</li> <li>Annual report to Council is written to map back to the terms of reference.</li> <li>Annual work plan, reported to March Committee, which maps back to the ToR.</li> <li>Agendas, minutes and reports of Committee support that all core areas are being reviewed.</li> </ul>
11.	Over the last year, has the committee only considered agenda items that align with its core functions or selected wider functions, as set out in the 2022 guidance?	Yes	Wider areas are: <ul style="list-style-type: none"> <li>Matters at the request of Statutory Officers or other committees – if these are brought to the Committee they would be considered in line with the ToR, para 6.</li> <li>Ethical Values – The Committee does not have responsibility for reviewing ethical standards. A separate Standards Committee which has this responsibility is held</li> </ul>

	Good practice questions	Yes/ No/ Partially	Evidence
			<p>as and when required. <i>However, the Committee supports standards and ethics, para 10+.</i></p> <ul style="list-style-type: none"> <li>Treasury Management – The Committee covers this responsibility as evidenced by its ToR para 39+.</li> </ul>
12.	Has the committee met privately with the external auditors and head of internal audit in the last year?	Partially	<p>External Audit attend each Audit Committee meeting and are present for the private session at each meeting. The chair of the audit committee has a monthly meeting with the Section 151 Officer, Head of Policy and Governance and the Internal Audit Manager. External Audit attend each audit committee meeting for both the public and private sessions. In addition there are three training sessions for audit committee members which the Section 151 Officer, Head of Policy and Governance and Internal Audit Manager attend.</p> <p><b>Proposed Action</b> Audit Committee members should arrange further meetings as required.</p>
<b>Membership and support</b>			
13.	Has the committee been established in accordance with the 2022 guidance as follows?	Yes	
	<ul style="list-style-type: none"> <li>Separation from the executive</li> </ul>	Yes	ToR, para 1 Where it has been recognised at any time that Members have conflicting responsibilities, they have resigned from the Committee.
	<ul style="list-style-type: none"> <li>A size of committee that is not unwieldy and avoids the use of substitutes</li> </ul>	Yes	ToR, para 1

	Good practice questions	Yes/ No/ Partially	Evidence
	<ul style="list-style-type: none"> <li>Inclusion of lay/co-opted independent members in accordance with legislation or CIPFA's recommendation</li> </ul>	Yes	The Audit Committee recruited an independent member in January 2023.
14.	Have all committee members been appointed or selected to ensure a committee membership that is knowledgeable and skilled?	Yes	<p>Completion of self-assessment confirms appropriate knowledge and skills are in place. Evidenced by attendance and behaviour at Committee and resulting recommendations and minutes, available publicly.</p> <p>The Chair has extensive experience and works closely with the S151 Officer and Chief Audit Executive (CAE) to retain current knowledge and management of risks.</p> <p>The Chair can identify and influence future training requirements for all Committee members.</p>
15.	Has an evaluation of knowledge, skills and the training needs of the chair and committee members been carried out within the last two years?	Yes	Completion of the skills assessment (completed September 2024).
16.	Have regular training and support arrangements been put in place covering the areas set out in the 2022 guidance?	Yes	<p>Demonstrated by:</p> <ul style="list-style-type: none"> <li>Completion of the skills assessment (completed September 2024).</li> <li>Committee work plan (February/March Committee agenda)</li> <li>Evidence of regular training including agendas, training documents etc. available on request.</li> </ul>

	<b>Good practice questions</b>	<b>Yes/ No/ Partially</b>	<b>Evidence</b>
17.	Across the committee membership, is there a satisfactory level of knowledge, as set out in the 2022 guidance?	Yes	Training self-assessments were completed by members, September 2024, and refreshes of the Audit Committee work plan and self-assessment inform the training plan looking forward. There are areas to build upon given the experience of members.
18.	Is adequate secretariat and administrative support provided to the committee?	Yes	Administrative support provided by Committee Services with dedicated Committee Officer assigned to the administration of the Audit Committee. Regular qualified and experienced secretarial support is provided to all Committee meetings.
19.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the CFO (Executive Director of Resources)?	Yes	Demonstrated by regular attendance at all Committees by these key stakeholders and the professional way the meetings are managed. Interviews with all parties would help to support this conclusion.
<b>Effectiveness of the committee</b>			
20.	Has the committee obtained positive feedback on its performance from those interacting with the committee or relying on its work?	Yes	Committee receives verbal feedback from members, officers and external audit. Annual assurance report to Council allows consideration of this by all members.
21.	Are meetings well chaired, ensuring key agenda items are addressed with a focus on improvement?	Yes	The Chair has extensive experience and works closely with the S151 Officer and Chief Audit Executive (CAE) to retain current knowledge and management of risks. Demonstrated in minutes and by attendees at Committee and by clear requests for further information in a few high-risk areas.
22.	Are meetings effective with a good level of discussion and engagement from all the members?	Yes	Demonstrated in agendas, minutes and reports of the Committee. All unsatisfactory and limited audit areas are reported to Committee and members invite officers from such areas to provide management updates on progress against agreed control improvements.
23.	Has the committee maintained a non-political approach to discussions throughout?	Yes	Demonstrated in agendas, minutes and reports of the Committee.

	<b>Good practice questions</b>	<b>Yes/ No/ Partially</b>	<b>Evidence</b>
24.	Does the committee engage with a wide range of leaders and managers, including discussion of audit findings, risks and action plans with the responsible officers?	Yes	Demonstrated in agendas, minutes and reports of the Committee. All unsatisfactory and limited audit areas are reported to Committee and members invite officers from such areas to provide management updates on progress against agreed control improvements.
25.	Does the committee make recommendations for the improvement of governance, risk and control arrangements?	Yes	Where there is a need to escalate such issues further, the Committee would do this through known member and officer channels. Clarity has been provided and explored at governance training sessions on how this works in practice.
26.	Do audit committee recommendations have traction with those in leadership roles?	Yes	Demonstrated in agendas, minutes and reports of the Committee. All unsatisfactory and limited audit areas are reported to Committee and members invite officers from such areas to provide management updates on progress against agreed control improvements.
27.	Has the committee evaluated whether and how it is adding value to the organisation?	Yes	Demonstrated by the year-end report sent to Council in September (agreed by Audit Committee in July) which sets out delivery in the following areas: <ul style="list-style-type: none"> <li>• Promoting the principles of good governance and their application to decision making; advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.</li> <li>• Contributing to the development of an effective control environment.</li> <li>• Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks.</li> <li>• Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence.</li> </ul>

	Good practice questions	Yes/ No/ Partially	Evidence
			<ul style="list-style-type: none"> <li>• Aiding the achievement of the authority’s goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements.</li> <li>• Supporting the development of robust arrangements for ensuring value for money.</li> <li>• Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.</li> <li>• Promoting effective public reporting to the authority’s stakeholders and local community and measures to improve transparency and accountability.</li> </ul> <p>In addition, agendas and work is planned and shows clearly where the levels of assurance are coming from, providing opportunity to challenge and ensure a balanced information base is received by members.</p> <p>Members conducted a session on the Committee’s effectiveness in September and October 2022 and agreed an action plan, the key elements of which are reported earlier in this report.</p>
28.	Does the committee have an action plan to improve any areas of weakness?	Partially	<p>The previous action plan was presented to audit committee members in November 2023.</p> <p><b>Proposed Action</b> As part of this self-assessment three areas for improvement have been identified. Given the planned elections for May 2025, this action plan will be highlighted to new members at that point.</p>
29.	Has this assessment been undertaken collaboratively with the audit committee members?	Partially	<p>The self-assessment was undertaken independently via MS forms, with both audit committee members and substitutes ask to respond. Five responses were received and a joint session held following the audit committee meeting on 27<sup>th</sup> September 2024.</p>

	<b>Good practice questions</b>	<b>Yes/ No/ Partially</b>	<b>Evidence</b>
			<p><b>Proposed Action</b>                      This has been completed, following the completion of the assessment a moderation session was held in September.</p>

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	<b>Committee and Date</b>	Item
	Audit Committee	
	28 <sup>th</sup> November 2024	
	10:00am	Public
		
		

## Internal Audit Charter and Mandate

<b>Responsible Officer:</b>	Barry Hanson		
email:	barry.hanson@shropshire.gov.uk	Tel:	07990 086409
<b>Cabinet Member</b> (Portfolio Holder):	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder – Finance, Corporate Resources and Communities		

### 1. Synopsis

The Charter demonstrates how Internal Audit complies with Public Sector Internal Audit Standards. The Audit Committee approves the Charter which incorporates the mission, code of ethics, definition and core principles of Internal Audit. Minor edits have been made to better align to the new Global Internal Audit Standards (GIAS) and revised UK Internal Audit Code of Practice.

### 2. Executive Summary

2.1. The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis. Minor edits have been made to better align to the new Global Internal Audit Standards (GIAS) and revised UK Internal Audit Code of Practice as detailed in **Appendix A**. Proposed changes are shown in **bold, underlined and italic** font.

### 3. Recommendations

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

# Report

## 4. Risk Assessment and Opportunities Appraisal

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

## 5. Financial Implications

- 5.1. There are no direct financial implications from adopting the Charter and Mandate.

## 6. Climate Change Appraisal

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

## 7. Background

- 7.1. The Public Sector Internal Audit Standards (PSIAS) 2017 are mandatory for internal audit in public services, including local government. They reflect and are based upon the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors. In addition, amendments were made to the public-sector requirements and public-sector interpretations which form part of the PSIAS. The Internal Audit Charter continues to reflect the standards.
- 7.2. In January 2024, the Institute of Internal Auditors (IIA) issued the Global Internal Audit Standards (the Standards) with implementation required by 9<sup>th</sup> January 2025. The previous version, the International Standards for the Professional Practice of Internal Auditing, released in 2017 (the 2017 Standards), remains approved for use during this transition period.
- 7.3. CIPFA has announced that it will introduce a Code of Practice for the Governance of Internal Audit in UK Local Government. The code would apply to all principal authorities in UK local government and is complementary to CIPFA's work on the replacement for the current Public Sector Internal Audit Standards. By ensuring effective arrangements for internal audit, authorities support the best use of their resources and robust governance.

- 7.4. CIPFA proposes that the code applies to the governance of internal audit and is the responsibility of those charged with governance within a local government body. The code sets out the conditions for internal audit, consistent with existing CIPFA guidance and governance within the sector. For heads of internal audit, the code will meet the same objectives as the 'essential conditions' set out in the Global Standards, but in a way that is appropriate for UK local government.
- 7.5. CIPFA has undertaken an in-depth review of internal audit standards for the UK local government sector. The governance expectations in Domain III, Governing the Internal Audit Function, very much align with existing CIPFA recommendations through the Statement on the Role of the Head of Internal Audit and its guidance to audit committees (Position Statement and Audit Committees, Practical Guidance for Local Authorities and Police). As a result, CIPFA is confident that many local government bodies would achieve conformance with the Principles of Domain III, however a clear roadmap for the sector would support internal audit teams, audit committees and senior management and ensure greater consistency. It also sends a clear message about the importance and value of internal audit.
- 7.6. CIPFA continues to work with the other UK public sector standard setters on the introduction of a replacement for the current Public Sector Internal Audit Standards. CIPFA will consult on the code at the same time as the IASAB consultation. It is proposed that both standards and the code would be effective from 1 April 2025.
- 7.7. The Head of Policy and Governance and Internal Audit Manager have attended engagement webinars on both consultations in the autumn and will ensure that when the new code is issued appropriate steps are taken to ensure compliance effective from April 2025.
- 7.8. Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Chief Audit Executive's reporting relationship with the Audit Committee; authorises access to personnel, records, and physical properties relevant to audit work; and defines the scope of internal audit activities as set out in **Appendix A**. The senior management and board representatives for Internal Audit's client organisations is set out in **Annex B** of the Charter. Changes to both are shown in **bold, underlined and italic** font.
- 7.9. 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 has operational responsibility for Information Governance. In addition, as part of the interim management structure until December 2024 this post also has responsibility for the Council's Complaints function. The Internal Audit Manager post adds a layer of independence from the CAE in the operational management of the audit team on a day-to-day basis. This is in line with CIPFA guidance on the Role of the Head of Internal Audit<sup>1</sup>.
- 7.10. 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.

<sup>1</sup> [The role of the head of internal audit | CIPFA](#)

7.11. The Internal Audit Charter refers to;

- The nature of assurance services provided to the Council.
- Organisational independence
- Individual objectivity
- Impairment to independence or objectivity
- Proficiency and due professional care
- Continuing professional development
- Quality assurance and improvement programme – internal and external.

7.12. The Charter will communicate the contribution that Internal Audit makes to the Council and includes:

- Internal Audit's mission
- Purpose, principles and responsibilities
- Independence and objectivity
- Competencies and standards
- Planning
- Nature of work
- Reporting
- Quality assurance
- Fraud and corruption
- Rights of access.

7.13. Final approval of the Internal Audit Charter resides with Shropshire Council's Audit Committee.

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

Accounts and Audit Regulations 2015

Public Sector Internal Audit Standards 2017

Internal Audit Quality Assurance External Assessment, February 2022

CIPFA Statement on the role of the head of internal audit in public service organisations, 2019 edition

CIPFA Local government application note for the United Kingdom Public Sector Internal Audit Standards 2019 edition

**Local Member:** N/A

**Appendices**

**Appendix A - Internal Audit Charter and Mandate with annexes A and B**



# Internal Audit Charter and Mandate

## Mission Statement

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



[www.shropshire.gov.uk](http://www.shropshire.gov.uk)  
General Enquiries: 0345 678 9000

## INTERNAL AUDIT CHARTER

### INTRODUCTION

1. This charter defines for the Council and the community Internal Audit's activities, purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)<sup>2</sup>. ***From 2025 revised Global Internal Audit Standards (GIAS) apply. Any UK public sector interpretations are awaited.*** It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee<sup>3</sup>, authority to access personnel, records, and physical properties relevant to the undertaking of its engagements<sup>4</sup>; and defines the scope of the Internal Audit activity. Final approval of this Charter rests with the Audit Committee<sup>5</sup>.
2. The PSIAS which encompasses the mandatory elements of the Institute of Internal Auditors (IIA) define Internal Audit as follows: *"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resource."*
3. The basis of internal financial administration within the Council lies in the Financial Rules contained in the Council's Constitution. This Charter should be read in conjunction with the relevant sections of these Financial Rules.
4. The authority and requirement for an internal audit function derives from two pieces of legislation: *Section 151 of the Local Government Act 1972*, requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The *Accounts and Audit Regulations 2015* require that a relevant body must 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Any officer or member of a relevant body shall if the body requires-make available such documents, records and information and explanations as are considered necessary by the internal auditors.
5. The Financial Rules (Part 4, Appendix C2) state the Section 151 Officer has a 'statutory responsibility for the overall financial administration of the Council's affairs and is responsible for maintaining an adequate and effective internal audit'.

<sup>2</sup> PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practices by CIPFA, the internal audit standard setters for Local Government.

<sup>3</sup> See glossary for translation of the terms used in the Public Sector Internal Audit Standards in respect of Shropshire Council's Internal Audit activity and those of its external clients.

<sup>4</sup> Engagement is the term in the PSIAS used to represent audit work.

<sup>5</sup> The Audit Committee is referenced in the PSIAS as the Board.

6. In accordance with good practice, The Audit Committee will review this Charter annually after consultation with senior management<sup>6</sup>.

### **MISSION AND MANDATE OF INTERNAL AUDIT**

7. ***The mission of Internal Audit is to enhance and protect organisational value by providing risk-based and objective assurance, advice and insight.***
8. ***The mandate of Internal Audit is prescribed by the council's Financial Procedure Rules under the obligation and intention to provide assurance to the Council about its financial and business systems and control arrangements. Responsibility The Chief Executive, (in consultation with the Executive Director of Resources and Monitoring Officer) must make provision for an internal audit function which is an independent review of the accounting, financial and other operations of the Council. The Head of Policy and Governance will report directly to the Chief Executive, the Chair of the Audit Committee or the External Auditor in any circumstance where the functions and responsibilities of the Executive Director of Resources are being reviewed. (Other than routine reporting of work carried out).***
9. ***The Head of Policy and Governance will provide a written summary of the activities of the Internal Audit function to the Audit Committee at least three times per year and an Annual Report produced for consideration by the Audit Committee, including an audit opinion on the adequacy and effectiveness of the Council's risk management systems and internal control environment.***

### **INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES**

#### **Purpose**

10. Internal Audit led by the Chief Audit Executive (CAE)<sup>7</sup> is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.'<sup>8</sup>
11. Internal Audit risk based planning is aligned with the strategic objectives of the Council as set out in the Shropshire Plan<sup>9</sup>. The Internal Audit team supports the Council in achieving its vision through the delivery of the Internal Audit plans and consultancy activities.

#### **Principles**

12. Internal Audit, the auditors and the internal audit activity, comply with the following principles in delivering and achieving internal audit's mission:
- Demonstrates integrity.

<sup>6</sup> Senior management comprises of the Head of the Paid Service, Monitoring Officer, Section 151 Officer and directors.

<sup>7</sup> The ***Head of Policy and Governance*** is the Council's Chief Audit Executive as defined in the PSIAS.

<sup>8</sup> Source Public Sector Internal Audit Standards April 1<sup>st</sup>, 2017.

<sup>9</sup> [The Shropshire Plan 2022-2025 | Shropshire Council](#)

- Demonstrates competence and due professional care.
- Is objective and free from undue influence (independent).
- Aligns with the strategies, objectives, and risks of the organisation.
- Is positioned appropriately and resourced adequately.
- Demonstrates quality and continuous improvement.
- Communicates effectively.
- Provides risk-based assurance<sup>10</sup>.
- Is insightful, proactive, and future-focused.
- Promotes organisational improvement.

### Objectives

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

### Responsibilities

14. Internal Audit is responsible for conducting an independent appraisal of all the Council's (and that of its external clients) activities, financial or otherwise, including services provided in partnership or under contract with external organisations. It provides this service to the Council and all levels of management.
15. Internal Audit complies with the requirements of the Public Sector Internal Audit Standards (PSIAS) including the Definition of Internal Auditing, the Principles and the Code of Ethics (see **Annex A**) and other relevant guidance; including those issued by individual auditors' professional bodies.
16. The scope of internal audit includes:
  - reviewing, appraising and reporting on the following;
  - the soundness, adequacy and application of internal controls;
  - the extent to which the Council's assets are accounted for and safeguarded from losses of all kinds arising from fraud and other offences, waste, extravagance, inefficient administration, poor value for money or other causes;
  - the suitability and reliability of financial and other management data developed within the Council;
  - conducting selected value for money reviews of the efficiency and economy of the planning and operation of the Council's functions;
  - providing a responsive, challenging and informative internal advice and consultancy service for committees and services;
  - undertaking any non-recurring studies as directed by the Section 151 Officer;
  - advising on or undertaking fraud investigation work, except for benefit fraud, in accordance with the Council's Fraud Investigation procedure, prosecutions policy and the disciplinary guide;
  - participating in the National Fraud Initiative; and
  - Periodically undertaking an audit needs assessment taking into consideration the authority's risk management process.

<sup>10</sup> Assurance opinions and recommendation categories are defined in Annex A



17. Internal Audit also conduct special reviews or assignments where requested by management, which fall outside the approved work plan and for which a contingency is included in the audit plan.

## INDEPENDENCE AND OBJECTIVITY

18. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.
19. ***The role of Head of Policy and Governance has operational responsibility for Information Governance. In addition, as part of the interim management structure until December 2024 this post also has responsibility for the Council's Complaints function. The Internal Audit Manager post adds a layer of independence from the CAE in the operational management of the audit team on a day-to-day basis.***
20. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not allow their judgement on audit matters to be influenced, distorted, or subordinated by others.
21. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.
22. Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal Audit is free to plan, undertake and report on its work as the CAE deems appropriate, in consultation with relevant managers. Counter fraud is a responsibility of the CAE but remains independent of the services from where counter fraud controls are operating.
23. The CAE has direct access to the Section 151 Officer, the External Auditor, senior managers, the Leader, Audit Committee and other members as required.
24. The CAE fosters constructive working relationships and mutual understanding with management, external auditors and with other review agencies.
25. Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, although the internal auditor does not allow their objectivity or impartiality to be impaired.
26. Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit reviews are planned to ensure potential conflicts are avoided. To ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended. Auditors should not allow external factors to

- compromise their professional judgement and must maintain confidentiality in their work.
27. The CAE cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate risk management processes, control systems, accounting records, financial processes and governance arrangements i.e. the control environment, exist without depending on internal audit activity to identify weaknesses.
28. The CAE is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and shall make recommendations on the standards of control to be applied.
29. This need not prejudice the audit objectivity when reviewing the systems later.

## **COMPETENCIES AND STANDARDS**

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

## **INTERNAL AUDIT PLANNING**

33. The CAE produces the Council's annual risk-based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan considers the Accounts and Audit (England) Regulations 2015, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
34. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of

the Section 151 Officer to ensure that the budget<sup>11</sup> and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.

35. The Internal Audit team has retained a suitable mix of skills in finance, information technology, contract management, governance, establishments, systems, counter fraud, investigations and project management. To help supplement the internal resources and respond to demand during periods of change, additional audit time will be purchased from external contractors to deliver the plan.

## **NATURE OF WORK**

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

### **Governance**

37. The internal audit activity must assess and make appropriate recommendations for improving the governance process in its accomplishment of the following objectives:
- promoting appropriate ethics and values within the organisation;
  - ensuring effective organisational performance management and accountability;
  - communicating risk and control information to appropriate areas of the organisation;
  - coordinating the activities of, and communicating information among, the audit committee, external and internal auditors and management;
  - the internal audit activity must assess whether the information technology governance of the organisation supports the organisation's strategies and objectives.

### **Risk Management**

38. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- organisational objectives support and align with the organisation's mission;
  - significant risks are identified and assessed;
  - appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite;
  - relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.
39. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.

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<sup>11</sup> The budget, including the remuneration the Audit Service Manager is approved by Council.

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

### **Control**

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

### **INTERNAL AUDIT REPORTING**

44. Internal Audit findings are reported in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The CAE sets standards for reporting, review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
  - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
  - state scope, purpose and extent of conclusions;
  - make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
  - acknowledge the action taken or proposed by management; and

- ensure that appropriate risk-based arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not acting.
45. The CAE reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the CAE produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. The annual report:
- includes an opinion on the overall adequacy and effectiveness of the Council's control environment (definitions in Annex A);
  - discloses any qualifications to that opinion, together with the reasons for the qualification;
  - presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
  - draws attention to any issues the CAE considers particularly relevant to the preparation of the Annual Governance Statement;
  - compares the work undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
  - comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

## QUALITY ASSURANCE

46. To ensure Internal Audit independence, the audit of any areas managed by the CAE will be conducted by an appropriate auditor and reviewed by an audit senior. The CAE will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer and the Assistant Director, Legal and Governance (Monitoring Officer) as the CAE's line manager.
47. The CAE will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years, an external assessment of Internal Audit by an appropriate person<sup>12</sup> external to the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any improvement plans will be agreed with and reported to the Audit Committee in the annual report<sup>13</sup>. Significant deviations will be considered for inclusion in the Annual Governance Statement.

<sup>12</sup> Qualified independent assessor or assessment team

<sup>13</sup> For both internal and external reviews

48. The CAE develops and maintains a set of performance measures which are reported to the Section 151 Officer and Audit Committee. These are also documented within the service plan and within individual Performance Development Plan (PDP) documents for all members of the team.

### **FRAUD AND CORRUPTION**

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

### **RIGHTS OF ACCESS**

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

**Reviewed November 2024**

**Public Sector Internal Audit Standards**

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

**Overall Assurance Opinion**

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

<b>Overall Assurance Opinion</b>	<b>Indication of when this type of opinion may be given**</b>	<b>Traditional Opinion</b>
<b>Substantial</b>	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
<b>Reasonable</b>	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	
<b>Limited</b>	Medium risk related weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected and/or High risk rated weaknesses identified in individual assignments/ observations that are significant in aggregate but discrete parts of the system of internal control remain unaffected, and/or Critical risk rated weaknesses identified in individual assignments/ observations that are not widespread to the system of internal control, and More than a minority of the individual assignment reports/ observations may have an overall report classification or rating of high or critical risk	

Overall Assurance Opinion	Indication of when this type of opinion may be given**	Traditional Opinion
<b>No Assurance</b>	<p>High risk rated weaknesses identified in individual assignments/ observations that in aggregate are widespread to the system of internal control and/or</p> <p>Critical risk rated weaknesses identified in individual assignments/ observations that are widespread to the system of internal control or</p> <p>More than a minority of the individual assignment reports/ observations have an overall report classification of either high or critical risk.</p> <p>Lack of management action to deliver improvements, may be identified by repeating recommendations of a high or critical risk</p>	Qualified
<b>Disclaimer</b>	<p>An opinion cannot be issued because insufficient internal audit work has been completed due to either:</p> <ul style="list-style-type: none"> <li>-restrictions in the agreed audit programme, which means that audit work would not provide sufficient evidence to conclude on the adequacy and effectiveness of governance, risk management and control, or</li> <li>- unable to complete enough reviews and gather sufficient evidence to conclude on the adequacy of arrangements for governance, risk management and control</li> </ul>	Qualified

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

**Audit assurance Opinions for engagements are graded as follows:**

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



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

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

### **Consultancy Activity**

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

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

The nature and scope of the work may include:

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

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

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

### **Code of Ethics**

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

**There are four principles in the code of ethics:**

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process

being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.

3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.
4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.<sup>14</sup>

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<sup>14</sup> Information can be found at [www.public-standards.gov.uk](http://www.public-standards.gov.uk)

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

**Cornovii Development Ltd**

Senior Management	Managing Director
Board	Cornovii Development Board

**Oswestry Town Council**

Senior Management	Town Clerk
Board	Town Council

**Shropshire County Pension Fund**

Senior Management	Pension Fund Administrator
Board	Pensions Committee

**STaRH**

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

**West Mercia Energy**

Senior Management	Treasurer Managing Director
Board	Joint Committee

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## Committee and Date

Audit Committee

28<sup>th</sup> November 2024

10:00am

Item

Public



## Annual review of the Counter Fraud, Bribery and Anti-Corruption Strategy

### Responsible Officer:

Barry Hanson

email: [barry.hanson@shropshire.gov.uk](mailto:barry.hanson@shropshire.gov.uk)

Tel: 07990 086409

### Cabinet Member (Portfolio Holder):

Lezley Picton, Leader of the Council  
 Brian Williams, Chairman of the Audit Committee  
 Gwilym Butler, Portfolio Holder – Finance, Corporate Resources and Communities

## 1. Synopsis

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

## 2. Executive Summary

2.1. This report outlines the measures undertaken to evaluate the potential for the occurrence of fraud, and how the Council manages these risks with the aim of prevention, detection, investigation and subsequent reporting of fraud, bribery and corruption.

2.2. The Counter Fraud, Bribery and Anti-Corruption Strategy has been reviewed and continues to underpin the Council's commitment to prevent all forms of fraud, bribery and corruption whether it be attempted on, or from within, the Council, thus demonstrating the continuing and important role the strategy plays in the corporate governance and internal control framework. This report also provides an update on the action plan to ensure continuous improvement in the fight against fraud, bribery

and corruption providing an update to members in response to national and local issues.

### 3. Recommendations

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

## Report

### 4. Risk Assessment and Opportunities Appraisal

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

### 5. Financial Implications

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

### 6. Climate Change Appraisal

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

### 7. Background

- 7.1. The Council sets itself high standards for both members and officers in the operation and administration of the Council's affairs and has always dealt with any allegations or suspicions of fraud, bribery and corruption promptly. It has in place policies, procedures and initiatives to prevent, detect and report on fraud, bribery and corruption, including a Speaking up about Wrongdoing policy, Anti Money

Laundering (AML) procedures and guidance, all supported by an overarching Counter Fraud, Bribery and Anti-Corruption Strategy.

7.2. The Counter Fraud, Bribery and Anti-Corruption Strategy is contained in part five of the Constitution, last reviewed and updated in November 2023. In reviewing the Strategy, only minor adjustments have been made to reflect structure changes at the Council and the move to a more digital approach. All proposed changes are identified in the Strategy in bold italic, underlined font.

7.3. The Strategy can be located on the Council's website alongside Speaking up about Wrongdoing policies for both staff and the public and Anti Money Laundering (AML) procedures and guidance. A review of these has identified minor changes which have been reflected in the Strategy and supporting policies, procedures and guidance.

## 8. Additional Information

### Counter Fraud, Bribery and Anti-Corruption Strategy

8.1. Shropshire's strategy clearly identifies the Council's commitment to an effective Counter Fraud, Bribery and Anti-Corruption approach as part of its overall Corporate Governance arrangements. This aligns with CIPFA's Code of practice on managing the risks of fraud and corruption and recognises that the strategy will enable the Council to:

- Acknowledge and understand fraud risks;
- Prevent and detect more fraud; and
- Pursue and punish fraud and recover losses.

8.2. The Strategy reflects best practice from the National Fraud Authority (NFA) Fighting Fraud Strategies and guidance from organisations such as ALARM (the National Forum for Public Sector Risk Management) and the IIA (Institute of Internal Auditors).

8.3. It is recognised that to reduce losses to fraud, bribery and corruption to an absolute minimum, a strategic approach with a clear remit covering all areas of fraud, bribery and corruption that may affect the Council is required. There needs to be a clear understanding of the importance of the links between policy work (to develop a counter fraud, bribery and anti-corruption culture, create a strong deterrent effect and prevent fraud, bribery and corruption by designing robust policies and systems) and operational work (to detect and investigate fraud, bribery and corruption and seek to apply sanctions and recover losses where they are found).

8.4. The temptation may be to 'pick and choose' actions. However, the full range of integrated action must be taken forward with the Council's focus clearly on outcomes (e.g. reduced losses) and not just activity (i.e. the number of investigations, prosecutions, etc.).

8.5. The strategy continues to emphasise the Council's remit to reduce losses to fraud, bribery and corruption to an absolute minimum. It:

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

## National Picture

### CIFAS Fraudscape 2024

8.6. CIFAS is a fraud prevention service in the United Kingdom. It is a not-for-profit membership association representing organisations from across the public, private and voluntary sectors. In their 2024 Fraudscape document, they report over a 9% reduction of fraudulent conduct reported to the National Fraud Database (NFD), a total of 374,160 cases. High risk areas of fraud identified by them in 2023 include:

- Identity fraud continued to be the dominant case type (64% of all cases totalling 237,642). Increases were seen across personal bank accounts and concerns centred on social media and the growing threat of AI and sophisticated data harvesting techniques designed to exploit cost-of-living pressures. Most victims in this category were over 61 years.
- Misuse of facility <sup>1</sup> now accounts for one in five cases (previously 17%) with the increase centred on pre-paid cards, asset finance hire-purchase and COVID era loan filings. Cost of living pressures and individuals looking to avoid payments or financially gain from stealing assets were cited as potential reasons for this increase in cases.
- One in 10 cases reported related to facility takeover <sup>2</sup> which is a 13% increase on the previous year. A shift in tactics was identified with existing accounts being increasingly targeted to obtain new products or upgrades particularly within the telecommunications sector. Online retail and telecommunications sectors are most impacted in this area.

<sup>1</sup> Misuse of Facility refers to the improper use of an account, services or resource by someone who has legitimate access.

<sup>2</sup> Facility takeover occurs where a fraudster gains access to an account and takes over its use for their own benefit.



- False applications cases fell by 17% overall, however an increase was seen against loan, insurance and telecommunications sectors within this figure. False documents, usually bank statements or utility bills are an issue with these being used to support false applications for products and services.
- Insider threat reports increased by 14%. The rise focussed on dishonest actions by employees (49%) with many organisations citing financial pressures as a driving factor.

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

### **Government Counter Fraud Functional Strategy 2024-2027**

8.8. This strategy outlines the mission and strategic objectives of the Government Counter Fraud Function. It focuses on understanding, detecting, and preventing fraud against the public sector.

### **Initial Fraud Impact Assessment (IFIA) Guidance**

8.9. Released in March 2024, this guidance provides a framework for assessing the impact of fraud as part of new major spending activities.

### **Government Counter Fraud Profession Standards and Guidance**

8.10. Updated in July 2024, these standards cover all core disciplines and sub-disciplines within the Government Counter Fraud Framework, including a new standard for Fraud Intelligence Practitioners.

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

8.11. The Fighting Fraud and Corruption Locally Strategy (FFCL)<sup>3</sup> is England's counter fraud and corruption strategy for local government. It continues to be the definitive guide for council leaders, chief executives, finance directors, and all those with governance responsibilities. It is aimed at local authorities who undertake work in the counter fraud area. The Companion contains good practice and a checklist for local authorities to use as part of making sure they have the right processes and resources in place. The Council's Counter Fraud, Bribery and Anti-Corruption Strategy continues to be aligned to this checklist.

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

#### **Action Plan**

<b>Action</b>	<b>Implementation Date and Update</b>
To proactively use the results of previous fraud risk assessments and publicly available information from recognised organisations to direct counter fraud resources in the annual Internal Audit Plan.	Completed and ongoing.

<sup>3</sup> [Fighting Fraud and Corruption Locally | Insights | Cifas](#)

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

### CIPFA's Counter Fraud Assessment Tool

- 8.13. This tool is designed to help councils assess their counter fraud arrangements against the standards set out in CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption. The tool is used as a basis for ongoing improvement and development planning alongside assurance on the adequacy and effectiveness of the Council's counter fraud arrangements. The action plan reported on within this report is reflective of the improvements identified when applying this tool.
- 8.14. Whilst no organisation is fraud proof, Shropshire Council continues to take robust steps to improve its resilience and to meet the standard set out in the CIPFA Code of Practice on Managing the Risk of Fraud and Corruption. Leadership has acknowledged its responsibilities for managing risks and it has robust arrangements in place to identify and manage risks. It has a counter fraud strategy, backed up by the resources and arrangements to carry it out, and is proactive in managing fraud and corruption risks and responds effectively.

Stakeholders can be confident in the approach taken by the Council and meeting the standards of this code contributes to good governance.

### **National Fraud Initiative (NFI)**

- 8.15. The National Fraud Initiative (NFI), run by the Cabinet Office, is an exercise that matches electronic data within and between public and private sector bodies to prevent and detect fraud. The Council continues to participate in this exercise.
- 8.16. The 2022/23 NFI exercise has identified £5,271.32 relating to deceased Pensioners, taxi drivers also claiming Housing Benefits.
- 8.17. The Council has submitted the data for the 2024/25 exercise and will receive the matches in January 2025. Individual teams will be responsible for reviewing their matches for any potential cases of fraud. Further updates will be shared with the Audit Committee when they are available.
- 8.18. Council tax and electoral registration data is also due to be submitted by December 2024, results will be reviewed by the Revenues and Benefits team to identify any potential single person discount fraud.

### **Transparency Requirements**

- 8.19. To comply with the Local government transparency code 2015, the council is required to publish identified of data sets. ( Local government transparency code 2015 - GOV.UK ([www.gov.uk](http://www.gov.uk)). The council publishes this information on the Open Data area of the Shropshire Council Website.
- 8.20. The Council has a newly created Publication scheme for 2024 which provides a repository/signposting to publicly available information. Legislation on transparency applies to anti-fraud activities. The Council has complied with these requirements, the results of which can be found on the web site.<sup>4</sup>

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

- 8.21. RIPA Policy and Guidance sets out the approach the Council will take with respect to the authorisation and use of surveillance activity to deliver the Council's statutory and public duties, whilst protecting individuals' right to privacy. The Council's existing Regulation of Investigatory Powers Policy was adopted in August 2015, and updated in February 2022 and approved by Cabinet <sup>5</sup>. The updates ensure that any surveillance activities undertaken by the Council are compatible with the human right to privacy by ensuring compliance with the requirements of the Regulation of Investigatory Powers Act 2000 (RIPA), the Investigatory Powers Act 2016 (IPA), the European Convention on Human Rights (ECHR) and the Human Rights Act 1998 (HRA). The Audit Committee's governance role is reinforced in the refreshed policy and guidance.
- 8.22. The Policy addresses the use of activities that involve:
  - the surveillance of individuals;
  - the use of undercover officers and informants, known as Covert Human Intelligence Sources (CHIS); and
  - the obtaining of communications data.

<sup>4</sup> <https://shropshire.gov.uk/open-data/>

<sup>5</sup> [RIPA POLICY AND GUIDANCE \(shropshire.gov.uk\)](https://shropshire.gov.uk/ripa-policy-and-guidance/)

- 8.23. All Council applications to acquire communications data are processed through the National Anti-Fraud Network who act as the Council's Single Point of Contact (SPoC). National Anti-Fraud Network (NAFN) engages with the applicant and the Office for Communications Data Authorisations (OCDA) to obtain authorisations on the Council's behalf. A senior manager at service manager level or above within the Council must be made aware of all applications before they are submitted to NAFN for processing.
- 8.24. The Investigatory Powers Commissioner's Officer (IPCO) are no longer routinely undertaking annual inspections. They have requested that each local authority should provide a written update, in the first instance, on its compliance with the legislation to enable IPCO to assess whether or not a remote, or in some cases, in-person, inspection is required. Following a submission by the Executive Director for People, Tanya Miles, the IPCO confirmed in July 2023 that he was satisfied that the Council's reply provided assurance that ongoing compliance with RIPA 2000 and the Investigatory Powers Act 2016 will be maintained. The next inspection is due in 2026.
- 8.25. The arrangements for the operational management of RIPA activities are yet to be decided following the Head of Business and Consumer Protection (RIPA Coordinator) being made redundant. It is anticipated this will be completed as part of the review of the Council's operating model.

### **Whistleblowing Policy**

- 8.26. The Council has a whistleblowing policy for the public and one for its employees. Both policies have been reviewed and updated in respect of key contacts and staff information. There have been no changes proposed to the process of 'blowing the whistle.' An annual reminder is circulated to all employees to raise awareness as to the availability of this policy.
- 8.27. The Whistleblowing Policy is available to staff via the Intranet pages and is also available to them, along with members and the public, via the website; allowing it to be accessed from any computer. This is particularly important as it allows staff to access the policy outside of a work environment, where they may be reluctant to be seen accessing the Whistleblowing policy.

### **Anti-Money Laundering (AML) Procedure**

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

### **Serious Organised Crime Checklist**

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

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

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

8.31. Executive Directors, Heads of Service and key Procurement Officers continue to evidence activities against the checklist providing a balanced assessment of the Council's exposure to the risks. In the main, at this high level, risks appear well managed and where improvements can be made, actions have been highlighted as part of an improvement plan. The Council's Commissioning and Assurance Board continues to oversee operational management of these actions. The checklist was fully reviewed in December 2023 and will be due for full review in December 2025.

### **Awareness and training**

8.32. Fraud awareness training is available on the Council's eLearning tool, Leap into Learning and continues to result in positive feedback from recipients. Questions explore awareness and knowledge of counter fraud procedures including the availability of the whistleblowing policy. Audit Committee members have been provided access to the training to complete and experience it first-hand. Further training will be arranged for audit committee members after the May 2025 local elections.

### **Qualified officers**

8.33. Internal Audit has officers trained, up to date and capable of undertaking investigations in a professional manner as the need arises. All Internal Audit officers have received the HR training for investigating officers. One officer is an accredited CIPFA Counter Fraud Technician. Other members of the Audit team have considerable experience in conducting investigations. Given current demands, time has been focused on investigations over proactive prevention work. Balanced against this is that lessons learnt from investigations are used to inform management of control issues and the need for improvements to prevent reoccurrences. These reports are shared with Executive Directors.

### **Shropshire Council counter fraud risks and plans**

8.34. UK local authorities face several significant fraud risks. These risks highlight the need for robust fraud prevention and detection measures within local authorities to protect public funds and maintain trust. Here are some of the top concerns:

**Procurement Fraud:** This remains a major risk, involving fraudulent activities in the procurement process, such as bid rigging, false invoicing, and kickbacks<sup>1</sup>.  
**Council Tax Fraud:** Fraudulent claims for council tax discounts or exemptions, such as single person discounts, are common issues.

**Housing Fraud:** This includes illegal subletting, false housing applications, and right-to-buy fraud.

**Payroll and Recruitment Fraud:** Fraudulent activities related to payroll, such as ghost employees, and recruitment fraud, including falsified qualifications or references.

**Grant Fraud:** Misuse of grants provided to individuals or organizations, often involving false claims or misrepresentation of eligibility.

**Cyber Fraud:** Increasingly, local authorities are targeted by cyber fraud, including phishing attacks, ransomware, and data breaches.

- 8.35. The counter fraud risk assessment has been refreshed in April 2024 and shared across all directorates. There is no change to the high-risk area of housing benefits and cyber fraud. Grant risks have fallen out of this category reflecting the reduced value and quantity of business grants being managed.

### High

- Housing benefits
- Cyber fraud <sup>6</sup>

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

### Medium

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

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

- Housing benefit investigations are referred to the Department of Work and Pensions Single Fraud Investigation Service for action. Housing Benefits, Internal Audit and Human Resources officers continue to jointly risk assess any employees that are suspected of benefit fraud to consider if internal investigations are required or Council assets within the employee's control

<sup>6</sup> Cyber fraud includes phishing attacks, data breaches, malware spoofing and ransomware.

may be at risk. A Housing Benefit audit was completed in 2022/23 and given reasonable assurance.

- The results of the 2022/23 NFI exercise including data matching for payroll, pensions, creditors, housing benefit, council tax, concessionary travel passes, blue badges, resident parking permits, taxi driver licences are reported on within this report. Data has been submitted for the 2024/25 exercise and any matches will be released in January 2025.
- To reduce the risk of cyber fraud and the impact it would have on all areas of the Council, we are completing an ongoing programme of IT Audit work of key infrastructure systems, including data centres and infrastructure, IT incident management, IT contract management and IT asset management. We are also part of a multi-agency working group which is developing a draft Local Resilience Forum ICT and Cyber Response Framework to manage the tactical aspects of a multi-agency response to a cyber-attack.
- Internal Audit resources have been deployed to provide assurance and advice in respect of initiatives such as; data analytics for financial systems; recruitment processes; procurement / implementation of new systems and internal control self-assessments.
- The current year audit plan includes several internal audit reviews that have been conducted, or are planned, to help ensure appropriate controls are in place, and are operational, to counter the fraud risks identified from the risk assessment:
  - IT reviews, as detailed earlier in this section
  - Payroll data analytics (quarterly)
  - Children's Direct Payments
  - Children's Services Section 17 Payments
  - Blue Badge scheme
  - Imprest and Purchasing Card spot checks
  - Counter fraud work, NFI participation, review of policies and delivery of training and awareness campaigns
  - Grant reviews across all Council services
  - Contracts and tendering including financial evaluations
- In line with the operational risk management review timetable, fraud risks will be fully reviewed during November 2024.

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

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

The Bribery Act 2010

NFA Fighting Fraud Together, the strategic plan to reduce fraud

Fighting Fraud Locally: The Local Government Fraud Strategy 2020

Government Counter Fraud Profession Standards and Guidance

Initial Fraud Impact Assessment (IFIA) Guidance

Government Counter Fraud Functional Strategy 2024-2027

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

Regulation of Investigatory Powers Policy February 2022

Home Office Serious and Organised Crime report and checklist 2017

Cifas Fraudscape 2024 Full Digital Report

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**Local Member:** N/A

## **Appendices**

**Appendix A - Counter Fraud Bribery and Anti-Corruption Strategy**

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# Counter Fraud, Bribery and Anti-Corruption Strategy

## POLICY STATEMENT AND STRATEGY

### Document Details:

Owner/Lead Officer: Executive Director of Resources (Section 151 Officer)

Date: *November 2024*

Review Arrangements: Next Review Date – **November 2025**



[www.shropshire.gov.uk](http://www.shropshire.gov.uk)  
General Enquiries: 0345 678 9000

## Counter Fraud, Bribery and Anti-Corruption Policy Statement

This Statement sets out Shropshire Council's (the Council's) policy in relation to fraud, bribery and corruption. It has the full support of both the Council's senior management and elected members. The Shropshire Plan 2022 to 2025 sets out the overall priorities for the Council. A key element of this is the objectives regarding healthy organisation and the management and control of its finances. Ensuring appropriate resources are assigned to tackling fraud is key to the delivery.

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

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

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

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

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

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

# Counter Fraud, Bribery and Anti-Corruption Strategy

## 1. Introduction

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

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

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

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

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

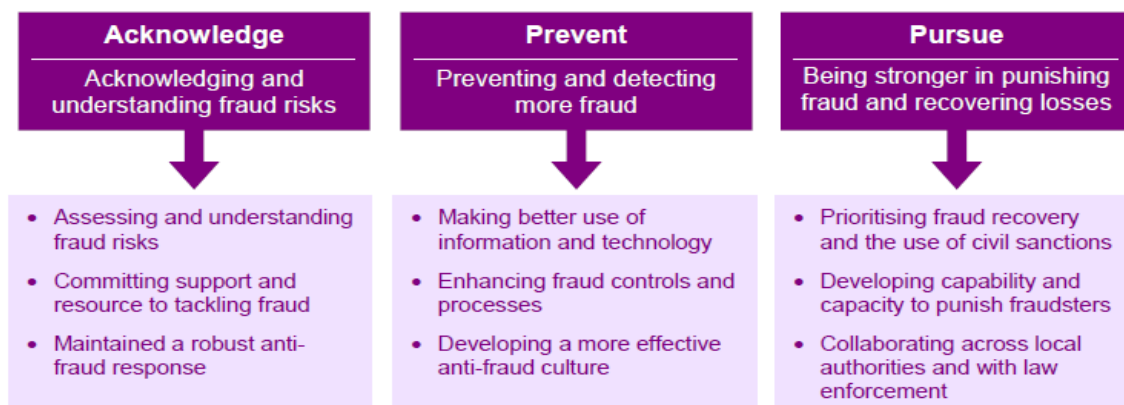
The five key elements of the CIPFA Code are to:

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

Act in response to fraud, bribery and corruption

**PURSUE**

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



## 2. Definitions

### What is Fraud?

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

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

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

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

### What is Bribery?

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

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

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

## What is Corruption?

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

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

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

## What is Theft?

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

## 3. Scope

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

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

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

## 4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

- Protect the Council's valuable resources by ensuring they are not lost through fraud but are used to provide quality services to Shropshire residents and visitors;
- Create and promote a robust 'anti-fraud' culture across the Council which highlights its zero tolerance of fraud, bribery, corruption and theft;
- Have in place effective counter fraud systems and procedures which:

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

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

### **Managing the Risk of Fraud and Corruption**

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

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

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

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

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

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

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

The Council seeks to fulfil its responsibility to reduce fraud and protect its resources by means of a strategic approach consistent with that outlined in both CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption and in the Local Government Fraud Strategy

– Fighting Fraud Locally, and its key themes of Govern, Acknowledge, Prevent, Pursue and Protect: -

<b>Govern</b>	<b>Executive Support over Controls and Processes</b>	We will have robust arrangements and executive support to ensure counter fraud, bribery and anti-corruption measures are embedded throughout the Council.
<b>ACKNOWLEDGE</b>	<b>Committing Support</b>	The Council's commitment to tackling fraud threat is clear. We have strong whistleblowing procedures and support those who come forward to report suspected fraud. All reports will be treated seriously and acted upon. Staff awareness of fraud risks is maintained through e-learning and other training. Our suite of counter fraud strategies, policies and procedures is widely published and kept under regular review.
	<b>Assessing Risks</b>	We will continuously assess those areas most vulnerable to the risk of fraud as part of our risk management arrangements. These risk assessments will inform our internal controls and counter fraud priorities. Elected members and senior managers have an important role to play in scrutinising risk management procedures and risk registers.  Also, the Internal Audit Service will carry out assurance work in areas of higher risk to assist management in preventing fraudulent activity.
	<b>Robust Response</b>	We will strengthen measures to prevent fraud. Internal Audit will work with management and our internal partners such as Human Resources, Finance, Legal and policy makers to ensure new and existing systems and policy initiatives are adequately fraud proofed.
<b>PREVENT</b>	<b>Better Use of Information Technology</b>	We will make use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud. We will also use computer assisted audit techniques, search engines and data matching facilities at a local level to investigate suspected frauds. Any such exchange or use of information will be undertaken in accordance with the principles contained in the Data Protection Act 2018. We will play an active part in the National Fraud Initiative (NFI) data matching exercise.
	<b>Fraud Controls and Processes</b>	We will educate managers on their responsibilities for operating effective internal controls within their service areas.  We will promote strong management and good governance that provides scrutiny and independent challenge to risks and management controls. Routine Audit reviews will seek to highlight vulnerabilities in the control environment and make recommendations for improvement.

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

<p><b>PROTECT</b></p> <p>This theme lies across all pillars of this strategy.</p>
<p>We will protect the Council and our residents. We will do this by protecting against serious and organised crime, protecting individuals from becoming victims of crime and protecting against the harm that fraud can do to the community. Our responsibilities will also cover protecting public funds, protecting the Council from fraud and cyber-crime and from future frauds.</p>

## 7. Responsibilities

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

## 8. Reporting, Advice, Support

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

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



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

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

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

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

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

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

## 9. Investigations

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

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

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

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

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

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

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

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

**Recording** – The Chief Audit Executive (CAE) will maintain a fraud database where summary details of financial irregularities will be recorded.

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

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

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

## 10. Strategy Review

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

## APPENDIX 1



### FRAUD RESPONSE PLAN

#### INTRODUCTION

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

#### WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

9. Immediately report your suspicions to:
  - Your immediate Supervisor or Line Manager (or more senior management depending on the seriousness and sensitivity of the issues involved and who is thought to be involved in the wrongdoing).
  - The Chief Audit Executive Barry Hanson on 07990 086409 or the Section 151 Officer, James Walton on 01743 258915.
  - The Whistleblowing Hotline on 01743 252627 or email [audit@shropshire.gov.uk](mailto:audit@shropshire.gov.uk).

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

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

### SAFEGUARDS

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

### INVESTIGATION

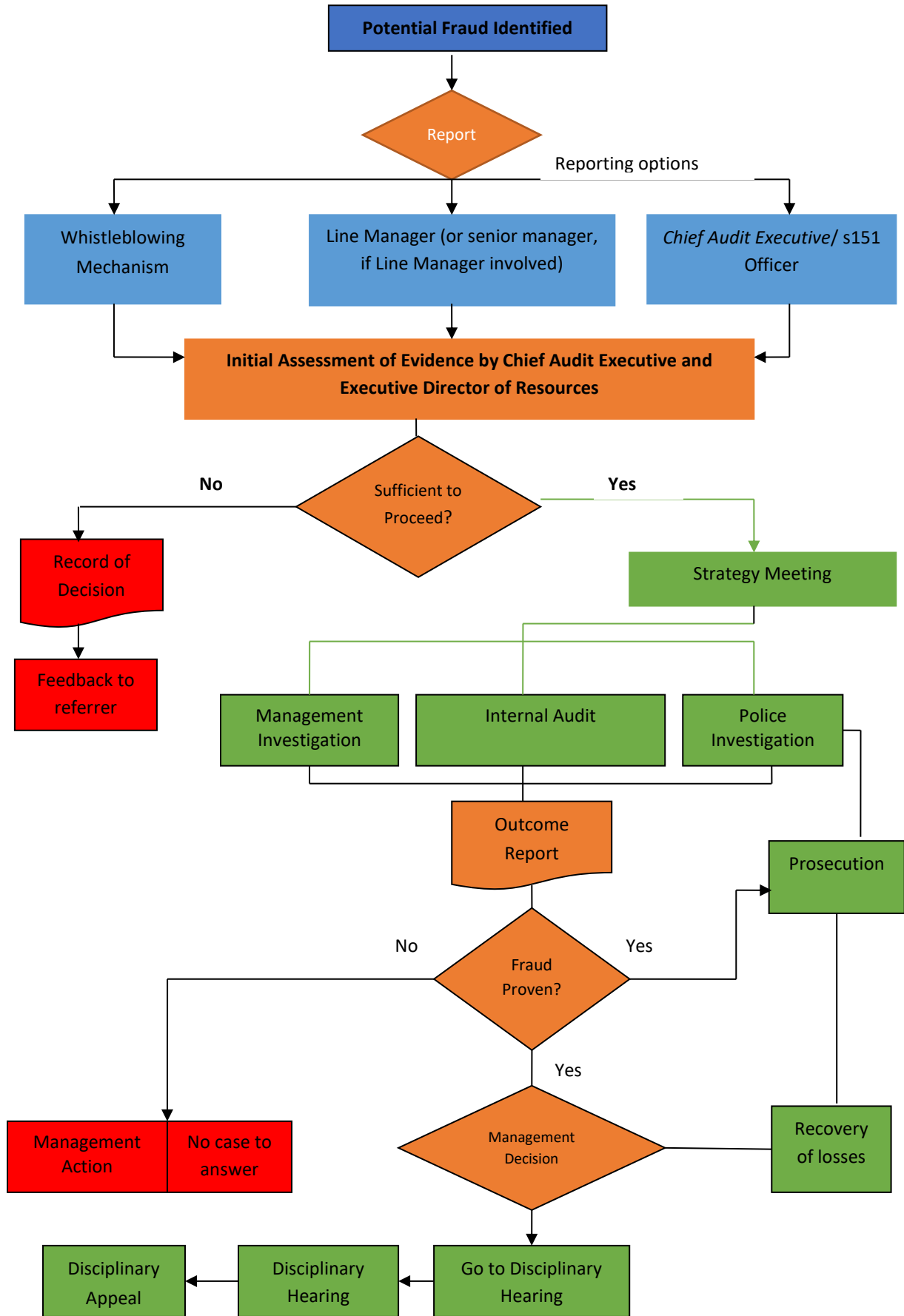
15. All suspected fraud must be referred to the Chief Audit Executive.
16. The Chief Audit Executive will assess the initial information and decide how to proceed. This may include a strategy meeting with the relevant manager where appropriate.

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

#### POTENTIAL OUTCOMES

18. **Criminal Prosecution** – the Section 151 Officer, in consultation with the appropriate Executive Director and Chief Audit Executive will authorise the referral to the police for investigation.
19. **Disciplinary Action** – at the end of the investigation, the Chief Audit Executive will produce an investigation report. If this involves an employee and fraud is proven, the likely outcome will be dismissal. If fraud is not proven there may still be matters which need to be considered under the Council's disciplinary procedures.
20. **Recovery through Civil or Criminal Proceedings** – the Council will seek to recover all losses subject to legal advice and where it is cost effective to do so. Any losses caused by an employee will be recovered through salary, pension or insurance.
21. **Weaknesses in the System of Controls** –an Action Plan will be produced to address any system or management weaknesses and to reduce the risk of fraud and error in the future.

**Appendix 1 - The Council's typical fraud response plan**



## APPENDIX 2

### NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

#### **Selflessness**

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

#### **Integrity**

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

#### **Objectivity**

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

#### **Accountability**

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

#### **Openness**

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

#### **Honesty**

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

#### **Leadership**

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

**SPECIFIC RESPONSIBILITIES****APPENDIX 3**

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



## **Shropshire Council – Loss Recovery Approach**

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

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

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

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

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

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

### **Financial Considerations in relation to reporting fraud to law enforcement authorities**

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

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

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<sup>1</sup> Sections 130 - 133 Powers of Criminal Courts (Sentencing) Act 2000

<sup>2</sup> Section 40 (1) Magistrates' Courts Act 1980

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

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

### Adopted Strategy

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

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

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

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

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## Committee and Date

Audit Committee

28<sup>th</sup> November 2024

10:00am

Item

Public



## Annual Review of Audit Committee Terms of Reference

<b>Responsible Officer:</b>	James Walton		
email:	james.walton@shropshire.gov.uk	Tel:	01743 258915
<b>Cabinet Member (Portfolio Holder):</b>	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder – Finance, Corporate Resources and Communities		

### 1. Synopsis

Effective audit committees bring many benefits to an organisation. To ensure that the Council continues to provide an effective Audit Committee their Terms of Reference are considered and approved by members annually. There are no changes proposed in 2024.

### 2. Executive Summary

2.1. The Audit Committee's Terms of Reference reflect guidance from the Chartered Institute of Public Finance and Accountancy (CIPFA) in their: Audit Committees, Practical Guidance for Local Authorities and Police 2022 Edition. There are no changes proposed.

### 3. Recommendations

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

# Report

## 4. Risk Assessment and Opportunities Appraisal

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

## 5. Financial Implications

- 5.1. There are no financial implications.

## 6. Climate Change Appraisal

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

## 7. Background

- 7.1. Part of the responsibility of this Committee is to review annually its Terms of Reference, making any recommendations for significant changes in them to Full Council.
- 7.2. The Chartered Institute of Public Finance and Accountancy (CIPFA); defines the purpose of an audit committee as being to provide those charged with governance, independent and high-level focus on the adequacy of governance, risk and control arrangements. By doing this and overseeing both internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 7.3. The Audit Committee satisfies the wider requirement for sound financial management, as set out in the Accounts and Audit Regulations, 'for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which include the arrangements for the management of risk.' In addition, Section 151 of the Local Government Act 1972 requires the Council to, 'make arrangements for the proper administration of its financial affairs'. In discharging sound financial management, the Section 151 Officer requires an effective audit committee and an internal audit service which evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.
- 7.4. Effective audit committees bring many benefits to the Council. They can:
  - Increase public confidence in the objectivity and fairness of financial and other reporting.

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

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

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

Chartered Institute of Public Finance and Accountancy's (CIPFA), Audit Committees, Practical Guidance for Local Authorities and Police 2022 Edition

TIS Online CIPFA Audit Committee

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

Local Government Act 1972

Accounts and Audit (England) Regulations

**Local Member:** N/A

**Appendices**

Appendix A - Audit Committee Terms of Reference

**AUDIT COMMITTEE TERMS OF REFERENCE**

**Membership**

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

**Meetings**

5. The Audit Committee will meet at least four times a year. The Chairman of the Audit Committee may convene additional meetings as they deem necessary.
6. The Head of the Paid Service, the Section 151 Officer, or the CAE may ask the Audit Committee to convene further meetings to discuss issues on which they want the Committee's advice.
7. The Audit Committee, CAE and External Audit have the opportunity for private discussions without the Section 151 Officer or other executive directors being present if issues need exploring in this forum.
8. The Monitoring Officer is responsible for ensuring the Audit Committee is serviced with all necessary papers and support to enable it to fully discharge its responsibilities.

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<sup>1</sup> CAE is the Head of Policy and Governance



## **CORE FUNCTIONS**

### **Governance risk and control**

9. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
10. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, considering Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control and assurances on how effectively the Seven Principles of Public Life are supported<sup>2</sup>.
11. To consider the Council's arrangements for securing value for money, supporting standards and ethics and review assurances and assessments on the effectiveness of these arrangements.
12. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
13. To monitor the effective development and operation of risk management in the Council.
14. To monitor progress in addressing risk-related issues reported to the committee; Seek assurances that action is taken by management in risk related issues identified by auditors and inspectors; Resolve any outstanding differences between internal and external auditors and management when action or major recommendations have not been agreed.
15. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
16. To review the assessment of fraud risks and potential harm to the Council from fraud, bribery and corruption.
17. To monitor the counter-fraud, bribery and corruption strategy, actions and resources.
18. To review the governance and assurance arrangements for significant partnerships or collaborations.

### **Internal Audit**

19. To approve the Internal Audit Charter incorporating the mission, code of ethics, definition and core principles of Internal Audit.
20. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

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

21. To approve, but not direct, the risk-based internal audit plan, including internal audit resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
22. To approve significant interim changes to the risk based internal audit plan and resource requirements, including approval of significant additional consulting services.
23. To make appropriate enquiries of both management and the CAE to determine if there are any inappropriate scope or resource limitations.
24. To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of Internal Auditing of the CAE. To approve and periodically review safeguards to limit such impairments.
25. To consider reports from the CAE on Internal Audit's performance during the year, including the performance of external providers of Internal Audit Services. These will include:
  - a) Updates on the work of Internal Audit including key findings, issues of concern and action in hand following Internal Audit work.
  - b) Reports on the results of the Quality Assurance and Improvement Programme.
  - c) Reports on instances where the Internal Audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance should be included in the Annual Governance Statement.
26. To consider the CAE's annual report, specifically:
  - a) The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement – these will indicate the reliability of the conclusions of Internal Audit.
  - b) The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with the summary of the work supporting the opinion – these will assist the committee in reviewing the Annual Governance Statement.
27. To consider summaries of specific internal audit reports as requested.
28. To receive reports outlining the action taken where the CAE has concluded that management has accepted a level of risk that may be unacceptable to the Council or there are concerns about progress with the implementation of agreed actions.
29. To contribute to the Quality Assurance and Improvement Programme and to the external quality assessment of Internal Audit that takes place at least once every five years.

30. To support the development of effective communication with the CAE.

### **External Audit**

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

### **Financial reporting**

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

### **Treasury Management**

39. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
40. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity<sup>3</sup>.
41. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management in accordance with best practice.

<sup>3</sup> Clause 3 Treasury Management Code of Practice

## **Accountability Arrangements**

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

## **Work plan**

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

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

### **Powers of the Audit Committee**

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

### **Audit Committee Competency Framework**

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

- c) Financial management and accounting including accounting concepts and standards.
- d) Risk management.
- e) Audit.
- f) Counter fraud.
- g) Treasury management.

And that the Committee should receive appropriate levels of training.

**Reviewed November 2024.**



**Committee and Date**

Audit Committee  
28<sup>th</sup> November 2024

Item

Public



## Final Approval Statement of Accounts 2023/24

<b>Responsible Officer:</b>	James Walton		
email:	<a href="mailto:james.walton@shropshire.gov.uk">james.walton@shropshire.gov.uk</a>	Tel:	01743 258915
<b>Cabinet Member</b> (Portfolio Holder):	Cllr Gwilym Butler, Finance & Corporate Support		

### 1. Synopsis

This report provides an update on the approval of the 2023/24 Statement of Accounts, and particularly progress on the audit of the accounts.

### 2. Executive Summary

2.1. For 2023/24 the statutory deadlines for publishing the final audited accounts was 30th September with unaudited accounts needing to be published by 31st May. It was identified during audit planning that external audit would be unable to work to the 30th September deadline as the audit sector work to address the backlog of public sector audits highlighted and acknowledged by the Public Sector Audit Appointments. As highlighted to Audit Committee in the June 2024 meeting, it was agreed that the auditors would plan to complete the audit by 30th November.

Task	Statutory Deadline	Planned Timeline
Year end	31st March 2024	31st March 2024
Produce and approve Draft Statement of Account	31st May 2024 <span style="color: red;">Achieved</span>	31st May 2024 <span style="color: red;">Achieved</span>
Approve and publish Audited Statement of Accounts	30th September 2024 <span style="color: red;">Agreed to vary</span>	30th November 2024 <span style="color: red;">Missed</span>

- 2.2. The audit on the 2023/24 Statement of Accounts has been progressing since August but is not in a position to be fully completed by the end of November due to several key areas still to be completed. It is intended that these audit queries are finalised and completed by mid-December with the aim to publish the audited Statement of Accounts by the end of December 2024.

### 3. Recommendations

- 3.1. Note the progress on the audit of the 2023/24 Statement of Accounts, and that formal approval of the Audited Statement of Accounts will take place in December.

## Report

### 4. Risk Assessment and Opportunities Appraisal

- 4.1. Details of the potential risks affecting the balances and financial health of the Council are detailed within the Statement of Accounts that has been subject to audit. The Audit Findings Report to be presented in December will highlight that the audit work has been focussed on the significant risk areas identified for the audit.

### 5. Financial Implications

- 5.1. Shropshire Council is currently managing an unprecedented financial position as budgeted for within the Medium Term Financial Strategy approved by Council on 29 February 2024 and detailed in our monitoring position presented to Cabinet on a monthly basis. This demonstrates that significant management action is required over the remainder of the financial year to ensure the Council's financial survival. While all Cabinet Reports provide the financial implications of decisions being taken, this may change as officers review the overall financial situation and make decisions aligned to financial survivability. Where non-essential spend is identified within the Council, this will be reduced. This may involve
- scaling down initiatives,
  - changing the scope,
  - delaying implementation, or
  - extending delivery timescales.
- 5.2. This report considers the overall financial position of the Authority in the form of the Council's Statement of Accounts. The accounts consider the level of assets controlled and owned by the Authority, and the level of balances of held.
- 5.3. The ability of the finance team in the Council and the local audit team to meet with nationally set deadlines is a measure of the overall efficiency and effectiveness of the audit process.



## 6. Climate Change Appraisal

- 6.1. The information contained within this report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaptation.

## 7. Background

- 7.1. The Accounts and Audit Regulations 2015 state that members are required to approve the annual accounts after, rather than before, the findings of the audit are known. The statutory deadline for audited accounts to be published is 30<sup>th</sup> September, however Grant Thornton have stated that they will be unable to meet this timeframe and were instead planning to finalise the audit of the 2023/24 accounts by 30 November.

## 8. Additional Information

- 8.1. The audit of the Statement of Accounts has been progressing since August and is not yet complete. Whilst good progress has been made on a significant proportion of the audit, the auditors have recently made us aware that a material change will be needed to the accounts in relation to the IAS19 figures used for pensions. This is because the Internal Rate of Return used by the actuary was based on estimated figures, and if the actual Internal Rate of Return was now used this would provide a material difference to the value of pension assets and liabilities. The Council are now securing the necessary information from the actuary and will look to resolve this issue in the final Statement of Accounts. Failure to amend for this item would likely result in the auditor having to qualify their opinion on the Statement of Accounts, which the Council wishes to avoid on such a minor technicality.
- 8.2. There are also several audit queries that remain outstanding despite the work that has progressed on the audit to date. Unfortunately, it has not been possible to finalise and close down these queries prior to the November deadline. It is therefore proposed that this work will be finalised in December and therefore an additional Audit Committee has been established to enable the audited Statement of Accounts to be approved, and the Letter of Representation be drafted to provide the auditor with the assurance that the information submitted in the accounts is accurate and all material information has been provided to them. The auditors will also present the Audit Findings Report for 2023/24 at the December Audit Committee which will provide the audit opinion on the accounts.
- 8.3. Outstanding areas to be resolved to complete work for the AFR include several areas linked to how external audit can place reliance on the work of third parties. These include
- Valuation of CDL properties
    - o The properties owned by CDL were Audited by their appointed external auditors. Before GT accepted those valuations it was necessary to determine whether the external auditors for CDL visited the sites being valued physically to confirm the state of the assets being valued for themselves. The asset value of c £30m is included in the group Accounts of the council as well as in the CDL Accounts already approved by their

- board. There was a risk of material misstatement but that would not affect the fundamental position of the council. This is being resolved.
- To note – there is no impact on the council or the accounts until CDL disinvest from property assets. The issue relates to the trust placed in third party valuations (estimates).
  - Valuation of Council properties
    - The valuation of properties owned directly by the council. This is undertaken by a retained quantity surveying firm. An officer of the council acts as the key contact in the council. Sadly, that officer (who has assisted the process in recent years), was taken ill and died suddenly. Other officers picked up this work to ensure timely response to audit questions. This is also largely resolved.
    - To note – there is no overall impact on the council or the Accounts until assets are sold or purchased. The issue again relates to the trust placed in third party valuations (estimates).
  - Valuation of pension fund assets and liabilities relating to the Council (IAS19)
    - This valuation was undertaken in May as part of preparing the pre-audit Accounts for 31 May. Prior to confirming the Audit Findings Report (AFR) before this committee meeting, a request was lodged by GT for an updated IAS19 report, further to progress on the pension fund audit.
    - To note – there is no overall impact on the council or the accounts until investments are cashed and pension liabilities arise. The issue also relates to the trust placed in third party valuations (estimates).

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

Audit Committee, 27<sup>th</sup> June 2024 – Approval of the Council’s Draft Statement of Accounts 2023/24

**Local Member:** All

**Appendices**

None



## Committee and Date

Audit Committee

28th November 2024

10:00am

Item

Public



## Internal Audit Performance 2024/25

<b>Responsible Officer:</b>	Barry Hanson		
email:	barry.hanson@shropshire.gov.uk	Tel:	07990 086409
<b>Cabinet Member (Portfolio Holder):</b>	Lezley Picton, Leader of the Council Brian Williams, Chairman of the Audit Committee Gwilym Butler, Portfolio Holder – Finance and Corporate Resources and Communities		

### 1. Synopsis

This report summarises Internal Audit's 2024/25 work to date. Delivery is slightly ahead of previous delivery records. Lower assurances from reviews 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 two months since the September Audit Committee. 49% percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in line with previous delivery records (50% 2023/24, 42% 2022/23).
- 2.2. Five reasonable, seven limited and three unsatisfactory assurance opinions have been issued. The 15 final reports contained 110 recommendations, three of which were fundamental.
- 2.3. This report proposes minor revisions in the coverage of planned activity for Shropshire Council, with a slight decrease of 13 days from 1,347 days as reported in September 2024 to 1,334 days. Changes to the planned activity reflect adjustments considering both risks and available resources.

- 2.4. Revisions to the plan are targeted to provide enough activity to inform an end of year opinion.
- 2.5. A notable increase in repeated low assurances where follow up audits are completed indicating action has not been taken to address the control weaknesses. Internal audit has noted management are suggesting longer implementation dates to significant recommendations which means that evidence-based risks identified by Internal Audit may not be mitigated in a timely manner.
- 2.6. 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 2024/25 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. (**Paragraph 8.5 and Appendix A, Table 3**).

## 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.

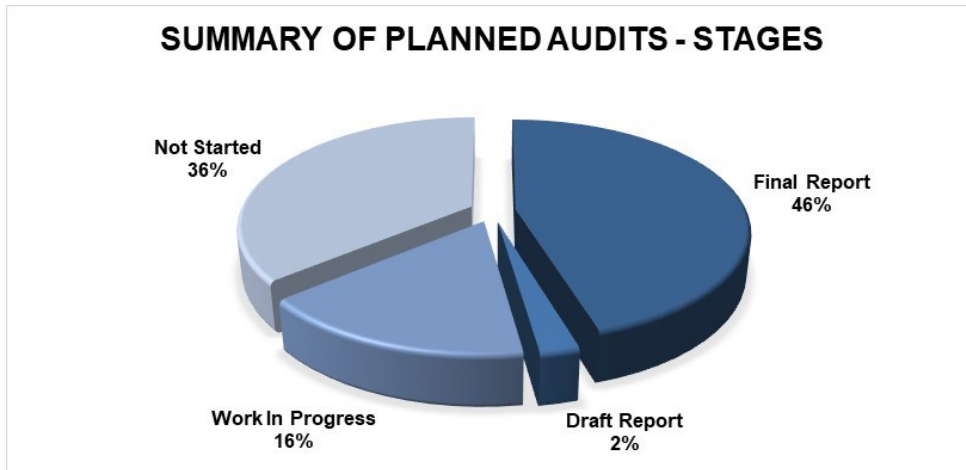
## **7. Background**

- 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 2024/25 Internal Audit Plan was presented to and approved by the Audit Committee at the 17<sup>th</sup> July 2024 meeting with adjustments being approved in September. This report provides an update on progress made against the plan up to 20<sup>th</sup> October 2024 and includes minor revisions to the plan.

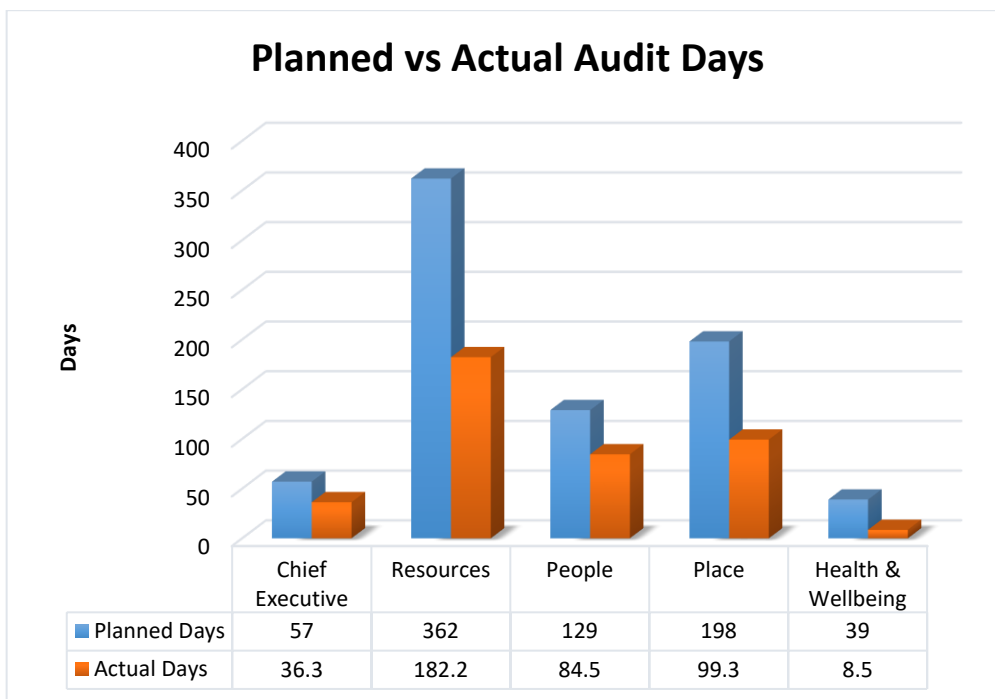
## **8. Performance Against the Plan 2024/25**

- 8.1. Revisions to the 2024/25 plan provide for a total of 1,334 audit days. Revisions to the plan are targeted to provide enough activity to inform an end of year opinion. There is a slight reduction in the number of days available for audit as a member of the team will be undertaking an apprenticeship from January 2025, which includes a requirement to allow 20% of their time for training.
- 8.2. Performance to date is in line with previous delivery records at 49% (50% 2023/24, 42% 2022/23), the team are on track to deliver a minimum of 90% of the revised annual plan by the year end.

8.3. In total, 15 final reports have been issued in the period from 26<sup>th</sup> August to 20<sup>th</sup> October 2024, 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 2024/25:



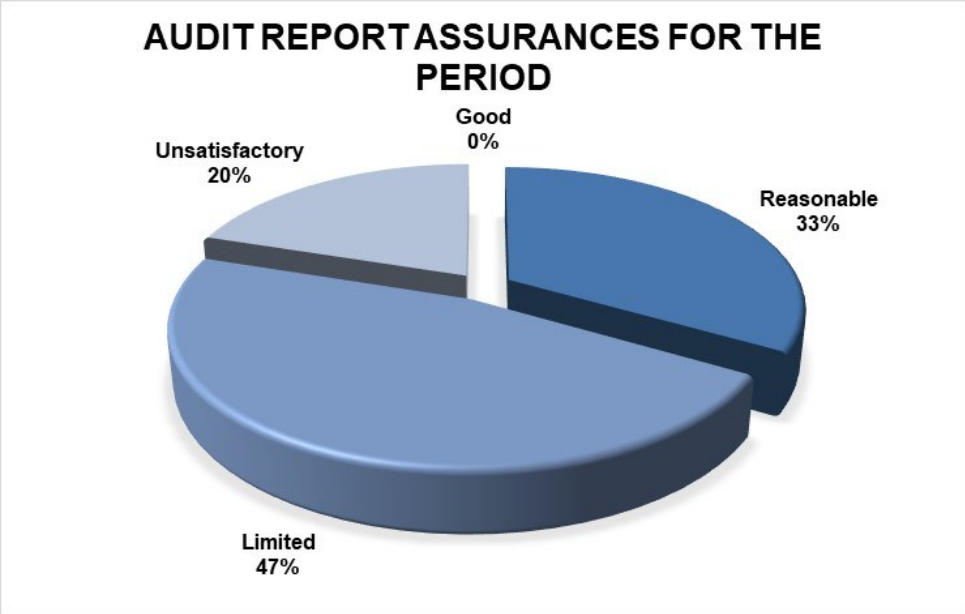
8.4. Audits have been completed over several service areas as planned:



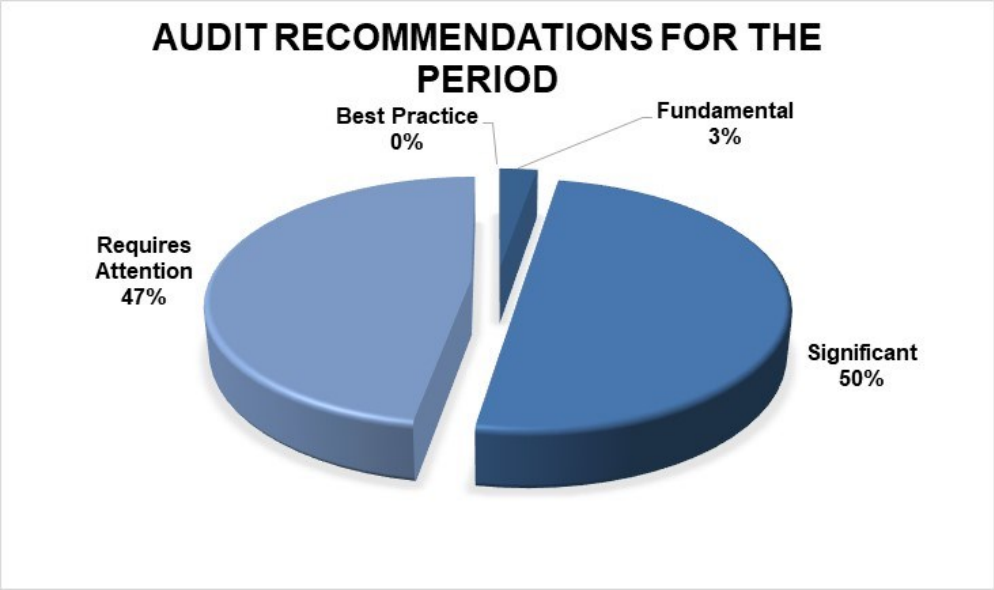
8.5. The following audits have been completed in the period:

Audit Name	Audit Opinion					Recommendations			
	Good	Reasonable	Limited	Unsatisfactory		Fundamental	Significant	Requires Attention	Best Practice
<b>Chief Executive</b>									
Social Media				1			7	1	
	0	0	0	1		0	7	1	0
<b>People - Adults</b>									
Greenacres Trading Account		1					1	5	
	0	1	0	0		0	1	5	0
<b>People - Children</b>									
Together for Children Partnership - Performance Audit		1					3	2	
Foster care 2022/23			1				5	5	
Short Breaks Service 2023/24				1		2		1	
	0	1	1	1		2	8	8	0
<b>Place</b>									
External Catering Contracts		1				1			
School Planning and Transport Arrangements		1					1	2	
Highways Maintenance - Term Maintenance -Kier 2023/24			1				5	6	
Much Wenlock Sports Centre- Joint Use Follow up			1				4	11	
Partnerships 2023/24			1				4	1	
Security of Council Buildings			1				4	3	
The Lantern Follow Up				1			13	8	
	0	2	4	1		1	31	31	0
<b>Resources - Finance and Technology</b>									
Business Continuity and Disaster Recovery 2023/24		1					1	4	
VAT 2023/24			1				4	2	
	0	1	1	0		0	5	6	0
<b>Resources - Workforce and Improvement</b>									
Recruitment Arrangements Follow up 2023/24			1				3	1	
	0	0	1	0		0	3	1	0
<b>Total</b>	0	5	7	3		3	55	52	0
%	0%	33%	47%	20%		3%	50%	47%	0%

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:



8.8. In the period up to the 20<sup>th</sup> October 2024, five reports have been issued providing reasonable assurance and accounting for 33% of the opinions delivered. This represents a decrease in the higher levels of assurance for this period, compared to the previous year outturn of 60%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 67% for the period compared to the previous year outturn of 40%. Details of the year-to-date picture can be found in paragraphs 8.14 to 8.16.



- 8.9. As reported to the September Committee meeting, pressures within the organisation to address the immediate critical issue of financial sustainability have resulted in many competing priorities for service areas. Auditors continue to note difficulty in commencing, completing and finalising audits, which has resulted in overruns on some audits. This will be a consideration in the CAE year end opinion report for 2024/25. Both the S151 Officer and Monitoring officer have been appraised of this situation and will be monitored by Internal Audit Management.
- 8.10. There are four vacancies within the Internal Audit Team. A request was declined by the Resources Workforce Board to increase the working hours of a part time Auditor due to the financial position of the Council. It is therefore anticipated that there will be no further recruitment or external support procured during the 2024/25 financial year.
- 8.11. 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**.

[Question 1: Do Members wish to receive any updates from managers in relation to the limited and unsatisfactory assurances opinions?](#)

- 8.12. Two 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.
- 8.13. A total of 110 recommendations have been made in the 15 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**. Three fundamental recommendations have been identified, which are detailed below:

### **Short Breaks**

**Recommendation** - The Short Breaks re-commissioning work must continue at pace in order to determine and meet the requirements of a child or young person who has a disability and lives in Shropshire. Contracts should be procured in line with the Council's Contract Procedural Rules and formalised prior to the existing expiry date of 31st March 2025.

**Risk** - Failure to re-commission the contracts will lead to further inefficiencies with the contracts held resulting in poor value for money and not meeting the needs of a child or young person who has a disability and lives in Shropshire.

**Management Response** - The service recognises this and work is already in train. Work continues at pace through the work of the Project Group. Regular progress reports into JCDG, and weekly highlight reporting into project sponsor.

**Date to be Actioned** – 31<sup>st</sup> March 2025

**Recommendation** - A contract manager should be allocated to monitor performance and ensure providers are meeting their contractual arrangements and meeting the demands of service users.

**Risk** - Failure to not have contract monitoring arrangements in place could lead to the contractors not fulfilling their contractual obligations resulting in non-delivery and not achieving value for money. This risk has materialised.

**Management Response** - This is a recognised issue and is being worked through at present through a group of officers including commissioning, contracts, legal and operations. Reprocured contracts, in place post 31st March 2025, will be monitored by new posts which have been recommended through the PWC review.

**Date to be Actioned** – 31<sup>st</sup> March 2025

### **External Catering Contracts**

**Recommendation** - It is acknowledged that reduced resources make it more difficult to send the contracts out, however a contract should be in place before services are provided. Progress should be made to ensure contracts are sent out without delay to ensure that all parties understand their responsibilities. Once returned the contracts should be signed by Shropshire Council. The Operational Risk Register should be updated to reflect the risks of relying upon old contracts which are not fit for purpose and could leave Shire Services exposed to financial risk regarding deficits.

**Risk** - Without valid contracts the client may not understand their responsibilities leading to disputes and non-payment for service received. This risk has already been realised as the old contracts did not specify responsibilities for deficits.

**Management Response** - Operational Risk Register to be updated.

The remaining outstanding 40 external contracts to be sent out to clients before the 31.12.2024. SLA or internal Shropshire Council maintained schools will receive an updated Contract/SLA before 28.02.2025.

**Date to be Actioned** – 28<sup>th</sup> February 2025

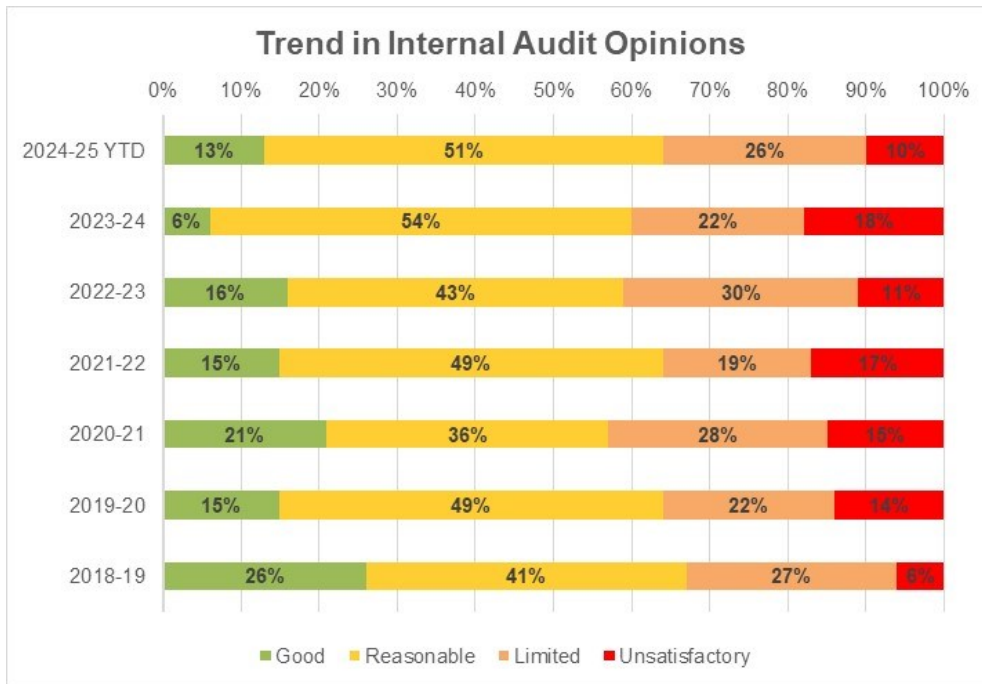
[Question 2: Do Members wish to receive any updates from managers regarding the fundamental recommendations?](#)

- 8.14. 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.

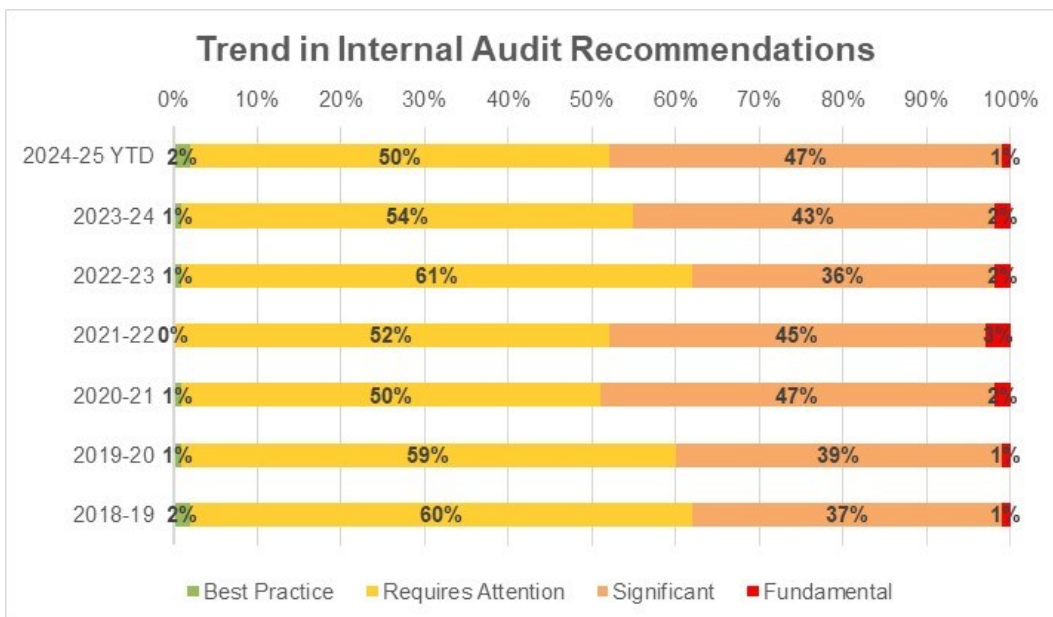
### **Direction of travel**

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

Comparison of Assurance Levels (where given)



Comparison of recommendation by categorisation



8.16. The number of lower-level assurances to date, 36%, is slightly lower than the outturn for 2023/24 of 40%. Full details of the audits completed and their assurance opinions can be found at **Appendix A, Table 2**.

8.17. I would like to draw attention to a notable increase in repeated low assurances where follow up audits are completed indicating action has not been taken to

address the control weaknesses. Internal audit has noted management are suggesting longer implementation dates to significant recommendations which means that evidence-based risks identified by Internal Audit may not be mitigated in a timely manner. This management approach potentially increases the Council's risk appetite as significant weaknesses and control deficiencies identified in formal audit work goes unaddressed for extended periods. Please refer to table 3 where repeated low assurances are highlighted.

## Performance Measures

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

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

Internal Audit Performance and Revised Annual Audit Plan 2024/25 – Audit Committee 27<sup>th</sup> September 2024

Draft Internal Audit Risk Based Plan 2024/25 - Audit Committee 17<sup>th</sup> July 2024

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 1<sup>st</sup> April to 20<sup>th</sup> October 2024

Table 2: Final audit report assurance opinions and recommendation summary 1<sup>st</sup> April to 20<sup>th</sup> October 2024

Table 3: Unsatisfactory and limited assurance opinions in the period 26<sup>th</sup> August to 20<sup>th</sup> October 2024

Table 4: Audit assurance opinions

Table 5: Audit recommendation categories

Table 6: Glossary of terms

Table 7: Recommendation follow up process (risk based)

**Appendix B** - Audit plan by service 1<sup>st</sup> April to 20<sup>th</sup> October 2024

**APPENDIX A**

**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1<sup>st</sup> April to 20<sup>th</sup> October 2024**

	Original Plan	Revised Plan	20 <sup>th</sup> October 2024 Actual	% of Original Complete	% of Revised Complete
Chief Executive	52	57	36.3	70%	64%
Health and Wellbeing	34	39	8.5	25%	22%
People	76	129	84.5	111%	66%
Adult Services	25	50	39.8	159%	80%
Children's Services	31	59	38.0	123%	64%
Education and Achievement	20	20	6.7	34%	34%
Place	127	198	99.3	78%	50%
Resources	287	362	182.2	63%	50%
Finance and Technology	175	235	130.5	75%	56%
Legal and Governance	51	54	28.6	56%	53%
Workforce and Improvement	61	73	23.1	38%	32%
<b>S151 Planned Audit</b>	<b>576</b>	<b>785</b>	<b>410.8</b>	<b>71%</b>	<b>52%</b>
Contingencies and other chargeable work	336	323	146.1	43%	45%
<b>Total S151 Audit</b>	<b>912</b>	<b>1,108</b>	<b>556.9</b>	<b>61%</b>	<b>50%</b>
External Clients	224	226	90.3	40%	40%
<b>Total</b>	<b>1,136</b>	<b>1,334</b>	<b>647.2</b>	<b>57%</b>	<b>49%</b>

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

**Table 2: Final audit report assurance opinions and recommendation summary - 1<sup>st</sup> April to 20<sup>th</sup> October 2024**

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
<b>Chief Executive</b>								
Corporate Governance 2023/24		1						
CCTV Follow up 2023/24			1			10	7	
Social Media				1		7	1	
	<b>0</b>	<b>1</b>	<b>1</b>	<b>1</b>	<b>0</b>	<b>17</b>	<b>8</b>	<b>0</b>

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
<b>Health and Wellbeing</b>								
Community Safety Partnership Responsibilities 2023/24		1				1	2	
	0	1	0	0	0	1	2	0
<b>People - Adults</b>								
Individual Service Funds Follow Up	1					1		
Abbots Wood Comfort Fund		1				2	4	1
Albert Road Comforts Fund		1				2	4	
Greenacres Comfort Fund		1				3	3	
Greenacres Trading Account		1				1	5	
	1	4	0	0	0	9	16	1
<b>People - Children</b>								
Together for Children Partnership - Performance Audit		1				3	2	
Section 17 Payments Children 2023/24			1			7	7	1
Foster care 2022/23			1			5	5	
Direct Payments Children 2022/23				1		8	1	
Short Breaks Service 2023/24				1	2		1	
	0	1	2	2	2	23	16	1
<b>Place</b>								
Blue Badge Scheme Follow Up	1						2	
Section 106 Agreements 2023/24	1						4	
Licensing Follow up 2023/24		1					3	
Tree Safety Follow up 2023/24		1				2	2	
Dog Wardens Follow Up 2023/24		1				6	1	
Leisure Services Contract Follow up 2023/24		1				1	4	1
External Catering Contracts		1			1			
School Planning and Transport Arrangements		1				1	2	
ASC Pre-Planned Maintenance Contract Follow Up			1			2	1	
Highways Maintenance - Term Maintenance - Kier 2023/24			1			5	6	
Much Wenlock Sports Centre- Joint Use Follow up			1			4	11	
Partnerships 2023/24			1			4	1	
Security of Council Buildings			1			4	3	
The Lantern Follow Up				1		13	8	
	2	6	5	1	1	42	48	1
<b>Resources - Finance and Technology</b>								
Treasury Management 2023/24	1						4	1
Firewall Management Follow Up 2023/24		1				1	4	
IT Service Delivery Management 2023/24		1				2	4	
Microsoft Dynamics CRM Application Follow Up 2023/24		1				2		
Third Party Contractor Access Controls Follow Up 2023/24		1				2	1	

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Security Management and Cyber Response 2023/24		1				1	8	
Business Continuity and Disaster Recovery 2023/24		1				1	4	
VAT 2023/24			1			4	2	
	1	6	1	0	0	13	27	1
<b>Resources - Workforce and Improvement</b>								
Recruitment Arrangements Follow up 2023/24			1			3	1	
	0	0	1	0	0	3	1	0
<b>Resources - Legal and Governance</b>								
IT Security Policy 2023/24	1						2	1
GDPR/DPA/Freedom of Information Follow up		1				4	1	
	1	1	0	0	0	4	3	1
<b>Total</b>	<b>5</b>	<b>20</b>	<b>10</b>	<b>4</b>	<b>3</b>	<b>112</b>	<b>121</b>	<b>5</b>
Percentage	13%	51%	26%	10%	1%	47%	50%	2%

**Table 3: Unsatisfactory and limited assurance opinions issued in the period from 26<sup>th</sup> August to 20<sup>th</sup> October 2024<sup>1</sup>**

**Unsatisfactory assurance<sup>2</sup>**

**CEO– Social Media (Limited 2016/17 and 2017/18)**

- Appropriate management processes exist to manage and control the use of social media for Shropshire Council business.
- A policy to support standards and social media use exists.
- Formal administration is undertaken on social networking accounts by designated responsible officers.
- Appropriate officers and training are in place to support the social media policy.
- Monitoring arrangements are in place.

**People– Short Breaks**

- Contracts are in place with providers for Short Breaks who are fulfilling their contractual obligations.
- Payments made to care providers are accurate and paid in a timely manner which offer value for money.
- Adequate contract performance management processes are in place.

**Place– The Lantern (Unsatisfactory 2021/22 and 2019/20)**

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

<sup>2</sup> Details of the controls not in place for Highways Other Major Contracts and Montagu Evans Contract Management are included on the private agenda.

- Previous recommendations have been implemented regarding budget income being identified, collected and banked in accordance with procedures.
- Previous recommendations have been implemented regarding purchases being appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- Previous recommendations have been implemented regarding payments made to bona fide employees only for the work performed through the Payroll system.
- Previous recommendations have been implemented regarding information governance and cyber risks which are managed in accordance with current best practice and an agreed policy.
- Previous recommendations have been implemented regarding regular budget monitoring being performed and any significant variations investigated.
- The previous recommendation has been implemented regarding appropriate procedures being in place for the security of staff and material assets.

### **Limited assurance**

#### **People– Foster Care (Reasonable 2015/16)**

- The extent to which recommendations made in the previous audit have been implemented.
- Foster Care Payments are made in accordance with legislation (The Children Act 1989) and local policy.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

#### **Place– Highways Term Maintenance Contract (Limited 2021/22 and Unsatisfactory 2020/21 and 2019/20)**

- The recommendations made and agreed in the previous audit have been implemented as expected.
- The data fields in the Confirm system are complete and accurate before payment to the Term Maintenance Contract provider is authorised.
- There is readily available evidence to verify that payment requests by the Term Maintenance Contract provider are accurate and as expected before they are authorised.
- There are procedures to ensure that the Term Maintenance Contract provider completes jobs, logs the job status, and submits the final payment requests on a timely basis.
- There is performance management and consideration of the overall efficiency and effectiveness of the contract to deliver services.

#### **Place– Partnerships (Limited 2019/20)**

- The recommendations made in the previous audit have been implemented.
- Council partners are aware of their responsibilities under the Council's Financial Rules and Contract Procedure Rules.
- There is a register of all partnership arrangements entered into in accordance with procedures specified by the S151 Officer.



- The approval of Cabinet is obtained before any negotiations are concluded on partnership arrangements.
- Risk management processes are in place to identify and assess all known risks.
- Appropriate information on partnerships is provided to the S151 Officer to enable a note to be entered into the statement of accounts.

**Place– Much Wenlock Joint Use Sport Centre (Unsatisfactory 2023/24, 2022/23 and 2019/20)**

- Previous audit recommendations have been implemented
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

**Place– Security of Council Buildings (Limited 2023/24 and 2019/20)**

- Appropriate management arrangements are in place governing the security of Council buildings.
- Appropriate management arrangements are in place to ensure Council buildings are secure when unoccupied.

**Resources– Recruitment Arrangements Follow Up (Limited 2022/23 and 2017/18)**

- Previous audit recommendations have been implemented.
- The need to recruit into vacant or new posts is fully evaluated.
- Staff involved in recruitment and selection are sufficiently trained and have the appropriate experience.
- Management information is produced on a regular basis and is subject to independent review in a timely manner.

**Resources– VAT (Limited 2020/21)**

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

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

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

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

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

**Table 6: Glossary of terms**

**Significance**

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

**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.

AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1<sup>st</sup> APRIL TO 20<sup>th</sup> OCTOBER 2024

	Original Plan Days	August Revision	October Revision	January Revision	Revised Plan Days	20th October 2024 Actual	% Original Complete	% Revised Complete
<b>CHIEF EXECUTIVE</b>								
Governance	19	0	0	0	19	9.6	51%	51%
OCE	25	0	0	0	25	13.6	54%	54%
Communications	8	3	2	0	13	13.1	164%	101%
<b>CHIEF EXECUTIVE</b>	<b>52</b>	<b>3</b>	<b>2</b>	<b>0</b>	<b>57</b>	<b>36.3</b>	<b>70%</b>	<b>64%</b>
<b>RESOURCES</b>								
<b>Finance and Technology</b>								
Finance Transactions	23	7	0	0	30	21.8	95%	73%
Finance and S151 Officer	55	0	5	0	60	24.4	44%	41%
Financial Management	28	6	0	0	34	20.3	73%	60%
ICT	52	11	5	0	68	27.1	52%	40%
Information Governance	7	0	0	0	7	3.3	47%	47%
Revenues and Benefits	10	0	20	0	30	27.2	272%	91%
Treasury	0	6	0	0	6	6.4	0%	107%
	<b>175</b>	<b>30</b>	<b>30</b>	<b>0</b>	<b>235</b>	<b>130.5</b>	<b>75%</b>	<b>56%</b>
<b>Workforce and Improvement</b>								
Risk Management	8	0	0	0	8	0.0	0%	0%
Human Resources	37	4	8	0	49	22.9	62%	47%
Corporate Performance Management	16	0	0	0	16	0.2	1%	1%
	<b>61</b>	<b>4</b>	<b>8</b>	<b>0</b>	<b>73</b>	<b>23.1</b>	<b>38%</b>	<b>32%</b>
<b>Legal and Governance</b>								
Information Governance	13	3	0	0	16	9.6	74%	60%

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	<b>Original Plan Days</b>	<b>August Revision</b>	<b>October Revision</b>	<b>January Revision</b>	<b>Revised Plan Days</b>	<b>20th October 2024 Actual</b>	<b>% Original Complete</b>	<b>% Revised Complete</b>
Procurement	38	0	0	0	38	19.0	50%	50%
	<b>51</b>	<b>3</b>	<b>0</b>	<b>0</b>	<b>54</b>	<b>28.6</b>	<b>56%</b>	<b>53%</b>

<b>RESOURCES</b>	<b>287</b>	<b>37</b>	<b>38</b>	<b>0</b>	<b>362</b>	<b>182.2</b>	<b>63%</b>	<b>50%</b>
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## PEOPLE

### Joint Commissioning

Community and Partnerships	21	7	-2	0	26	26.2	125%	101%
Business Support	4	0	9	0	13	2.5	63%	19%
	<b>25</b>	<b>7</b>	<b>7</b>	<b>0</b>	<b>39</b>	<b>28.7</b>	<b>115%</b>	<b>74%</b>

### Adult Social Care

Long Term Support	0	8	3	0	11	11.1	0%	101%
	<b>0</b>	<b>8</b>	<b>3</b>	<b>0</b>	<b>11</b>	<b>11.1</b>	<b>0%</b>	<b>101%</b>

### Education and Achievement

Education Access	10	0	0	0	10	6.7	67%	67%
Secondary Schools	10	0	0	0	10	0.0	0%	0%
	<b>20</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>20</b>	<b>6.7</b>	<b>34%</b>	<b>34%</b>

### Children's Social Care and Safeguarding

Children's Placement Services & Joint Adoption	23	14	0	0	37	26.6	116%	72%
Assessment & Looked After Children	0	6	8	0	14	6.4	0%	46%
	<b>23</b>	<b>20</b>	<b>8</b>	<b>0</b>	<b>51</b>	<b>33.0</b>	<b>143%</b>	<b>65%</b>

	<b>Original Plan Days</b>	<b>August Revision</b>	<b>October Revision</b>	<b>January Revision</b>	<b>Revised Plan Days</b>	<b>20th October 2024 Actual</b>	<b>% Original Complete</b>	<b>% Revised Complete</b>
<b>Early Help, Partnership and Commissioning</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>8</b>	<b>5.0</b>	<b>63%</b>	<b>63%</b>
<b>PEOPLE</b>	<b>76</b>	<b>35</b>	<b>18</b>	<b>0</b>	<b>129</b>	<b>84.5</b>	<b>111%</b>	<b>66%</b>
<b>PLACE</b>								
<b>Business Enterprise and Commercial Services</b>								
Property and Development	23	4	1	0	28	14.0	61%	50%
Shire Services	0	10	-1	0	9	9.1	0%	101%
	<b>23</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>37</b>	<b>23.1</b>	<b>100%</b>	<b>62%</b>
<b>Economy and Place</b>								
Business Growth and Investment	18	8	0	0	26	6.3	35%	24%
Environment and Sustainability	3	0	0	0	3	2.7	90%	90%
	<b>21</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>29</b>	<b>9.0</b>	<b>43%</b>	<b>31%</b>
<b>Infrastructure and Communities</b>								
Highways	30	11	4	0	45	20.4	68%	45%
Public Transport	4	3	0	0	7	7.3	183%	104%
Library Services	10	0	10	0	20	10.0	100%	50%
	<b>44</b>	<b>14</b>	<b>14</b>	<b>0</b>	<b>72</b>	<b>37.7</b>	<b>86%</b>	<b>52%</b>
<b>Homes and Communities</b>								
Business and Consumer Protection	14	-1	0	0	13	4.8	34%	37%

	<b>Original Plan Days</b>	<b>August Revision</b>	<b>October Revision</b>	<b>January Revision</b>	<b>Revised Plan Days</b>	<b>20th October 2024 Actual</b>	<b>% Original Complete</b>	<b>% Revised Complete</b>
Leisure Services	12	0	1	0	13	13.6	113%	105%
Theatre Severn and OMH	5	0	3	0	8	7.5	150%	94%
Housing Services	8	15	3	0	26	3.6	45%	14%
	<b>39</b>	<b>14</b>	<b>7</b>	<b>0</b>	<b>60</b>	<b>29.5</b>	<b>76%</b>	<b>49%</b>
<b>PLACE</b>	<b>127</b>	<b>50</b>	<b>21</b>	<b>0</b>	<b>198</b>	<b>99.3</b>	<b>78%</b>	<b>50%</b>
<b>HEALTH AND WELLBEING</b>								
<b>Public Health</b>								
Public Health	30	0	0	0	30	0.4	1%	1%
Ecology and Pest Control	4	0	5	0	9	7.8	195%	87%
	<b>34</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>39</b>	<b>8.5</b>	<b>25%</b>	<b>22%</b>
<b>HEALTH AND WELLBEING</b>	<b>34</b>	<b>0</b>	<b>5</b>	<b>0</b>	<b>39</b>	<b>8.5</b>	<b>25%</b>	<b>22%</b>
<b>Total Shropshire Council Planned Work</b>	<b>576</b>	<b>125</b>	<b>84</b>	<b>0</b>	<b>785</b>	<b>410.8</b>	<b>71%</b>	<b>52%</b>
<b>CONTINGENCIES</b>								
Advisory Contingency	20	0	0	0	20	3.4	17%	17%
Fraud Contingency	150	0	0	0	150	83.6	56%	56%
Unplanned Audit Contingency	50	77	-97	0	40	0.0	0%	0%
Other non audit Chargeable Work	116	7	0	0	123	59.1	51%	48%
<b>CONTINGENCIES</b>	<b>336</b>	<b>84</b>	<b>-97</b>	<b>0</b>	<b>323</b>	<b>146.1</b>	<b>43%</b>	<b>45%</b>
<b>Total for Shropshire</b>	<b>912</b>	<b>209</b>	<b>-13</b>	<b>0</b>	<b>1,108</b>	<b>556.9</b>	<b>61%</b>	<b>50%</b>

	Original Plan Days	August Revision	October Revision	January Revision	Revised Plan Days	20th October 2024 Actual	% Original Complete	% Revised Complete
<b>EXTERNAL CLIENTS</b>	<b>224</b>	<b>2</b>	<b>0</b>	<b>0</b>	<b>226</b>	<b>90.3</b>	<b>40%</b>	<b>40%</b>
<b>Total Chargeable</b>	<b>1,136</b>	<b>211</b>	<b>-13</b>	<b>0</b>	<b>1,334</b>	<b>647.2</b>	<b>57%</b>	<b>49%</b>
	<u>Original Plan Days</u>	<u>August Revision</u>	<u>October Revision</u>	<u>January Revision</u>	<u>Revised Plan Days</u>	<u>20th October 2024 Actual</u>	<u>% of Original Complete</u>	<u>% of Revised Complete</u>
<b><u>CHIEF EXECUTIVE</u></b>								
<u>Governance</u>	<u>19</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>19</u>	<u>9.6</u>	<u>51%</u>	<u>51%</u>
<u>OCE</u>	<u>25</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>25</u>	<u>13.6</u>	<u>54%</u>	<u>54%</u>
<u>Communications</u>	<u>8</u>	<u>3</u>	<u>2</u>	<u>0</u>	<u>13</u>	<u>13.1</u>	<u>164%</u>	<u>101%</u>
<b><u>CHIEF EXECUTIVE</u></b>	<b><u>52</u></b>	<b><u>3</u></b>	<b><u>2</u></b>	<b><u>0</u></b>	<b><u>57</u></b>	<b><u>36.3</u></b>	<b><u>70%</u></b>	<b><u>64%</u></b>
<b><u>RESOURCES</u></b>								
<b><u>Finance and Technology</u></b>								
<u>Finance and S151 Officer</u>	<u>55</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>60</u>	<u>24.4</u>	<u>44%</u>	<u>41%</u>
<u>Financial Management</u>	<u>28</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>34</u>	<u>20.3</u>	<u>73%</u>	<u>60%</u>
<u>ICT</u>	<u>52</u>	<u>11</u>	<u>5</u>	<u>0</u>	<u>68</u>	<u>27.1</u>	<u>52%</u>	<u>40%</u>
<u>Information Governance</u>	<u>7</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>3.3</u>	<u>47%</u>	<u>47%</u>
<u>Revenues and Benefits</u>	<u>10</u>	<u>0</u>	<u>20</u>	<u>0</u>	<u>30</u>	<u>27.2</u>	<u>272%</u>	<u>91%</u>
<u>Treasury</u>	<u>0</u>	<u>6</u>	<u>0</u>	<u>0</u>	<u>6</u>	<u>6.4</u>	<u>0%</u>	<u>107%</u>
	<b><u>175</u></b>	<b><u>30</u></b>	<b><u>30</u></b>	<b><u>0</u></b>	<b><u>235</u></b>	<b><u>130.5</u></b>	<b><u>75%</u></b>	<b><u>56%</u></b>
<b><u>Workforce and Improvement</u></b>								
<u>Risk Management</u>	<u>8</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>8</u>	<u>0.0</u>	<u>0%</u>	<u>0%</u>
<u>Human Resources</u>	<u>37</u>	<u>4</u>	<u>8</u>	<u>0</u>	<u>49</u>	<u>22.9</u>	<u>62%</u>	<u>47%</u>



	Original Plan Days	August Revision	October Revision	January Revision	Revised Plan Days	20th October 2024 Actual	% Original Complete	% Revised Complete
<u>Corporate Performance Management</u>	<u>16</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>16</u>	<u>0.2</u>	<u>1%</u>	<u>1%</u>
	<b><u>61</u></b>	<b><u>4</u></b>	<b><u>8</u></b>	<b><u>0</u></b>	<b><u>73</u></b>	<b><u>23.1</u></b>	<b><u>38%</u></b>	<b><u>32%</u></b>
<b><u>Legal and Governance</u></b>								
<u>Information Governance</u>	<u>13</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>16</u>	<u>9.6</u>	<u>74%</u>	<u>60%</u>
<u>Procurement</u>	<u>38</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>38</u>	<u>19.0</u>	<u>50%</u>	<u>50%</u>
	<b><u>51</u></b>	<b><u>3</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>54</u></b>	<b><u>28.6</u></b>	<b><u>56%</u></b>	<b><u>53%</u></b>
<b><u>RESOURCES</u></b>	<b><u>287</u></b>	<b><u>37</u></b>	<b><u>38</u></b>	<b><u>0</u></b>	<b><u>362</u></b>	<b><u>182.2</u></b>	<b><u>63%</u></b>	<b><u>50%</u></b>
<b><u>PEOPLE</u></b>								
<b><u>Joint Commissioning</u></b>								
<u>Community and Partnerships</u>	<u>21</u>	<u>7</u>	<u>-2</u>	<u>0</u>	<u>26</u>	<u>26.2</u>	<u>125%</u>	<u>101%</u>
<u>Business Support</u>	<u>4</u>	<u>0</u>	<u>-1</u>	<u>0</u>	<u>3</u>	<u>2.5</u>	<u>63%</u>	<u>83%</u>
	<b><u>25</u></b>	<b><u>7</u></b>	<b><u>-3</u></b>	<b><u>0</u></b>	<b><u>29</u></b>	<b><u>28.7</u></b>	<b><u>115%</u></b>	<b><u>99%</u></b>
<b><u>Adult Social Care</u></b>								
<u>Long Term Support</u>	<u>0</u>	<u>8</u>	<u>3</u>	<u>0</u>	<u>11</u>	<u>11.1</u>	<u>0%</u>	<u>101%</u>
	<b><u>0</u></b>	<b><u>8</u></b>	<b><u>3</u></b>	<b><u>0</u></b>	<b><u>11</u></b>	<b><u>11.1</u></b>	<b><u>0%</u></b>	<b><u>101%</u></b>
<b><u>Education and Achievement</u></b>								
<u>Education Access</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>6.7</u>	<u>67%</u>	<u>67%</u>
<u>Secondary Schools</u>	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>0.0</u>	<u>0%</u>	<u>0%</u>
	<b><u>20</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>20</u></b>	<b><u>6.7</u></b>	<b><u>34%</u></b>	<b><u>34%</u></b>

	Original Plan Days	August Revision	October Revision	January Revision	Revised Plan Days	20th October 2024 Actual	% Original Complete	% Revised Complete
<b><u>Children's Social Care and Safeguarding</u></b>								
<u>Children's Placement Services &amp; Joint Adoption</u>	23	14	0	0	37	26.6	116%	72%
<u>Assessment &amp; Looked After Children</u>	0	6	8	0	14	6.4	0%	46%
	<b>23</b>	<b>20</b>	<b>8</b>	<b>0</b>	<b>51</b>	<b>33.0</b>	<b>143%</b>	<b>65%</b>
<b><u>Early Help, Partnership and Commissioning</u></b>								
	8	0	0	0	8	5.0	63%	63%
<b>PEOPLE</b>	<b>76</b>	<b>35</b>	<b>8</b>	<b>0</b>	<b>119</b>	<b>84.5</b>	<b>111%</b>	<b>71%</b>
<b><u>PLACE</u></b>								
<b><u>Business Enterprise and Commercial Services</u></b>								
<u>Property and Development</u>	23	4	1	0	28	14.0	61%	50%
<u>Shire Services</u>	0	10	-1	0	9	9.1	0%	101%
	<b>23</b>	<b>14</b>	<b>0</b>	<b>0</b>	<b>37</b>	<b>23.1</b>	<b>100%</b>	<b>62%</b>
<b><u>Economy and Place</u></b>								
<u>Business Growth and Investment</u>	18	8	0	0	26	6.3	35%	24%
<u>Environment and Sustainability</u>	3	0	0	0	3	2.7	90%	90%
	<b>21</b>	<b>8</b>	<b>0</b>	<b>0</b>	<b>29</b>	<b>9.0</b>	<b>43%</b>	<b>31%</b>
<b><u>Infrastructure and Communities</u></b>								

	<b>Original Plan Days</b>	<b>August Revision</b>	<b>October Revision</b>	<b>January Revision</b>	<b>Revised Plan Days</b>	<b>20th October 2024 Actual</b>	<b>% Original Complete</b>	<b>% Revised Complete</b>
<a href="#">Highways</a>	<u>30</u>	<u>11</u>	<u>4</u>	<u>0</u>	<u>45</u>	<u>20.4</u>	<u>68%</u>	<u>45%</u>
<a href="#">Public Transport</a>	<u>4</u>	<u>3</u>	<u>0</u>	<u>0</u>	<u>7</u>	<u>7.3</u>	<u>183%</u>	<u>104%</u>
<a href="#">Library Services</a>	<u>10</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>10</u>	<u>10.0</u>	<u>100%</u>	<u>100%</u>
	<b><u>44</u></b>	<b><u>14</u></b>	<b><u>4</u></b>	<b><u>0</u></b>	<b><u>62</u></b>	<b><u>37.7</u></b>	<b><u>86%</u></b>	<b><u>61%</u></b>
<b><u>Homes and Communities</u></b>								
<b><u>Business and Consumer Protection</u></b>								
<a href="#">Leisure Services</a>	<u>14</u>	<u>-1</u>	<u>0</u>	<u>0</u>	<u>13</u>	<u>4.8</u>	<u>34%</u>	<u>37%</u>
<a href="#">Theatre Severn and OMH</a>	<u>12</u>	<u>0</u>	<u>1</u>	<u>0</u>	<u>13</u>	<u>13.6</u>	<u>113%</u>	<u>105%</u>
<a href="#">Housing Services</a>	<u>5</u>	<u>0</u>	<u>3</u>	<u>0</u>	<u>8</u>	<u>7.5</u>	<u>150%</u>	<u>94%</u>
	<u>8</u>	<u>15</u>	<u>3</u>	<u>0</u>	<u>26</u>	<u>3.6</u>	<u>45%</u>	<u>14%</u>
	<b><u>39</u></b>	<b><u>14</u></b>	<b><u>7</u></b>	<b><u>0</u></b>	<b><u>60</u></b>	<b><u>29.5</u></b>	<b><u>76%</u></b>	<b><u>49%</u></b>
<b><u>PLACE</u></b>	<b><u>127</u></b>	<b><u>50</u></b>	<b><u>11</u></b>	<b><u>0</u></b>	<b><u>188</u></b>	<b><u>99.3</u></b>	<b><u>78%</u></b>	<b><u>53%</u></b>
<b><u>HEALTH AND WELLBEING</u></b>								
<b><u>Public Health</u></b>								
<a href="#">Public Health</a>	<u>30</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>30</u>	<u>0.4</u>	<u>1%</u>	<u>1%</u>
<a href="#">Ecology and Pest Control</a>	<u>4</u>	<u>0</u>	<u>5</u>	<u>0</u>	<u>9</u>	<u>7.8</u>	<u>195%</u>	<u>87%</u>
<a href="#">Community Safety</a>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0.3</u>	<u>0%</u>	<u>0%</u>
	<b><u>34</u></b>	<b><u>0</u></b>	<b><u>5</u></b>	<b><u>0</u></b>	<b><u>39</u></b>	<b><u>8.5</u></b>	<b><u>25%</u></b>	<b><u>22%</u></b>
<b><u>HEALTH AND WELLBEING</u></b>	<b><u>34</u></b>	<b><u>0</u></b>	<b><u>5</u></b>	<b><u>0</u></b>	<b><u>39</u></b>	<b><u>8.5</u></b>	<b><u>25%</u></b>	<b><u>22%</u></b>
<b><u>Total Shropshire Council Planned Work</u></b>								
	<b><u>576</u></b>	<b><u>125</u></b>	<b><u>64</u></b>	<b><u>0</u></b>	<b><u>765</u></b>	<b><u>410.8</u></b>	<b><u>71%</u></b>	<b><u>54%</u></b>

**CONTINGENCIES**

	<b>Original Plan Days</b>	<b>August Revision</b>	<b>October Revision</b>	<b>January Revision</b>	<b>Revised Plan Days</b>	<b>20th October 2024 Actual</b>	<b>% Original Complete</b>	<b>% Revised Complete</b>
<a href="#">Advisory Contingency</a>	<u>20</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>20</u>	<u>3.4</u>	<u>17%</u>	<u>17%</u>
<a href="#">Fraud Contingency</a>	<u>150</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>150</u>	<u>83.6</u>	<u>56%</u>	<u>56%</u>
<a href="#">Unplanned Audit Contingency</a>	<u>50</u>	<u>77</u>	<u>-77</u>	<u>0</u>	<u>50</u>	<u>0.0</u>	<u>0%</u>	<u>0%</u>
<a href="#">Other non audit Chargeable Work</a>	<u>116</u>	<u>7</u>	<u>0</u>	<u>0</u>	<u>123</u>	<u>59.1</u>	<u>51%</u>	<u>48%</u>
<b>CONTINGENCIES</b>	<b><u>336</u></b>	<b><u>84</u></b>	<b><u>-77</u></b>	<b><u>0</u></b>	<b><u>343</u></b>	<b><u>146.1</u></b>	<b><u>43%</u></b>	<b><u>43%</u></b>
<b>Total for Shropshire</b>	<b><u>912</u></b>	<b><u>209</u></b>	<b><u>-13</u></b>	<b><u>0</u></b>	<b><u>1,108</u></b>	<b><u>556.9</u></b>	<b><u>61%</u></b>	<b><u>50%</u></b>
<b>EXTERNAL CLIENTS</b>	<b><u>224</u></b>	<b><u>2</u></b>	<b><u>0</u></b>	<b><u>0</u></b>	<b><u>226</u></b>	<b><u>90.3</u></b>	<b><u>40%</u></b>	<b><u>40%</u></b>
<b>Total Chargeable</b>	<b><u>1,136</u></b>	<b><u>211</u></b>	<b><u>-13</u></b>	<b><u>0</u></b>	<b><u>1,334</u></b>	<b><u>647.2</u></b>	<b><u>57%</u></b>	<b><u>49%</u></b>

# Shropshire Council

Interim Auditor's Annual Report for the  
Year ended 31 March 2024

2 November 2024

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We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

The Code of Audit Practice issued by the National Audit Office (NAO) requires us to report to you our commentary relating to proper arrangements.

We report if significant matters have come to our attention. We are not required to consider, nor have we considered, whether all aspects of the Council's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.



The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting, on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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# Introduction



## Purpose of the Auditor's Annual Report

This report brings together a summary of all the work we have undertaken for Shropshire Council (the Council) during 2023/24 as the appointed external auditor. The core element of the report is the commentary on the value for money (VfM) arrangements.

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in the use of their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The Council's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

## Responsibilities of the appointed auditor

### Opinion on the financial statements

Auditors provide an opinion on the financial statements which confirms whether they:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2023/24
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014

We also consider the Annual Governance Statement and undertake work relating to the Whole of Government Accounts consolidation exercise.

### Value for money

We report our judgements on whether the Council has proper arrangements in place regarding arrangements under the three specified criteria:

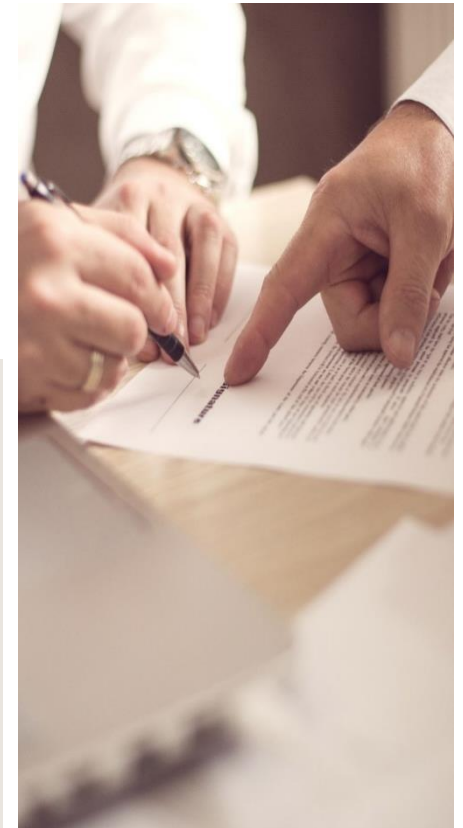
- financial sustainability
- governance
- Improving economy, efficiency and effectiveness

The Value for Money auditor responsibilities are set out in Appendix B.

### Auditor powers

Auditors of a local authority have a duty to consider whether there are any issues arising during their work that require the use of a range of auditor's powers.

These powers are set out on page 13 with a commentary on whether any of these powers have been used during this audit period.



# Executive summary





# Executive summary

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether the Council has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. The NAO, in its consultation of February 2024, has indicated that it will in future require auditors to share a draft Auditors Annual Report ("the Report") with those charged with governance by a nationally set deadline each year and for the audited body to publish the Report thereafter. This is now delayed by the calling of a general election on 4 July 2024 and the outcome will be dependent of the decisions made by the new government. As a firm, we are committed to reporting the results of our local audit work on as timely a basis as possible. We are therefore sharing this report with you in advance of the National Audit Office's new Code being introduced. In the event that any new audit requirements are introduced when the Code is published, we will revisit these before finalising this report. Our summary findings are set out below.

## Financial sustainability

The financial position and sustainability of the Council remains difficult with overspends in the past 3 years (£2m, £8.5m and £7.9) and diminishing levels of General Fund reserves (reserves at 31 March 2024 were as low as £8.2m and required an injection of £30.6m from prior years budgets). Escalating cost pressures, largely due to huge and increasing demand for Adults and Children's Social Care services have stretched the Council's finances to the limit. Alongside its Transformation strategic partner, PwC, the Council has put in place a programme to radically review the way it works (known as its Target Operating Model (TOM)) and this programme is starting to see results as savings are being identified and are starting to be delivered. Alongside a determined and targeted focus on financial savings via the establishment of the Savings Delivery Group (SDG) and access to a new financial dashboard, the Council now has much more visibility and transparency on its financial position and this is shared regularly with members through monthly Cabinet reports and member briefings.

However, in our experience, Transformation programmes and targeted savings approaches of this nature can take time to bear fruit and fully deliver the savings promised and while we note good progress in savings being identified, these are not being delivered at a pace or scale which is going to reduce the Council's deficit in the short term (for example as at September 2024 the Council forecasts that it will only deliver 53% of its £90m savings target for 2024-25). As it stands the Council is in a "precarious though not yet catastrophic" position and is forecasting a year end overspend of £35m. This will need to be rolled forward to 2025/26 to add to the current forecast £37m deficit in 2025-26 budget putting significant pressure on next year's finances. The Council has expressed believe that the position will improve over the remaining months of this financial year, but even if this is the case the Council is facing significant financial challenges. The overspend will need to be met from the Council's reserves which are already low and will lead to the Council being at risk of not being able to fund any further overspends moving forward and in a very difficult financial position.

The council is holding ongoing discussions with the Ministry for Housing, Culture and Local Government (MHCLG) around the potential for Exceptional Financial Support (EFS) should this be necessary. One alternative option being explored relates to an Income Strip deal or "sale and leaseback" model relating to its car parks which would generate a capital receipt that can be used for revenue budget purposes. The Council is currently checking the accounting legality of treating such a deal as a capital receipt that can be used to fund revenue transformation costs.

The financial position as described above has led to a significant level of pressure on the Council's reserves balances. The General Fund reserve stood at £38.8m as at 1 April 2024 (this included contributions from previous year's budgets of £30.6m to replenish reserves which had been used to plug financial gaps in previous years) but this balance of £38.8m could be depleted to £3.7m if current year end forecast overspends materialise. There are a number of earmarked reserves (total value in Earmarked Reserves as at 1 April 2024 was £28.1m excluding schools related reserves) which could be re-purposed to support the revenue budget but at their current levels the Council's reserves are significantly below the generally accepted level required of Public sector namely 3-5% of net Revenue expenditure. The fact the Council is struggling to maintain levels at even 1% is indicative of the severe financial stress the Council finds itself under and is a significant concern in the MTFS.

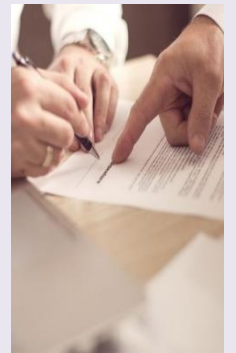
We are proposing to roll forward our key recommendation in relation to the Council's financial planning and sustainability from the audit report of 2021/22 & 2022/23 (Combined year report) while acknowledging that certain elements of this recommendation have now been addressed (see p.17 for detail)



2023/24

Our work on the Council's 2023/24 financial statements is in progress.

We anticipate issuing our audit opinion by the end of December 2024.



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# Executive summary (continued)



## Governance

The Head of Internal Audit's opinion is of "Limited Assurance" on the adequacy and effectiveness of the Council's internal control framework. This has been the case for the past 5 years now and the Council does not appear to be making any significant progress in improving this opinion. This is a concern and points to lack of seriousness on the part of the Council or lack of firmness on the part of Internal Audit in terms of changing the Council's internal control regime. As such, we have raised an improvement recommendation for the Council to develop a plan to demonstrate how it will move to improve its Internal Audit overall assessment of "Limited Assurance". We have also made an improvement recommendation relating to Internal Audit's report on risk management. Details of both recommendations can be found on p.22 of this report.

At the planning stage of this work we identified a potential significant weakness in the Council's arrangements for securing value for money with regards to the North West Relief Road ('NWRR') project. As a result we undertook a targeted review of the project to assess the arrangements in place. The full report from this targeted review can be found at Appendix D of this report. Our review has identified a number of governance issues with regards to the governance arrangements in place relating to the project and, as such, we have raised a significant weakness and a key recommendation relating to governance.



## Improving economy, efficiency and effectiveness

The Council had a focused Ofsted inspection of its Children's services in Autumn 2023 and received a letter from Ofsted in January 2024 which highlighted a deterioration in the quality of social work practice for those children subject to child protection plans. They identified serious and widespread systemic failings, leading to weaknesses in child protection practice, which left children at risk of inadequate protection and significant harm. These concerns were known to senior leaders at the time of this visit, but the plans for improvement outlined in the self-evaluation had not had the necessary impact on the quality of practice to ensure that children's needs are sufficiently addressed at the time of the Ofsted inspection. The Council has since then developed a detailed action plan to address the issues and is actively managing this plan. We have raised an improvement recommendation for the Council to ensure it maintains a focus on completing all the actions included in their Action plan (see p. 25)

The Council's procurement strategy has been revised in 2023 but is currently awaiting the outcome of the PwC Transformation programme which has included procurement, commissioning and contract management as part of that programme. Contract management is currently carried out by service managers and while there is a central contract register (CR) in existence this does not allow for easy tracking and monitoring of contracts nor does it flag up contracts which are coming up for renewal. We have made an improvement recommendation to highlight that the PwC review needs to address these concerns in its revised TOM (see p. 25).

We have also made an improvement recommendation relating to the Council's recording and reporting of tender waivers/exemptions (see p. 25)

Overall we are satisfied that the Council has arrangements in place to ensure it is securing economy, efficiency and effectiveness in its services

# Executive summary (continued)



## Overall summary of our Value for Money assessment of the Council's arrangements

Auditors are required to report their commentary on the Council's arrangements under specified criteria and 2023/24 is the fourth year that these arrangements have been in place.

The contents of this report relate only to those matters which came to our attention during the conduct of our normal audit procedures which are designed for the purpose of completing our work under the NAO Code and related guidance. Our audit is not designed to test all arrangements in respect of value for money. However, where, as part of our testing, we identify significant weaknesses, we will report these to you. In consequence, our work cannot be relied upon to disclose all irregularities, or to include all possible improvements in arrangements that a more extensive special examination might identify. A summary of our judgements are set out in the table below.

Criteria	2022/23 Auditor judgement on arrangements	2023/24 Risk assessment	2023/24 Auditor judgement on arrangements	Direction of travel
Financial sustainability	R Significant weakness identified and one key recommendation raised.	Risk of significant weakness identified.	R Significant weakness identified in relation to the Council's financial sustainability in the medium term and one key recommendation raised	↔
Governance	A No significant weaknesses in arrangements identified but three improvement recommendations raised.	No risk of significant weakness identified.	R Significant weaknesses in arrangements identified in relation to the NWRR project and two improvement recommendations raised.	↓
Improving economy, efficiency and effectiveness	A No significant weaknesses in arrangements identified, but one improvement recommendation made.	No risk of significant weakness identified.	A No significant weaknesses in arrangements identified but three improvement recommendations raised.	↔

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

# Opinion on the financial statements and use of auditor's powers



# Opinion on the financial statements



## Grant Thornton provides an independent opinion on whether the Council's financial statements:

- give a true and fair view of the financial position of the Council as at 31 March 2024 and of its expenditure and income for the year then ended, and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2022/23
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

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We conducted our audit in accordance with:

International Standards on Auditing (UK)

- the Code of Audit Practice (2020) published by the National Audit Office, and
- applicable law

We are independent of the Council in accordance with applicable ethical requirements, including the Financial Reporting Council's Ethical Standard.

## Audit opinion on the financial statements

The Council provided draft accounts in line with the national deadline of 31 May 2024.

Our work on the Council's 2023/24 financial statements is in progress. We anticipate issuing our audit opinion by the end of December 2024



# Use of auditor's powers

We bring the following matters to your attention:

We do not currently anticipate:

## Statutory recommendations

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors can make written recommendations to the audited body which need to be considered by the body and responded to publicly.

- making any written recommendations under Schedule 7 of the Local Audit and Accountability Act 2014.

## Public Interest Report

Under Schedule 7 of the Local Audit and Accountability Act 2014, auditors have the power to make a report if they consider a matter is sufficiently important to be brought to the attention of the audited body or the public as a matter of public interest, including matters which may already be known to the public, but where it is in the public interest for the auditor to publish their independent view.

- issuing a public interest report.

## Application to the Court

Under Section 28 of the Local Audit and Accountability Act 2014, if auditors think that an item of account is contrary to law, they may apply to the court for a declaration to that effect.

- making an application to the Court.

## Advisory notice

Under Section 29 of the Local Audit and Accountability Act 2014, auditors may issue an advisory notice if the auditor thinks that the authority or an officer of the authority:

- is about to make or has made a decision which involves or would involve the authority incurring unlawful expenditure,
- is about to take or has begun to take a course of action which, if followed to its conclusion, would be unlawful and likely to cause a loss or deficiency, or
- is about to enter an item of account, the entry of which is unlawful.

- issuing any advisory notices.

## Judicial review

Under Section 31 of the Local Audit and Accountability Act 2014, auditors may make an application for judicial review of a decision of an authority, or of a failure by an authority to act, which it is reasonable to believe would have an effect on the accounts of that body.

- making an application for judicial review.

# Value for Money Commentary on arrangements



# The current local government landscape

It is within this context that we set out our commentary on the Council's value for money arrangements in 2023/24 and make recommendations where any significant weaknesses or improvement opportunities in arrangements have been identified.



## National context

Local government in England remains a challenged sector. In recent years, generationally significant levels of inflation put pressure on Councils' General Fund revenue and capital expenditure. The associated cost of living crisis drove an increase in demand for Council services such as social care and homelessness. At the same time, the crisis impacted adversely on key areas of Council income that were needed to service the increase in demand, for example fees and charges and the collection rates for Council tax, business rates and rents. In January 2024, the UK government announced an additional £600 million for local government, but the Spring Budget for 2024 brought little in the way of any further support. Rising costs of delivering services, coupled with workforce shortages in key areas, supply chain fragility, and rising interest rates for servicing debt, brought a level of crisis to the local government sector perhaps never experienced before. Current warning signs of difficulty include:

- Seven Councils issuing eleven section 114 notices between 2019 and 2023, compared with two Councils issuing notices between 2001 and 2018, with an increasing number of other Councils publicly warning of a section 114 risk;
- Twenty Councils being with government approval for exceptional financial support during 2024/25, totalling approximately £1.5 billion. Only six of these Councils had previously issued a section 114 notice; and
- The Local Government Association warning that Councils in England face a funding gap of £4 billion over 2023/24 and 2024/25.

Local government is coming under an increased spotlight in terms of how the sector responds to the financial challenge it faces. Since the start of 2024, the UK government has emphasised the need for increased productivity rather than increased funding. New plans were announced by the Chancellor in March 2024 for public sector productivity to deliver up to £1.8 billion worth of benefits by 2029. Councils have subsequently been asked to submit productivity plans, showing how they will improve service performance and reduce wasteful spend. Given the general election took place on 4 July 2024, any changes to government policy relating to the sector are at present uncertain. The Budget on 30 October 2024 has not delivered any further certainty of funding for the Local Government sector, beyond some additional funding for specific pressure areas of social care and housing/homelessness. The distribution of the funding is yet to be determined.

## Local context

Shropshire Council was formed on 1 April 2009 as a unitary authority covering the geographical area of Shropshire, excluding the area that is covered by Telford & Wrekin Borough Council. The way the changes were implemented was that the five remaining districts in the non-metropolitan county were abolished and merged into a single district called Shropshire, but with there being no separate district Council. Instead, the existing county Council also took on the functions that legislation assigns to district Councils. The county Council was given the option of omitting the word 'county' from its name as part of the reforms, which it took, becoming 'Shropshire Council'. As a unitary authority, Shropshire Council provides both county-level and district-level functions. The whole county is also covered by civil parishes, which form a second tier of local government.

Shropshire is a rural county covering 1,235 square miles and is the second largest inland Council with a population of 327,200, 25% of who are over 65. Of the population 57% live in rural areas and 43% in urban areas. There are 139,000 households in the county and it is relatively affluent but there are pockets of deprivation, growing food poverty and rural isolation. Of the 175 schools in the county 89% are rated Good or Outstanding by Ofsted.

The Council is under Conservative control and has been since 2009. There are a total of 74 councillors that serve Shropshire with 39 Conservative, 18 Liberal Democrat, 10 Labour, 4 Green and 3 Independent. The next election is due in May 2025.





# Financial sustainability



We considered how the Council:

Commentary on arrangements

Assessment

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 ensures that it identifies all the significant financial pressures that are relevant to its short and medium-term plans and builds these into them;

The Council has a structured organisational approach to financial planning. However, there is a significant weakness in the Council’s arrangements for financial sustainability as evidenced in the 2021/22 & 2022/23 VfM report (presented to Audit Committee in July 2024) where we highlighted that the significant risks the Council faces in respect of its financial sustainability. Consistent overspends over the past 3 financial years of £2m, £8.5m and £7.9m have put the Council on the brink in terms of financial sustainability. The General Fund reserve stood at £38.8m as at 1 April 2024 but this balance could be depleted to £3.7m if current year end forecast overspends materialise meaning the Council is potentially exposed to significant financial risk.

The 2024/25 budget included a very challenging savings target of £62m. The Council also boosted its General Fund reserves balance by £30.6m to take it to £38.8m at the start of 2024/25 to give it significant contingency in the event of it not being able to keep its spending within budget. In short, the Council is yet to produce a balanced budget for 2025/26 and a formal report under section 114 of the Local Government Finance Act 1988 remains a possibility.

Work has been ongoing during 2024/25 to develop a sustainable plan for reducing the financial gap for the 2025/26 and rebuilding the Council’s reserves balances and the Council is in the process of finalising its MTFS which it will present to members in December 2024 before seeking Council approval in February 2025 as part of the 2025/26 budget planning round. The Council has identified all the key financial pressures including reduced achievement of required savings in 2024/25, increased demand in Adults and Children’s Social Care (ASC/CSC) and reduced expected capital receipts as well as the usual types of pressures which are associated with the capital projects the Council has embarked on plus unforeseen costs coming from regulator visits and inspections. The Council has taken all these costs into account in its planning.

In order to make the financial position more visible and transparent, working with its strategic partner, PwC, the Council has developed a financial dashboard which is reviewed on a monthly basis and is shared with members at Cabinet on a monthly basis so there are “no surprises” as the financial year comes to an end. This has had the effect of galvanising the whole of the Council senior management team and members and has created a sense of “being in it together” which will be important to harness as they develop their financial plans moving forward. We have seen the financial dashboard and can confirm that it is a useful tool for monitoring and sharing progress on the Council’s savings targets

We are satisfied that the Council is identifying all the financial pressures and including these in its financial plans. However, there is no doubt that the financial plans leave the Council in a “precarious though not yet catastrophic” position (to quote the LGA Financial Challenge review). As highlighted above the council’s reserves could be depleted by the end of 2024/25. At the time of this report the 2025/26 budget position was not balanced and we have not seen evidence of how this will be achieved. We must express concern over the financial sustainability of the Council, given the potential overspend in current year (£35m as at end September 2024) and the projected £37m funding gap for 2025/26 included in the latest MTFS (October 2024)

Given the Council has yet to formally agree the MTFS and given the mounting financial pressures as outlined above (ASC, CSC), we propose to roll forward the key recommendation from the 2021/22 & 2022/23 AAR into this year (see page 17 for detail of key recommendation). The financial sustainability of the Council is clearly still precarious and, prudently, the Council has no assumption of additional central government funding in its forward plans.

R

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

# Financial sustainability



We considered how the Council:

Commentary on arrangements

Assessment

The Council’s MTFS is forecasting funding gaps of £37m at the end of 2025/26 rising to £77m at the end of the 2029/30 financial year. The current year end forecast for 2024/25 as at the September 2024 is indicating an overspend of cumulatively £35.1m. With the General Fund Reserve sitting at a level of £38.8m in our opinion this leaves minimal margin of error for the forecasts and leaves the Council very exposed.

The savings included within that plan are based on a number of different projects and initiatives which total £90m (note this includes £20.8m savings targets rolled forward from 2023/24 when these were not achieved). Savings targets for 2024/25 totals £62.5m plus £6.7m to mitigate growth in ASC. These are proving very challenging to deliver and as at end August 2024 the position re savings is summarised in the table below. This indicates that the Council will be short of their savings delivery target and, as a result, will require the use of reserves to plug the gap.

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Plans to bridge its funding gaps and identifies achievable savings

<b>£90,006,406</b> Savings Target	<b>£37,105,305</b> Delivered	<b>£47,987,073</b> Projected Delivery	<b>£4,054,905</b> Indicative Plans	<b>£37,964,428</b> Not Yet Planned	<b>£46,264,338</b> 25/26 Full Year Savings	<b>£43,742,068</b> 25/26 Savings Outstanding
	<b>41.23%</b> % Delivered	<b>53.32%</b> % Projected Delivery	<b>4.51%</b> % Indicative Plans	<b>42.18%</b> % Not Yet Planned	<b>51.40%</b> % 25/26 Full Year Savings	<b>48.60%</b> % 25/26 Savings Outstanding

In order to support its drive to find sufficient savings the S151 officer has established the Savings Delivery Group (SDG). This group has focused on 5 key areas of saving and has Assistant Directors leading each area of focus – Resizing the organisation, income generation, property rationalisation, third party spend and demand management for social care. These governance arrangements have ensured a focused effort as the SDG meets on a weekly basis to review progress and maintain the pressure on savings delivery.

The Council is exploring the development of an ‘income strip’ option which could yield a substantial receipt through an alternative approach to the treatment of car parks as an asset and surplus income relating to controlled parking. External advice has been that, due to the nature of the transaction, this may not be appropriate. Therefore, the Council is exploring alternative options, such as “sale or leaseback”, and is liaising with MHCLG with regards to these options.

Other savings include a number of one-off items such as the use of other capital receipts to fund transformational revenue spend and use of reserves. This approach still does not allow the Council to balance its budget in 2025-26 and up to the end of the 5-year MTFS period in 2029-30 and it does not address the structural deficit which clearly exists.

We therefore re-iterate our key recommendation from the 2021/22 & 2022-23 audit report in relation to the Council’s financial planning and sustainability (see key recommendation on page 17 for detail).

R

- G** No significant weaknesses in arrangements identified or improvement recommendation made.
- A** No significant weaknesses in arrangements identified, but improvement recommendations made.
- R** Significant weaknesses in arrangements identified and key recommendations made.

# Financial sustainability (continued)



We considered how the Council:

Commentary on arrangements

Assessment

Plans finances to support the sustainable delivery of services in accordance with strategic and statutory priorities

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The Shropshire Plan includes the Council’s four main strategic priorities of “Healthy People, Healthy Economy, Healthy Environment and Healthy Organisation”. The Council has kept these 4 objectives within its sights as it deals with the financial challenges. Despite the challenges encountered through the year, the objectives and overarching vision of The Shropshire Plan remained a clear guide to the priorities for the 2024/25 budget and the MTFS period following to 2028/29. The challenges are, however, more severe than previously anticipated, and the Council’s response has had to be necessarily robust. There is little doubt that the Council has started to address the financial challenges facing them in the medium and long term and this has necessarily had a bearing on the strategic objectives and direction of the Council with increased focus on the finances supporting the Plan. The Council's focus has been on plugging financial gaps and ensuring it is financially sustainable in order to drive through the plan in the long term. And this is the correct focus.

The Council’s internal Treasury team, supported by its advisers, Link Asset Services, outperformed their investment benchmark by 0.79% in 2023/24 achieving a return of 4.79%. During 2023/24, the Council continued to maintain an under-borrowed position consistent with the position in previous years. This meant that the Capital borrowing need or Capital Financing Requirement (CFR), was not fully funded with loan debt as cash supporting the Council’s reserves, balances and surplus cash flow was available to be used instead, thereby deferring external borrowing and the associated financing costs. The Council’s borrowing requirement identified within the capital programme 2023/24 to 2025/26 was self-financing prudential borrowing of £81.3m and the need to borrow externally was considered against the Council’s current under/over borrowed position and the level of cash balances held within the authority.

We are satisfied that the financial planning process considers the key strategic priorities of the Council

G

Ensures its financial plan is consistent with other plans such as workforce, capital, investment and other operational planning which may include working with other local public bodies as part of a wider system

The Council operates with a system that aligns the key elements of financial planning. Senior officers across the Council have had significant input to the development of the MTFS.

The Council has a significant capital programme of £138.2m for 2024/25 and this has been developed in conjunction with services. Outturn for the 2022/23 and 2023/24 financial years was running at just over 90% of the budget figures for those years of £111m and £100m respectively. The Council has been finding it increasingly difficult to generate the capital receipts required to maintain the programme at these levels.

The Council is engaging in a redesign of its Target Operating Model (TOM) with the support of its Transformation partner PwC. At the time of this report the final TOM had yet to be confirmed though the CEO advised that it will be shared internally in December 2024.

We are satisfied that the financial planning process considers other plans.

G

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

# Financial sustainability (continued)



## We considered how the Council:

## Commentary on arrangements

## Assessment

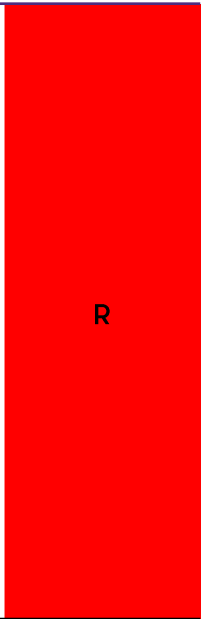
Identifies and manages risks to financial resilience, e.g. unplanned changes in demand, including challenge of the assumptions underlying its plans

The Council has been clear in its identification of financial risk. These were reported via the Budget monitoring process during the 2023/24 and 2024/25 financial year to date. This year the 2025/26 budget process is a collaborative one meaning all political parties are working together in supporting development of the budget. This has ensured maximum transparency. Additionally the newly developed financial dashboards are highlighting, on a monthly basis, the financial forecasts and associated risks. This means that the major financial risk has been in view to Members for some time now, namely the financial sustainability of the Council over the medium to long term and Members have been left in no doubt about the Council's position in relation to the issue of a s114 notice.

Each budget monitoring report has a summary of the key financial pressures and clearly highlights the emerging risks to the longer term financial sustainability of the Council along with the measures being taken and the savings being identified to mitigate the pressures. The reports include the assumptions the Council has been working to plus year end forecasts of expenditure and the latest measures being taken to increase savings, manage costs down and address any demand pressures.

The Council's reserves position is at best "precarious", based on the LGA Financial Challenge review, echoed by a recent CIPFA review. This is also our view of the Council's financial position. As at end September 2024 the projected overspend for 2024/25 was £35.1m. There is a General Fund reserve balance of £38.8m to offset this but that, in essence, exhausts most of the Council's reserves. The Council is in early discussions with MHCLG about applying for Extraordinary Financial Support (EFS) via the government scheme and meetings are ongoing (see p.14 re detail of the options being explored). In summary, we are satisfied that the Council is exploring all options to bolster its financial resilience in the face of the severe pressures facing it. We do not underestimate the difficulty of this challenge but we are satisfied that the Council has put in place arrangements to ensure that the risks to the Council's financial resilience are both visible and managed.

We therefore re-iterate our key recommendation from the 2021/22 & 2022-23 audit report in relation to the Council's financial planning and sustainability (see key recommendation on page 17 for detail).



R

- G No significant weaknesses in arrangements identified or improvement recommendation made.
- A No significant weaknesses in arrangements identified, but improvement recommendations made.
- R Significant weaknesses in arrangements identified and key recommendations made.

# Financial sustainability (continued)



## Significant weaknesses identified in Financial Sustainability arrangements

### Medium-term financial challenge to close the budget gap

The Council has a structured organisational approach to financial planning. However, there is a significant weakness in the Council's arrangements for financial sustainability as evidenced in the 2021/22 & 2022-23 VfM report (presented to Audit Committee in July 2024) where we highlighted the significant risks the Council faces in respect of its financial sustainability. Overspends over the past 3 financial years of £2m, £8.5m and £7.9m and lower levels of reserves have put the Council on the brink in terms of financial sustainability. The 2024/25 included a very challenging savings target of £62m. The Council also boosted its General Fund reserves balance by £30.8m via prior year contributions from 2022-23 and 2023-24 budgets to the General Fund reserve to take it to £38.8m at the start of 2024/25. The Council faces the possibility of not being able to balance their budget in 2025/26, which, if it came to pass, would necessitate a formal report under section 114 of the Local Government Finance Act 1988.

Work has been ongoing during 2024/25 to develop a sustainable plan for reducing the financial gap for the 2025/26 and rebuilding the Council's reserves balances and the Council is in the process of finalising its MTFS which it will present to members in December 2024 before seeking Council approval in February 2025 as part of the 2025/26 budget planning round. The Council's MTFS is forecasting funding gaps of £37m at the end of 2025/26 rising cumulatively to £77m at the end of the 2029/30 financial year. As at the September 2024, year end forecasts are indicating an overspend of £35.1m on the 2024/25 budget. With the General Fund Reserve sitting at a level of £38.8m that leaves minimal margin of error for the forecasts and leaves the Council exposed.

The savings included in the 2024/25 Revenue budget totalled £90m (note this included savings targets rolled forward from 2023/24 when these were not achieved with savings targets for 2024/25 totalling £62m). These are proving very challenging to deliver with only 53% of the savings achieved as at September 2024. Any savings not achieved will then need to be carried forward to 2025/26. As at October 2024 this means the deficit forecast in the MTFS for 2025/26 could be circa £80m. Given the Council has yet to formally agree the MTFS and the ongoing challenge in delivering in-year savings targets we propose to roll forward the key recommendation from the 2021/22 & 2022/23 audit report into this year. The financial sustainability of the Council is clearly still parlous and, as we know now, the Budget on 30th October did not include any new funding sources to help the Council so consequently the Council, quite prudently, has no assumption of additional central government funding in its forward plans.

We therefore re-iterate the 2022/23 key recommendation as below though we acknowledge that certain elements (transformation costs transparency, LGA Finance peer review, 2024/25 savings requirements and Adults and children forecast models) have been addressed and the key outstanding recommendations rolled forward remaining in place are :

**Key recommendation 1: The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward:**

- The identification and delivery of savings that reduce the indicative budget gaps in 2025/26 and in future years along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets.
- Ensure that there are alternative options to deliver a balanced MTFS in future years, reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) and, if required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders

# Governance



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**We considered how the Council:**

**Commentary on arrangements**

**Assessment**

<p>Monitors and assesses risk and gains assurance over the effective operation of internal controls, including arrangements to prevent and detect fraud</p>	<p>The Council has an Opportunity Risk Management Strategy which is reviewed annually by the CEO. Operational risks are reported on biannually (May and November)</p> <p>At June 2024 as reported in the Risk Annual report to the Audit Committee there were 11 strategic risks on the Corporate Risk Register. Following an Internal Audit review of the Risk Management system during the 2023-24 financial year, the overall control environment is assessed as Reasonable, with minor control weaknesses identified. The focus of the review was on user compliance with processes around operational and project risks.</p> <p>Internal Audit reviewed the Council’s processes for reviewing and updating operational risk registers and to ensure that projects risks are captured and risks are reported to Senior Management on a regular basis in line with the Opportunity Risk Management Strategy. Evaluation and testing confirmed that there is generally a sound system of control in place but there is evidence of non-compliance with some of the controls. Given the importance of risk management we recommend that the Council quickly addresses the control weaknesses identified which relate to 27% of project risks not being updated in 2023 and 21% of operational risks not being updated in 2023 and incomplete fields being identified with some of the registers.</p> <p>We are content that the Council’s arrangements for managing risk are sound but we make one improvement recommendation</p> <p><b>Improvement recommendation 1: The Council should ensure it addresses the control weaknesses identified in the Internal Audit risk management report in a timely manner</b></p>	<p style="text-align: center; font-size: 2em; font-weight: bold;">A</p>
<p>Approaches and carries out its annual budget setting process</p>	<p>The Council has a robust budget setting process. The 2025/26 budget process started in February 2024 with Strategic Directors given targets for savings. To help support the 2025/26 budget process the S151 has introduced the Savings Delivery Group (SDG) during the 2024/25 financial year. As well as monitoring expenditure against the 2024/25 budget the SDG also supports the development of the 2025/26 budget.</p> <p>We are content the Council has a sound budget process in place</p>	<p style="text-align: center; font-size: 2em; font-weight: bold;">G</p>

# Governance (continued)



## We considered how the Council:

## Commentary on arrangements

## Assessment

Ensures effective processes and systems are in place to ensure budgetary control; to communicate relevant, accurate and timely management information; supports its statutory financial reporting; and ensures corrective action is taken where needed, including in relation to significant partnerships

The Council's budget monitoring reports provide Cabinet with a clear understanding of the Council's financial position in-month and year to date, as well as forecasts for the year-end. Historically these reports were provided on a quarterly basis. Given the financially challenging environment the Council finds itself in, however, the S151 officer is now providing monthly updates of the financial position throughout 2024/25. These are shared at both the SDG and also at the EMT and at the Cabinet meetings. Additionally, Cabinet is provided with more detailed quarterly updates

The Council is working with MHCLG (Ministry of Housing, Communities and Local Government) to agree alternative approaches to managing the budget and is considering a capitalisation directive to allow it to generate income from capital receipts to be used to fund transformational revenue costs in 2024/25. This will be a one-off measure and, as indicated in our key recommendation in the Financial Sustainability section of this report, the Council will need to plan to replenish reserves balances to ensure future financial sustainability

G

Ensures it makes properly informed decisions, supported by appropriate evidence and allowing for challenge and transparency, including from audit committee

The Head of Internal Audit's (IA) opinion is of "Limited Assurance" on the adequacy and effectiveness of the Council's internal control framework. This is driven by weaknesses across the whole spectrum of the Internal Audit programme and this opinion has been the conclusion for the past 5 years now. The Council does not appear to be making any significant progress in improving this opinion. The longevity of this option is a concern as it illustrates that either the Council is not taking the IA assessments seriously enough or that IA is not firm enough in its enforcement of actions following a "Limited Assurance" opinion.

The Council does have arrangements in place to ensure it makes properly informed decisions, supported by appropriate evidence, which allow for challenge and transparency. The Cabinet handles strategic decisions after considering detailed reports to Council. The Scrutiny Committees investigate local policies, risk and performance, leading to reports and recommendations for the Council. The Council's Monitoring Officer ensures public access to decisions and relevant reports. Cabinet papers show sufficient detail to support key decisions. The Council's governance arrangements, including the roles of the Council, the Cabinet, the Scrutiny Committees, the Audit Committee and regulatory committees, are detailed in the Constitution. The Audit Committee self-assessment for 2023 was reported to the Audit Committee in November 2023. The Audit committee has had good attendance in 2023/24 and appears to carry out its role of challenge effectively. A recent appointment of an independent member is a good addition to the committee and fits with CIPFA guidance.

In summary we are satisfied that the Council makes properly informed decisions which are evidence based and subject to rigour and challenge. We make one improvement recommendation in relation to the Internal Audit opinion of "Limited Assurance".

**Improvement recommendation 2: the Council should develop and agree a plan with Audit Committee to demonstrate how it will move to improve its Internal Audit overall assessment of "Limited Assurance". This has been in place for five consecutive years and has shown minimal signs of improvement. Without a concerted focus on this area, there is a danger that the Council's internal processes will be exposed to unnecessary risk moving forward. This becomes more of a risk as financially challenging times mean that there will be pressure on staffing capacity so potentially less staff to carry out internal control and monitoring functions.**

A

# Governance (continued)



We considered how the Council:

Commentary on arrangements

Assessment

Monitors and ensures appropriate standards, such as meeting legislative/regulatory requirements and standards in terms of staff and board member behaviour and where it procures and commissions services.

The Standards Committee ensures that all Councillors and officers of the Council perform their duties within agreed codes of conduct. Members of the Committee work together to promote the importance of high standards of behaviour and systems of governance to create a climate where complaints or problems are rare.

We have made an improvement recommendation in relation to tender waivers/exemptions. This has been reported on p.22 of this report.

A

Arranged the governance and funding of the North West Relief Road (NWRR) project

Our review identified weaknesses in the governance, particularly in relation to the funding of the NWRR project. These weaknesses are as follows:

- Internal Audit raised governance issues including the lack of an NWRR Executive Board meeting formally. We have not seen any formalised minutes of a board since this recommendation was made by Internal Audit.
- The NWRR Executive Board has not included standing members, such as the S151 Officer and the Council Leader
- Internal Audit raised the issue of the exceeding of delegated budgets whilst progressing the NWRR project
- Funding of the NWRR is reliant on the receipt of the Department for Transport’s (DfT) Local Transport Fund (LTF) funding. This could take the form of DfT Local Transport Fund (LTF) funding. The DfT’s LTF letter dated 1 March 2024 confirms the funding amount of £136m, it does not state the profile of funding to be received, nor any potential conditions which could be attached to it.
- We consider the reporting of cost increases between the approval of the Outline Business case and the submission of the Full Business Case and funding arrangements to be unsatisfactory, especially via Cabinet and Full Council. Where significant cost forecast increases have occurred, these should have been reported more formally through the Council’s governance structures, alongside a credible funding strategy to bridge any gaps identified. Whilst regular reporting of cost increases is apparent, including to DfT, there is no evidence of a formal funding plan and only limited evidence of formal reporting of credible options to fund the gap arising.
- Within the project risk register there is no reference to the cost of aborting the project. From our work we understand the cost of aborting the project could be up to £23m, which would have a significant impact on the Council’s financial position and financial sustainability.

Based on our detailed review of the governance and funding of the NWRR project we consider there to be a significant weakness in the Council’s arrangements for securing value for money. We have raised a key recommendation relating to our findings and this is detailed on page 21 of this report

R

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# Governance (continued)



## Significant weaknesses identified in Governance arrangements

### Governance and funding arrangements of the North West Relief Road project

Following the identification of a potential significant weakness in the Council's arrangements for securing value for money relating to the NWRR project we undertook a detailed review of the project. Our review identified a number of weaknesses and issues relating to the governance and funding arrangements of the project. The full review can be found in Appendix D of this report. The weaknesses identified during this review are;

- Internal Audit raised governance issues including the lack of an NWRR Executive Board meeting formally. We have not seen any formalised minutes of a board since this recommendation was made by Internal Audit.
- The NWRR Executive Board has not included standing members, such as the S151 Officer and the Council Leader
- Internal Audit raised the issue of the exceeding of delegated budgets whilst progressing the NWRR project
- Funding of the NWRR is currently understood to be reliant on the receipt of the Department for Transport's (DfT) Local Transport Fund (LTF) funding. The DfT's LTF letter dated 1 March 2024 confirms the funding amount of £136m, it does not state the profile of funding to be received, nor any potential conditions which could be attached to it.
- We consider the reporting of cost increases between the approval of the OBC and the submission of the FBC and funding arrangements to be unsatisfactory, especially via Cabinet and Full Council. Where significant cost forecast increases have occurred, these should have been reported more formally through the Council's governance structures, alongside a credible funding strategy to bridge any gaps identified. Whilst regular reporting of cost increases in apparent, including to DfT, there is no evidence of a formal funding plan and only limited evidence of formal reporting of credible options to fund the gap arising.
- Within the project risk register there is no reference to the cost of aborting the project. From our work we understand the cost of aborting the project could be up to £23m, which would have a significant impact on the Council's financial position and financial sustainability.

Based on these findings we consider there to be a significant weakness in the Council's arrangements for securing value for money and have raised a key recommendation accordingly.

**Key recommendation 2 : The Council should review its governance and reporting arrangements relating to the NWRR and formalise these arrangements more effectively. Specifically the Council should:**

- Formalise the NWRR Executive Board with; terms of reference; standing attendees, including S151 Officer, Executive Director – Place, Executive Manager – Strategic Projects, Portfolio Holder for Highways, and Council Leader. The board should meet on a monthly basis with formal minutes taken and action log maintained. Risk should remain a standing item for each meeting, including the risk of cancellation of the project. This will ensure that key stakeholders are sighted on project status.
- Formalise the funding plan as a matter of urgency. This should detail options for funding the scheme, including associated cost of borrowing, and scenario planning in relation to LTF funding, assuming different funding profiles.
- Monitoring of budget delegations. The Project Lead should ensure that arrangements are made within financial reporting for robust management of delegations, approved by Members. The Project Lead should seek appropriate advice from the Capital Finance Business Partner / s.151 Officer and keep track of spend against delegated funding approved by Council, reporting variances and obtaining further delegations when required, ahead of delegated money depleting..
- Reporting of the project status with respect to the funding plan. The plan to close the funding gap (once devised) should be discussed and agreed with the S151 officer and considered at these forums. Consideration should also be made, with formal minutes, for wider reporting within the Council's formal governance structures.
- Formalise plan to manage abortive costs. The Project Lead should devise a formal plan for the management of abortive costs against identified options were the project not to go to ahead. This plan should seek to mitigate costs materialising within the Council's revenue budget were the project to not go ahead. This should be discussed and agreed with the s.151 Officer.

# Governance (continued)



## Areas for improvement

### Address issues from Internal Audit report on risk management

Internal Audit reviewed the Council's processes for reviewing and updating operational risk registers and to ensure that projects risks are captured and risks are reported to Senior Management on a regular basis in line with the Opportunity Risk Management Strategy. They found there is evidence of non-compliance with some of the controls. The control weaknesses identified which relate to 27% of project risks not being updated in 2023 and 21% of operational risks not being updated in 2023 and incomplete fields being identified with some of the registers.

#### Improvement recommendation 1: Address Internal Audit recommendations

We recommend that the Council should ensure it addresses the minor control weaknesses identified in the Internal Audit risk management report in a timely manner

## Areas for improvement

### Improve the Internal Audit rating of "Limited Assurance" over internal controls

The Head of Internal Audit's opinion is of "Limited Assurance" on the adequacy and effectiveness of the Council's internal control framework. This is driven by weaknesses across the whole spectrum of the Internal Audit programme. This has been the case for the past 5 years now and the Council does not appear to be making any significant progress in improving this opinion. The longevity of this opinion is a concern as it illustrates that either the Council is not taking the IA assessments seriously enough or that IA is not firm enough in its enforcement of actions following a Limited assurance opinion.

#### Improvement recommendation 2: addressing the Internal Audit "Limited Assurance" opinion of the Council's internal control framework

The Council should develop a plan to demonstrate how it will move to improve its Internal Audit overall assessment of "Limited Assurance". This has been in place for five consecutive years and has shown minimal signs of improvement. Without a concerted focus on this area, there is a danger that the Council's internal processes will be exposed to unnecessary risk moving forward. This becomes more of a risk as financially challenging times mean that there will be pressure on staffing capacity so potentially less staff to carry out internal control and monitoring functions.

# Improving economy, efficiency and effectiveness



We considered how the Council:

Commentary on arrangements

Assessment

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Uses financial and performance information to assess performance to identify areas for improvement

The Council introduced its Performance Management Framework (PMF) in 2023/24. The PMF aims to provide a joined-up view across the Council that demonstrates progress using milestones for key deliverables, evidencing impact using performance indicators and targets that set the direction of travel for services with narrative on progress and actions taken to rectify divergence away from targets. This monitors progress against the Shropshire Plan and Service Improvement Plans. Reporting provides challenge, reviews exceptions quarterly and addresses under or over performance and identifies corrective actions. Public reporting is through dashboards available on the Council’s website and through reports to committee meetings held in public. These will primarily reflect the delivery of the priorities in the Shropshire Plan. Cabinet receives quarterly updates with key exceptions highlighted and mitigating actions explained.

G

Evaluates the services it provides to assess performance and identify areas for improvement

The Council has established a wide-ranging Transformation programme to support a fundamental review of its service delivery in the light of the extreme financial challenges. PwC have been engaged and are redesigning the Council’s Target Operating Model (TOM). This has involved a detailed review of all services. As we report the work has yet to be finalised so we are not sighted on its contents though it is imminent.

The Council had a focused Ofsted inspection of its Childrens services in Autumn 2023 and received a letter from OFSTED in January 2024 which highlighted a deterioration in the quality of social work practice for those children subject to child protection plans. They identified serious and widespread systemic failings, leading to weaknesses in child protection practice, which left children at risk of inadequate protection and significant harm. These concerns were known to senior leaders at the time of this visit, but the plans for improvement outlined in the self-evaluation had not had the necessary impact on the quality of practice to ensure that children’s needs are sufficiently addressed at the time of the Ofsted inspection. The Council has since then developed a detailed action plan to address the issues and is actively managing this plan. The Council is keeping this plan under regular review and established a Childrens Improvement Board (chaired by CEO and including independent LGA representation) in November 2023 to ensure that the issues raised are being addressed. They review the action plan on a monthly basis and report to Cabinet.

Childrens services had an inspection in July 2024 re the Council’s arrangements for children in care, including unaccompanied asylum-seeking children. The inspection was, in summary, very positive about the changes that had been made including strengthening senior management capacity, effective partnership working, more children are being returned closer to home, through increased fostering and residential capacity and investment in frontline staff has led to the creation of an additional social work team reducing caseloads for social workers so they have more time to spend with children in care, we note this as a positive development.

A

**Improvement Recommendation 3: The Council should maintain its focus on addressing all the issues identified by Ofsted and addressed in their subsequent action plan with a view to improving the assessment rating at the next Ofsted**

# Improving economy, efficiency and effectiveness (continued)



We considered how the Council: **Commentary on arrangements**

**Assessment**

Ensures it delivers its role within significant partnerships and engages with stakeholders it has identified, in order to assess whether it is meeting its objectives

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The Council engages positively and sets out to work in a collaborative open partnership approach with several strategic partners including Central Government departments (Cities and Local Growth Unit, Homes and Communities Agency) and neighbouring local authorities. It is a non-constituent member of the West Midlands Combined Authority; has a proactive Business Board which it services and engages with on key initiatives and policies, which in turn has informed the Local Economic Growth Strategy. The management of One Public Estate continues with other public-sector partners. A multi-agency high-cost placement funding panel with Children’s Services, Education Services and the Integrated Care Board (ICB) is established to manage high cost placements efficiently.

Many Council services are delivered in partnership with other organisations such as the Local Strategic Partnership, STaR Housing, West Mercia Energy, Shropshire County Pension Fund, town and parish Councils, voluntary bodies and trusts. The Safeguarding Executive Board comprises of NHS, police and the third sector creating a strategic forum for planning and delivering services.

G

Commissions or procures services, assessing whether it is realising the expected benefits

The Council's Financial Regulations and Contract Standing Orders are documented in the Council's Constitution. Staff must comply with these rules when spending money with external providers. The Council has a Head of Procurement and a small procurement support team of 4 staff. The Council has a procurement strategy which was reviewed in 2023. Currently the service is being reviewed as part of the Transformation programme being run by PwC. This is likely to change the organisational structure and this will impact specifically on procurement, contract management and commissioning. At the time of this report the proposals are yet to be finalised.

Contract management is currently carried out by service managers and while there is a central contract register (CR) in existence this does not allow for easy tracking and monitoring of contracts nor does it flag up contracts which are coming up for renewal. It is important that the PwC review addresses these concerns in its revised Target Operating Model (TOM).

**Improvement Recommendation 4: We recommend that the Council should ensure that the PwC review needs to address the current weaknesses in the Contracts Register in its revised Target Operating Model (TOM).**

The Council has a process for tender waivers which sees the Monitoring Officer reviewing each one before they can be formally approved. There is no simple way of separately identifying the tender waivers on the Contracts register nor are these waivers reported to Audit committee as good practice guidance advises.

**Improvement Recommendation 5: We recommend that the Council’s tender waivers are logged separately and reported to the Audit committee on a quarterly basis.**

A

# Improving economy, efficiency and effectiveness (continued)



## Areas for improvement

### Childrens Social Care – response to Ofsted letter from January 2024

The Council had a focused Ofsted inspection of its Childrens services in Autumn 2023 and received a letter from Ofsted in January 2024 which highlighted a deterioration in the quality of social work practice for those children subject to child protection plans. They identified serious and widespread systemic failings, leading to weaknesses in child protection practice, which left children at risk of inadequate protection and significant harm.

**Improvement recommendation 3: Addressing CSC issues re deterioration in the quality of social work practice for those children subject to child protection plans raised by Ofsted**

The Council should maintain its focus on addressing all the issues identified by Ofsted and addressed in their subsequent action plan with a view to improving the assessment rating at the next Ofsted

### Establishing a more proactive Contract management function

The Council's Contracts register is not fit for purpose as it does not easily allow for tracking and monitoring of contract end dates and does not provide alerts to contract managers about then contract end dates are approaching

**Improvement recommendation 4: Development of an improved contracts register to facilitate contract monitoring and tracking**

The Council should as part of the revised Target Operating Model work being carried out by PwC ensure that the contract management tool has the necessary functionality to be able to track and monitor contracts and highlight contract end dates in a timely manner.

### Logging and Reporting of Tender waivers

The Council's process for logging and reporting tender waivers is not well developed. Although tender waivers are reviewed by the Monitoring Officer (MO) they are not formally logged separately and are not routinely shared with the Audit Committee.

**Improvement recommendation 5: Recording and reporting tender waivers/exemptions**

The Council should keep a separate record of tender waivers issued and should report on these quarterly to the Audit committee..

# Shropshire County Pension Fund



## We considered :

- How the pension fund plans and manages its resources to ensure it can continue to deliver its services
- How the pension fund ensures that it makes informed decisions and properly manages its risk; and
- How the pension fund uses information about its costs and performance to improve the way it manage an delivers its services

## Financial sustainability

The primary resources of the Pension Fund can be categorised broadly into two areas, contributions received from active members and returns on investments (interest, dividends, profit on disposal etc).

In line with regulations, the Fund is required to be formally valued every three years (triennial valuation) by a qualified actuary. As part of this exercise, the actuary will undertake an in-depth review of the Fund based on its current funding plans i.e. the level of assets required to meet future benefit payments, the time period over which it aims to achieve this and then determines the contribution rate at which employer bodies must contribute for the following three years. This also outlines that for major employers, rates may be paid in advance to the fund to cover the three year period. This should be considered in line with the funding strategy statement.

The investment activity of the Fund is dictated by the investment strategy statement which sets out the type of investments that Pension Fund money should be invested in, indicative allocations and expected returns and volatilities. The performance of these investments is then monitored by the Pensions Committee and copies of the reports sent to the Pension Board for information.

## Governance

The operation of the Pension Fund is overseen and scrutinised by a number of committees, namely:

- The Local Pension Board was established by Council to meet the requirements of the Public Services Pension Act 2013 for each Local Government Pension Scheme to set up a Local Pension Board to assist the administering authority in ensuring compliance with legislation and the Pension Regulator's requirements. Members consider reports on policy, regulation, codes of practice, risk and fund performance (both investment and administrative).
- The Pensions Committee has a primary focus on the oversight of the general framework within which the Fund's investments are managed and the investment policy. Members are responsible for monitoring the work of the fund managers and the investment pool, LGPS Central Limited, and holding these external bodies to account for performance.

All of the above have met a number of times during the financial period. In line with other meetings of the Council, once a legal precedent was established, these were held virtually during the pandemic. Review of the minutes of meetings demonstrates that members discharge their responsibilities and make informed decisions based on sufficient and appropriate information.

## Improving Economy, efficiency, effectiveness

As noted above, the Pension Committee monitor investment performance on a quarterly basis in arrears in line with the reporting provided by fund managers. Copies of all Pension Committee reports are also circulated to the Pension Board and included as agenda items for discussion at the next meeting.

The Local Pensions Board are provided with all Pension Committee reports and are also invited to Pension Committee meetings. A more detailed analysis of funding and performance is considered by the Pensions Committee and this is prepared by the actuary and reviewed in both the public and private sessions due to some content being of a commercially sensitive nature.

The detailed report provides members with information on valuation, sensitivity and benchmarking, in order to determine potential areas for improvement in investment activity.

The Fund produce quarterly reports to update the Local Pensions Board on the key developments affecting pensions administration and the performance of the Pensions Administration Service. This covers a suite of KPIs and measure of performance against these indicators, therefore identifying areas for improvement. The report also monitors workloads, breaches of policy and other projects ongoing to improve the service. The output of the performance of the Fund in the year is captured in the Pension Fund annual report.

## Conclusion

**Overall, we are satisfied the Council as administering authority has appropriate arrangements in place to ensure the appropriate governance and management of the Pension Fund. It should be noted that the nature of the LGPS is such that the scheme is highly regulated under various Pensions Regulations and compliance with these regulations will ensure adequate arrangements to provide value for money.**

# Value for Money Recommendations raised in 2023/24



# Recommendations raised in 2023/24

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Recommendation	Type of recommendation *	Actions agreed by Management
<b>Financial Sustainability</b>		
<p>The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward:</p> <p>The identification and delivery of savings that reduce the indicative budget gaps in 2025/26 and in future years along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets rather than optimistic ones that may not be achievable in practice</p> <p>Ensure that there are alternative options to deliver a balanced MTFs in future years, reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) and, if required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders.</p>	Key	<p>Actions: Develop and implement a new operating model to remove complexity and “right-size” the Council to deliver its key outcomes and strategic objectives within its available financial envelope.</p> <p>Responsible Officer: Andy Begley, CEO</p> <p>Due Date: Operating model approved by council prior to 31 March 2025</p>
<b>Governance</b>		
<p>KR2 The Council should review its governance and reporting arrangements relating to the North West Relief Road and formalise these arrangements more effectively. The specific recommendations are detailed in the body of this report.</p>	Key	<p>Actions: The Council has provided a detailed response to the findings in relation to the NWRR governance. The Council will address each of these recommendations in line with this response. See page 49 onwards of this report for more detailed information.</p> <p>Responsible Officer: Mark Barrow, Executive Director of Place</p> <p>Due Date: 31 March 2025</p>
<b>Address issues from Internal Audit report on risk management</b>		
<p>IR1 We recommend that the Council should ensure it addresses the minor control weaknesses identified in the Internal Audit risk management report in a timely manner</p>	Improvement	<p>Actions: These will be addressed</p> <p>Responsible Officer: James Walton, s151 officer</p> <p>Due Date: 31 March 2025</p>

\* Explanations of the different types of recommendations which can be made are summarised in Appendix B.



# Recommendations raised in 2023/24 (continued)

Recommendation	Type of Recommendation*	Actions agreed by Management
<p data-bbox="197 491 965 544"><b>Improve the Internal Audit rating of “Limited Assurance” over internal controls</b></p> <p data-bbox="197 560 1021 788">We recommend that the Council should develop a plan to demonstrate how it will move to improve its Internal Audit overall assessment of “Limited Assurance”. This has been in place for five consecutive years and has shown minimal signs of improvement. Without a concerted focus on this area, there is a danger that the Council’s internal processes will be exposed to unnecessary risk moving forward. This becomes more of a risk as financially stratitened times mean that there will be pressure on staffing capacity so potentially less staff to carry out internal control and monitoring functions</p>	Improvement	<p data-bbox="1503 539 2107 651">Actions: Develop a plan for Audit committee that seeks to address the current issues with the Council’s internal control framework. This will need to be addressed as part of the new operating model</p> <p data-bbox="1503 667 1917 689">Responsible Officer: Andy Begley, CEO</p> <p data-bbox="1503 705 1776 727">Due Date: 31 March 2025</p>
<b>Improving economy, efficiency and effectiveness</b>		
<p data-bbox="197 879 972 901"><b>Childrens Social Care – response to Ofsted letter from January 2024</b></p> <p data-bbox="197 917 999 1098">We recommend that the Council had a focused Ofsted inspection of its Childrens services in Autumn 2023 and received a letter from Ofsted in January 2024 which highlighted a deterioration in the quality of social work practice for those children subject to child protection plans. They identified serious and widespread systemic failings, leading to weaknesses in child protection practice, which left children at risk of inadequate protection and significant harm.</p>	Improvement	<p data-bbox="1503 922 2107 970">Actions: The Children’s improvement Board is in place to resolve these issues</p> <p data-bbox="1503 986 2107 1008">Responsible Officer: Tanya Miles, Director of Social Care</p> <p data-bbox="1503 1024 1776 1046">Due Date: 31 March 2025</p>
<p data-bbox="197 1129 893 1152"><b>Establishing a more proactive Contract management function</b></p> <p data-bbox="197 1168 976 1267">We recommend that The Council should as part of the revised Target Operating Model work being carried out by PwC ensure that the contract management tool has the necessary functionality to be able to track and monitor contracts and highlight contract end dates in a timely manner.</p>	Improvement	<p data-bbox="1503 1134 2107 1182">Actions: As above, this will be linked to the development of the operating model</p> <p data-bbox="1503 1198 1917 1220">Responsible Officer: Andy Begley, CEO</p> <p data-bbox="1503 1236 1776 1259">Due Date: 31 March 2025</p>
<p data-bbox="197 1326 656 1348"><b>Logging and Reporting of Tender waivers</b></p> <p data-bbox="197 1364 994 1406">We recommend that the Council should keep a separate record of tender waivers issued and should report on these quarterly to the Audit committee.</p>	Improvement	<p data-bbox="1503 1321 1805 1343">Actions: This will be actioned</p> <p data-bbox="1503 1359 2051 1382">Responsible Officer: Tim Collard, Monitoring Officer</p> <p data-bbox="1503 1398 1816 1420">Due Date: 31 December 2024</p>

\* Explanations of the different types of recommendations which can be made are summarised in Appendix B.

# Appendices

# Appendix A: Responsibilities of the Council

Public bodies spending taxpayers' money are accountable for their stewardship of the resources entrusted to them. They should account properly for their use of resources and manage themselves well so that the public can be confident.

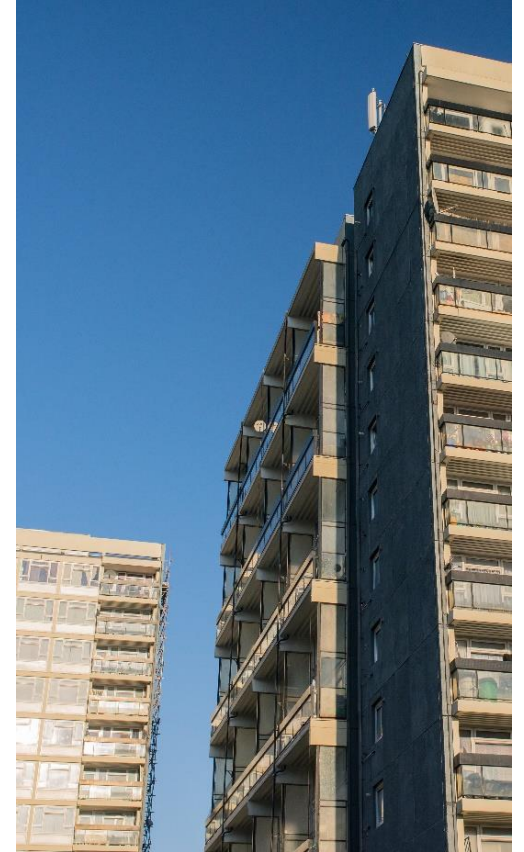
Financial statements are the main way in which local public bodies account for how they use their resources. Local public bodies are required to prepare and publish financial statements setting out their financial performance for the year. To do this, bodies need to maintain proper accounting records and ensure they have effective systems of internal control.

All local public bodies are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. Local public bodies report on their arrangements, and the effectiveness with which the arrangements are operating, as part of their annual governance statement.

The Chief Financial Officer (or equivalent) is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer (or equivalent) determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Chief Financial Officer (or equivalent) is required to prepare the financial statements in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom. In preparing the financial statements, the Chief Financial Officer (or equivalent) is responsible for assessing the Council's ability to continue as a going concern and use the going concern basis of accounting unless there is an intention by government that the services provided by the Council will no longer be provided.

The Council is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.



# Appendix B: Value for Money Auditor responsibilities



## Value for Money arrangements work

All Councils are responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness from their resources. This includes taking properly informed decisions and managing key operational and financial risks so that they can deliver their objectives and safeguard public money. The audited body's responsibilities are set out in Appendix A.

Councils report on their arrangements, and the effectiveness of these arrangements as part of their annual governance statement.

Under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The National Audit Office (NAO) Code of Audit Practice (the Code'), requires us to assess arrangements under three areas:

### Financial Sustainability

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

### Governance

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

### Improving economy, efficiency and effectiveness

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

2023/24 is the fourth year of the Code, and we undertake and report the work in three phases as set out in the Code.

### Phase 1 – Planning and initial risk assessment

As part of our planning we assess our knowledge of the Council's arrangements and whether we consider there are any indications of risks of significant weakness. This is done against each of the reporting criteria and continues throughout the reporting period

Information which informs our risk assessment	
Cumulative knowledge and experience of the audited body	Annual Governance Statement and the Head of Internal Audit annual opinion
Interviews and discussions with key stakeholders	The work of inspectorates and other regulatory bodies
Progress with implementing recommendations	Key documents provided by the audited body
Findings from our opinion audit	Our knowledge of the sector as a whole

### Phase 2 – Additional risk-based procedures and evaluation

Where we identify risks of significant weakness in arrangements we will undertake further work to understand whether there are significant weaknesses. We use auditor's professional judgement in assessing whether there is a significant weakness in arrangements and ensure that we consider any further guidance issued by the NAO.

### Phase 3 – Reporting our commentary and recommendations

The Code requires us to provide a commentary on your arrangements which is detailed within this report. Where we identify weaknesses in arrangements we raise recommendations. A range of different recommendations can be raised by the Council's auditors as follows:


- **Statutory recommendations** – actions which should be taken where significant weaknesses are identified with arrangements. These are made under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014 and require discussion at full Council and a public response.
- **Key recommendations** – actions which should be taken by the Council where significant weaknesses are identified within arrangements.
- **Improvement recommendations** – actions which should improve arrangements in place but are not a result of identifying significant weaknesses in the Council's arrangements.

# Appendix C: Follow-up of previous recommendations

Recommendations	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
<p><b>Financial Sustainability</b></p> <p>The Council should re-consider all aspects of service delivery in order to ensure financial sustainability with efforts being directed toward:</p> <ol style="list-style-type: none"> <li>Ensuring that Transformation associated costs and savings are transparent and reported to members</li> <li>Review the level of savings requirement in 2024/25 and ensure they are realistic, evidence-based and supported by clear delivery plans</li> <li>The identification and delivery of savings that reduce the indicative budget gaps in 2025/26 and in future years along with supporting the replenishment of reserves. These savings should be realistic, evidence-based targets rather than optimistic ones that may not be achievable in practice</li> <li>Ensure the LGA Finance Peer recommendations are fully implemented</li> <li>Ensure that there are alternative options to deliver a balanced MTFS in future years, reducing reliance on one-off measures to support the revenue budget (including non-recurrent savings, one-off grants and reserves) and, if required, how the reduction or removal of services in its long term plan fits with its organisational strategy and the priorities of stakeholders.</li> <li>Ensure that Adults and Childrens forecast models are updated to reflect demand and costs</li> </ol>	Key	July 2024	All issues par bullet points 3 and 5 have been addressed during 20024/25 to date	Partially. Note that Key recommendation carried forward into 2023-24 report	Council to address the key recommendation as part of its 2025-26 Budget and MTFS planning round

\*Explanations of the different types of recommendations which can be made are summarised in Appendix B.


# Appendix C: Follow-up of previous recommendations

Recommendations	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
 Financial Sustainability					
1 The Council should ensure that Medium-Term Financial Strategy (MTFS) is aligned with the Shropshire Plan and distinguishes between statutory and discretionary spend, and aligns to Corporate Priorities.	Improvement	July 2024	Council accepted the principle and every effort has been made to ensure the MTFS does not contradict the Shropshire Plan.(TSP) The MTFS is developing as the short term financial survival of the Council is delivered and a financially sustainable future can be reflected in TSP	Yes	No
2 The Council should ensure that there is an action plan in relation to the Local Government Association (LGA) Finance Peer Review and that recommendations are considered with a clear project plan of implementation	Improvement	July 2024	The action plan is reviewed regularly and all recommendations are completed or are in progress. Progress will be reported as requested by members	Yes	No
3 The Council should ensure it has sufficient Capital receipts to fund is Capital Programme. Further it is critical that Council robustly scrutinises any proposals to take on additional debt and ensure it is affordable, prudent, and sustainable.	Improvement	July 2024	Capital receipts are regularly reported in the Financial monitoring reports to cabinet. Monthly reports have been produced so far in 2024-25	Yes	No

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\*Explanations of the different types of recommendations which can be made are summarised in Appendix B.

# Appendix C: Follow-up of previous recommendations

Recommendations	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
 Governance					
<p>4 The Council should ensure that both Adults and Childrens services demographic models are updated to consider changes in costs and inflation pressures plus the latest outturn and activity figures.</p>	Improvement	July 2024	Director of Social Care (DSC) has confirmed the council has a model that is helping them to predict demand and will help with future forecasting.. This has taken a while to develop. DSC has asked the LGA to support the Council with two finance bench marking reports into ASC ad CSC following the CIPFA recommendation in the summer. This will be completed by 24th November 2024	Yes	No
<p>5 The Council should ensure:</p> <ul style="list-style-type: none"> <li>The cost and funding of the transformation programme are transparent</li> <li>Savings due to transformation are clearly distinguished from operational savings and clearly reported</li> <li>Transformation costs are clearly mapped to the Shropshire Plan and clearly detailed in the MTFS</li> </ul>	Improvement	July 2024	Costs and funding for transformation were clearly reported in the 2023-24 year end outturn report and have continued to be reported to cabinet on a regular basis throughout 2024-25	Yes	No

\*Explanations of the different types of recommendations which can be made are summarised in Appendix B.


# Appendix C: Follow-up of previous recommendations

Recommendations	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
 Improving economy, efficiency and effectiveness					
Page 202 In response to the May 2020 report review of SEND by Ofsted and CQC the Council have taken appropriate action in 3 of the 6 areas where regulators identified significant concerns iro provisions/arrangements in the local area. The Council has put in place arrangements to manage the other 3 but still has further work to complete the proposed actions in its Accelerated Progress Plan (APP). The Council should therefore continue to work with its partners to fully address the remaining 3 significant weaknesses	Improvement		Work is on going to address the 3 remaining areas	Yes	.No
7 The Council should increase visibility and transparency iro its Commercial portfolio. The Council should ensure any commercial ventures are supported by a robust business case, and assumptions have been stressed tested against potential changes in assumptions such as inflation or potential risks around income streams or savings . There should also be clear and transparent reporting if commercial ventures are not delivering either savings or income streams. The Council should identify mitigations if commercial ventures are not achieving stated objectives	Improvement		All expenditure is reported in financial monitoring reports as part of the capital programme and the delivery of savings and/or income is reported as part of regular revenue reporting	Yes	No

\*Explanations of the different types of recommendations which can be made are summarised in Appendix B.



# Appendix C: Follow-up of previous recommendations

Recommendations	Type of recommendation *	Date raised	Progress to date	Addressed?	Further action?
 Improving economy, efficiency and effectiveness	Improvement		GT team has carried out a full report on this scheme and this has been submitted which forms part of tis year's report	Yes	No

\*Explanations of the different types of recommendations which can be made are summarised in Appendix B.

# Appendix D:

## North West Relief Road review

### 1. Introduction

#### Project Background

1.1 The North West Relief Road (NWRR) is a project to the north east of Shrewsbury in Shropshire, which has been discussed since the mid-1980s. Having previously been rejected in December 2007, the project has been revisited, with a Full Business Case (FBC) currently under preparation by Shropshire Council.

1.2 The term 'NWRR' refers to two distinct projects:

The Oxon Link Road (OLR), which is to be part-funded by the Sustainable Urban Extension (SUE) West developers, and the Growth Deal / Midlands Engine Fund, via the Marches LEP

The North West Relief Road, which is to be part funded by the Department for Transport (DfT)

For reporting and procurement purposes, these two projects were combined in February 2020, with Shropshire Council (the Council) opting to procure a primary contractor across both projects. For the remainder of this report, use of the term 'NWRR' refers to both projects in conjunction with one another unless stated otherwise.

1.3 In 2019, the Outline Business Case (OBC) was approved, with the DfT confirming Programme Entry for the NWRR within the Large Local Major schemes programme. At this stage, the total cost of the project was estimated to be approximately £87.1 million. The project at this stage was understood to be funded via multiple sources, as follows:

**Table 1 – Funding of the NWRR**

Funding Source	Value (£ million)
Marches LEP	4.2
Community Infrastructure Levy	0.3
Section 106 contributions	8.2
New Homes Bonus	0.2
DfT's Large Local Majors Fund	54.4
Match funding from Shropshire Council	19.8
<b>Total</b>	<b>87.1</b>

1.4 Since then, the project has seen a significant increase in forecast outturn cost, with latest cost estimate being approximately £178 million, per the Council's Board Finance report dated 15 July 2024. The NWRR cost increases are understood to have occurred for several reasons including delays in planning, unforeseen complexities in planning conditions, delays as a result of the COVID-19 pandemic, and significant construction inflation.

1.5 The Council is continuing with the delivery of the project, with the Council approving a budget of approximately £17 million for advance works in February 2024, whilst also releasing an invitation to tender for the build element of the project for a stated value of £110 million. Tenders have now been received and are being evaluated by the Council. Construction is planned to begin in 2025, subject to the approval of the FBC at the end of 2024.

#### Background of Review

1.6 As part of our value for money planning we identified a potential risk for significant weakness in relation to the governance and funding arrangements of the NWRR project. We have undertaken a detailed review to consider the risks that have been brought to our attention. Specifically, a complaint from an opposition Member with a number of allegations relating to the project. These allegations are;

- That the Council has not followed its own procedures around the approval of capital expenditure by approving £17 million of advanced works ahead of approval of the FBC;
- Starting construction of the NWRR before funding has been guaranteed exposes the Council to a serious risk of bankruptcy;
- Committing £17 million to a project which is unlikely to be completed exposes the Council to a level of risk which is unacceptable;
- Circulating tender documentation before planning conditions have been agreed risks a serious underestimation of the project's costs.

1.7 We note that the NWRR project is politically sensitive and the purpose of this review is to consider the risks in relation to our value for money conclusion for 2023/24.

# Appendix D: North West Relief Road review (cont'd)

## 2. Scope & methodology

### Scope

2.1 The review took place from 19 June to 30 August 2024 and this report summarises the findings of the review, in particular any significant findings relevant to the Value-for-Money audit of Shropshire Council.

2.2 We requested and received a large amount of documentation to supplement the meetings held with officers, including minutes from meetings, communications with the DfT and documentation to support the Council's funding of the project. However, it is noted that not all requested information was received.

2.3 Using the information received both in interviews and via documentation received, we have compiled an objective version of events, alongside the associated evidence to support this chronology. We have then set out our findings, highlighting any issues noted both in terms of the Council's project governance arrangements, and in terms of the Council's proposed funding arrangements, including any potential financial sustainability risks to the Council as a whole.

### Areas not in scope

2.4 This review has taken place in line with the scope outlined above. All conclusions have been reached solely using evidence provided by the Council and through interviews. This report does not comment upon the political environment surrounding the project or seek to determine the appropriateness of the direction of the Council from a political perspective.

2.5 This report has not evaluated issues around the delivery of the project, including validating any reasons for cost increases nor providing any views on the estimation of the project's outturn costs. We have not sought or verified detailed information surrounding cost increases or the delivery of the project; it has instead focused upon the funding and governance arrangements in place.

2.6 Commentary within this report surrounding the funding of the project is based upon evidence provided by the Council and no further verification of funding sources has been performed. We have not sought any communication with proposed funders, not performed any calculations in relation to borrowing or any other means of funding the project.

# Appendix D:

## North West Relief Road review (cont'd)

### 3. Findings

3.1 We received and reviewed several documents and engaged with officers at the Council in line with the methodology set out in section 2. The table below sets out a timeline of events in relation to this project, alongside the documentation which was requested from the officers at the Council for each key event.

Table 2 – Timeline of Events Relating to NWRR

Key Event	Description	Documents Reviewed	Grant Thornton Commentary
Approval of OBC by Council – 13 December 2017	<p>Approval of OBC of scheme costs:  <i>The OBC supports a funding request to the Department for Transport (DfT) from Shropshire Council and the Marches Local Enterprise Partnership (LEP), the scheme promoters.</i>  <i>The cost of constructing the NWRR is estimated to be £71,399,500. Shropshire Council is asking the Government to contribute a fixed sum of £54,406,419 from the DfT's Large Local Major Schemes Fund. Shropshire Council will provide the balance of the cost, estimated at £16,993,081, and accepts responsibility for any cost increase.</i>  <i>Note: £87m is split £74.4m for NWRR &amp; £12.9m OLR.</i></p>	<p>OBC dated December 2017            OBC approval in Cabinet 13 December 2017            S151 Officer Letter dated 18th December 2017.</p>	<p>OBC refers to scheme costs of £74.1m, funded by a DfT capital grant of £54.4m and £16.9m from Shropshire Council funding. Minutes from the Cabinet meeting 13 December 2017 confirmed the approval of the submission of the OBC by a deadline of 22 December 2017.            s.151 Officer Letter dated 18th December 2017 confirms approval of OBC by Council on 13 December 2017 and confirms maximum Council funding contribution of £25m.</p>
Approval of OBC by DfT and movement into Programme Entry in March 2019.	<p>DfT's approval of OBC and confirmation of capped funding.            This funding offer was subsequently accepted by the Section 151; however, we have not received a copy of letter of acceptance at the time of this review.</p>	<p>DfT letter dated 21st March 2019 confirming approval and its funding contribution.            Report to the Council dated 16 May 2019 confirming Programme Entry.</p>	<p>DfT states the terms of its £54.4 million (capped) funding (payable as a grant) towards scheme costs estimated at £71.4 million (this does not include the OLR section of the project). The letter requests confirmation by s.151 officer, however confirmation has not been located.            Report to Council 16 May 2019 confirms Programme Entry into the Large Locals Majors (LLM) programme and authorises s.151 officer to accept DfT funding conditions (£54.4 million (capped)) and states Council matched funding of £16.993 million and notes the Council's matched funding maximum is set at £25 million.</p>

# Appendix D:

## North West Relief Road review (cont'd)

Key Event	Description	Documents Reviewed	Grant Thornton Commentary
Formal merger of the OLR and NWRR projects for procurement and reporting purposes 27 February 2020.	<i>The OLR and NWRR projects were formally merged by the Council, forming what is now known as the NWRR.</i>	Approval of merger in Council meeting minutes.	Documentation shows that the Council approved the merger of OLR and NWRR on 27 February 2020.
Planning application submitted 19 February 2021. Revised planning application was submitted 26 August 2021. Planning permission granted and approved subject to conditions at planning committee 15 February 2024.	Planning application was submitted for the NWRR project including both the NWRR and the OLR Planning was then approved for the project subject to the agreement of the Section 106 and conditions (62 in total).	Planning approval Approval of the conditions by the planning committee.	It is noted that the Council is both the planning applicant and planning authority responsible for granting or otherwise the application. As a result, officers noted the need to ensure appropriate separation between the project team and those involved in assessing the planning application. The grant of Planning Permission was achieved on 15 February 2024 including Pre-Commencement Planning Conditions.
Approval of additional funding by the Council 29 February 2024, which triggered the Member complaint.	Approval of additional funding of approximately £16.9 million for advance works. It is this that prompted the Member complaint detailed in Section 2 of this report.	Council meeting minutes 29 February 2024.	Advance works is part of the strategy to deliver the works, and includes works such as early diversions of utilities. Advance works or enabling works are often let in advance of major projects to enable delivery. This approval was brought to Council as a recommendation from Internal Audit to clarify delegations in place between the OLR and NWRR projects. It had been noted that the project team had overspent its original budget for advanced works and required Council approval for an additional delegation to continue the work. This additional funding was approved by the Council on 29 February 2024, with this approval prompting the letter received by Grant Thornton from a Council Member. As per the 15 July 2024 NWRR Board Finance Report, approximately £4 million of this additional budget has been spent, much of which has been drawn down from DfT.

# Appendix D:

## North West Relief Road review (cont'd)

Key Event	Description	Documents Reviewed	Grant Thornton Commentary
Release of Invitation To Submit Initial Tender (ISIT) documentation 01 May 2024.	<i>Release of tender documentation for a main contractor to deliver the build-phase of the project.</i>	Tender documentation Prior information notice Email confirmation from Executive Director of Place. Budget Review Meeting minutes 26 July 2024	Email from the Executive Director of Place dated 09 February 2024 was viewed, showing approval of PIN & subsequent release of ISIT under his delegated powers. The Budget Review meeting minutes for 26 July 2024 suggest a spread of tenders ranging from £99 - £110 million, which was consistent with the £90 - £110 million estimated within the Council's Prior Information Notice. ISIT Sections 4.12 and 9.35 to 9.39 state Council is under no obligation to award the contract, and is under no liability to cover tenderers' costs. 9.32 further clarifies Council's "No Liability for Costs".

Page 208 In addition to the key events set out in Table 2, we identified key issues relating to the project and associated governance. Table 3, below, sets out the key issues relating to the project alongside the information requested and received by us:

Key Issue	Description	Documents Reviewed	Grant Thornton Commentary
Acknowledgement of increases to estimated capital costs (from OBC to present estimates).	<i>Acknowledgement from the Council's governance forums of increases to estimated costs as a result of issues such as challenge from the Environment Agency, the COVID-19 pandemic and a period of high inflation.</i>	NWRR Board Finance Reports 18 March 2024, 31 March 2024, 10 June 2024 and 15 July 2024. Budget review minutes 11 January 2024 – 26 July 2024	Evidence of the reporting of increases in cost of project has been viewed by us, for example through NWRR Board Finance Reports and Budget Review minutes. As per NWRR Board Finance Reports, the forecast cost was reported at £186 million 18 March 2024, £169 million 31 March 2024 and £171 million on 10 June 2024, each against an original budget of £87 million. The most recent report provided in evidence, dated 15 July 2024, showed forecasted costs at £178 million, with £32 million having been spent so far. Minutes of this meeting were provided in email format. This put the current funding gap at £91 million compared with initial budgets. The Council's Capital Finance Business Partner accepted the proposal that no financial reporting to the Cabinet / Council would be made until the FBC as recommended by the Project Lead and that there is no requirement to do so per the programme entry letter. However, we note that the forecast project costs have since more than doubled and a significant funding gap now exists since the OBC approval. The NWRR Board Finance reports show evidence of the reporting of increases in forecast outturn cost and the funding gap created. The reports show the known funding sources (consistent with those summarised in Section 1 of this report), alongside an associated risk rating for each source. However, other than a reference to impact of borrowing £91 million on the Council's Minimum Revenue Provision (MRP) of £4.4m, based on 4% over 45 years, there is no plan reported for closing the identified funding gap. Shropshire Council's Internal Audit carried out an audit into the NWRR Project which was taken to Audit Committee 22 February 2024. This recommended re-establishment of the NWRR Executive Board, with the Council confirming the inclusion of the s.151 Officer as a standing attendee moving forward. No NWRR Executive Board meeting minutes have been provided for any meetings since the Audit Committee in February 2024, however, we have anecdotal evidence from interviews with officers that they have taken place. However, from interviews it is understood that s.151 Officer had not been invited to these meetings. Given no formal minutes have been provided, it is unclear who attended these meetings, however, anecdotally, we understand that the Portfolio Holder is in attendance and that the Capital Finance Business Partner attends budget review meetings, updating the s.151 Officer on key issues via monthly capital steering group meetings.

# Appendix D:

## North West Relief Road review (cont'd)

Key Issue	Description	Documents Reviewed	Grant Thornton Commentary
Ongoing reporting to DfT of costs.	Ongoing quarterly reporting to DfT highlighted during officer interviews.	DfT Quarterly Returns (Quarters 2, 3 and 4 of 2023-24)	Evidence of Quarterly Returns prepared by the Council and submitted to the DfT have been reviewed. These quarterly returns are completed by the Place team in conjunction with the Capital Finance Business Partner. These Quarterly Returns report on the status of the project including latest forecast outturn costs. We understand that meetings are held with the DfT to discuss the project but no formal minutes are prepared.
Preparation and reporting of "funding plans" to address current forecast outturn costs.	Evidence of funding options considered by the Council to bridge the funding gap identified and reported internally.	DfT Local Transport Fund letter dated 01 March 2024.  Minutes of discussions at Corporate Steering Group 05 June 2024. NWRR Board Finance Reports 18 March 2024, 31 March 2024, 10 June 2024 and 15 July 2024.	<p>The Full Business Case (FBC) will need to include in the Financial Case a credible funding plan for the project. However, there is no evidence of any formal funding plan documentation despite significant increases in forecast outturn costs since OBC approval in 2019.</p> <p>We note that there existed speculation regarding potential full funding of the project by the DfT, based upon statements previously made by the previous Secretary of State. However, given these statements have not been given in writing and that there has since been a change in government, the funding contribution from DfT is formally capped at £54.4 million (as per the DfT letter dated 21 March 2024), and the Council's reporting of funding recognises this.</p> <p>Given the significant increases in the project's costs and DfT's formal funding commitment being capped at £54.4m, a formal funding plan with regular reviews and updates would be expected to be in place to set-out options for addressing the funding gap coupled with effective governance including reporting and meetings as per the project's stated governance structure.</p> <p>From evidence, it is understood that the Council are considering using DfT Local Transport Fund funding to fund the gap which has arisen due to the significant increases in cost to the project since 2019. The DfT Local Transport Fund (LTF) letter (dated 01 March 2024) sets-out extra (mainly capital) funding to Shropshire Council of £136m between 2025 and 2032, but it is not specific about the profile of funding. It is also noted that this letter was received by the Council in March 2024, so before this date it is unclear what credible options the Council had to address the funding gap.</p> <p>Whilst there is no evidence of a formal funding plan there is evidence of funding options having been discussed with s.151 Officer at Corporate Steering Group (e.g. 05/06/2024). The Corporate Steering Group occurs bi-monthly with the NWRR discussed by exception when escalation is needed.</p> <p>It is understood that borrowing is not considered to be a viable option by the Council at this stage. The notes from the Corporate Steering Group (which the s.151 officer and Business Finance Partner attend) includes recognition of the risks around cancellation of the project and the conversion of capital spend into revenue. It is understood that the risk of cancellation of the NWRR project is also reported to the Cabinet by Finance, however, this risk is not found on the project risk register provided in evidence.</p> <p>From interviews, we recognise that the Executive Director - Place, Executive Manager - Strategic Projects, and the s.151 Officer understand the risks associated with aborting the project. However, it has not seen evidence of reporting this risk or discussions with the Council Leader or Portfolio Holder for Highways.</p>

# Appendix D:

## North West Relief Road review (cont'd)

Key Issue	Description	Documents Reviewed	Grant Thornton Commentary
Briefing of the Portfolio Holder, Leader and other Cabinet Members.	<i>Ongoing updates being provided to Members, including forecast costs and spend to date.</i>	Conversations held with the Executive Director of Place, Executive Manager – Strategic Projects and the s.151 Officer. Minutes from Executive Board meetings from 2022 - 2023 Description of Governance structure (see Appendix 2).	As per the governance structure provided to us shown in Appendix 2, and through discussion with officers, it is understood that regular meetings are held with the Portfolio Holder for Highways and the Council Leader. From prior NWRR Executive Board minutes, it is understood that the Portfolio Holder is in attendance, however, minutes from meetings in 2024 have not been received by us which would confirm attendance and issues discussed. It is also understood that issues related to the NWRR are discussed informally with the Cabinet. However, no evidence of such meetings has been provided such as minutes or actions, nor any evidence of private briefing papers for example on funding options and key risks.

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# Appendix D:

## North West Relief Road review (cont'd)

### Summary of Findings

3.3 The table above sets out the key events in relation to the NWRR chronologically. These events have been agreed with officers at the Council through interviews. We recognise the difficulties Council's face in delivering large infrastructure projects, especially allowing for the additional complications of unforeseen planning issues and the COVID-19 pandemic, which brought most of the construction industry to a standstill. We further recognise the market and political sensitivities associated any public communication regarding the status of the project and in particular its costs.

However, we consider that there are weaknesses in relation to the governance particularly in relation to the funding of the NWRR project. These weaknesses have been summarised in the table below, alongside recommendations for the Council's consideration:

Table 4 – Weaknesses Identified

Weakness Identified	Recommendation
Internal Audit raised governance issues including the lack of an NWRR Executive Board meeting formally. We have not seen any formalised minutes of a board since this recommendation was made by Internal Audit.	It is recommended that this NWRR Executive Board is formalised as a core part of the project's governance arrangements. It is recommended that all meetings have formal minutes alongside a clearly defined actions attributed to the relevant individuals.
As noted above, we have not seen evidence that NWRR Executive Board has met formally since the report from Internal Audit. However, it is also noted that the Board had previously not included standing members such as the s.151 Officer and the Council Leader.	It is also recommended that the s.151 is invited to the NWRR Executive Board meetings, along with the Council Leader, Portfolio Holder of Highways, Executive Director – Place, Executive Manager – Strategic Projects and any other key personnel as required.

Weakness Identified	Recommendation
Internal Audit raised the issue of the exceeding of delegated budgets whilst progressing the NWRR project.	We recommend that budgetary delegations are monitored closely by the Project Lead alongside budget / spending reports and that delegations are sought prior to spend passing previously delegated budgets.
The Council's funding of the NWRR is currently understood to be reliant on the receipt of DfT's LTF funding in addition to other reported sources, including DfT funding (£54.4m). Whilst the DfT's LTF letter dated 01/03/24 confirms an amount (£136m) which would in theory cover the current forecast cost (when combined with other funding streams), we note that this letter does not state the profile of funding to be received, nor any potential conditions which could be attached to it.	It is recommended that the Project Lead develops a formal funding plan as a matter of urgency. This funding plan should assume that the DfT's committed funding to the project is capped at the known £54.4 million and should include risk ratings and sensitivities relating to other known funding sources. (It is noted that current project finance reports do assume DfT NWRR-specific funding capped at £54.4 million and shows risk ratings for known funding sources). The plan should set out in detail the different funding options available to the Council to bridge the funding gap, alongside any associated costs, such as the cost of borrowing. The funding plan should also include scenario planning surrounding receipt of the LTF, including costs associated with any short-term borrowing which could be required once the Council understands the profile of the LTF. Support from the Council's Capital Finance Business Partner and / or the s.151 Officer should be sought to help produce the funding plan, options appraisal and risk assessment

# Appendix D:

## North West Relief Road review (cont'd)

Weakness Identified	Recommendation	Weakness Identified	Recommendation
<p>It is noted that the Council has stated that it has no obligation to report on cost increases between the approval of the OBC and the submission of the FBC, especially via cabinet / full council given the commercial sensitivities surrounding the project.</p> <p>However, given the significance of cost increases seen, we consider that reporting has been unsatisfactory, specifically in relation to the funding arrangements to support the project.</p> <p>We consider that when significant cost forecast increases have occurred, they should have been reported more formally through the Council's governance structures, alongside a credible funding strategy to bridge any gaps identified. Whilst regular reporting of cost increases is apparent (including to DfT), there is no evidence of a formal funding plan and only limited evidence of formal reporting of credible options to fund the gap arising.</p>	<p>As above, it is recommended that the Project Lead develops a formal funding plan and options appraisal, in conjunction with the Capital Finance Business Partner and s.151 Officer, as a matter of urgency. The Council should formally report on this funding plan (alongside updates to outturn cost changes) to the project's governance forums.</p> <p>These governance forums should record minutes, attendees, actions and evidence of discussing the associated risk register. Recognising the significant increase in cost of the scheme since OBC and the associated funding gap, it is recommended that the project team presents the funding plan to the NWRR Executive Board on a formal basis and the Board (including the s.151 Officer and Portfolio Holder), and considers and records via formal minutes what can be shared with the Council's formal governance structures (Cabinet, Committees and Council) prior to the FBC, ensuring appropriate transparency but recognising commercial and political sensitivities.</p>	<p>It has been noted that there is currently no reference to the cost of aborting the project within the project's risk register. We have been informed that abortive costs for the project could be up to £23 million, which could significantly impact the Council's financial sustainability. The most recent summary of spend reviewed (from the NWRR Board Finance Report 15/07/2024) showed spend of £32 million, however it is recognised that the OLR could still be delivered without the NWRR project element. This means that some of this spend would be of value and would remain as capital were the further NWRR project to be cancelled. However, the risk of cancellation is understood to be c. £23m per interviews with Council officers.</p>	<p>It is recommended that this risk is added to the project risk register and that "risk" is made a standing item at each NWRR Executive Board meeting.</p> <p>Anecdotally, we are aware of officer discussions regarding contingencies for abortive costs. However, it is understood that these are not formalised at this stage. We recommend that the funding plan and options appraisal includes a plan for the handling of risk associated with abortive costs related to project cancellation against each option. This should be formalised as a matter of urgency, in discussion with the s151 Officer, who will be accountable for ensuring adequate provision for the identified risk is made. This risk should be monitored by the Project Lead in conjunction with the s.151 Officer.</p>

# Appendix D:

## North West Relief Road review (cont'd)

### 4. Conclusions

Risks relating to the Member Complaint

4.1 As noted in Section 1 of this report, the risks relating to NWRR were raised to us through a complaint from an opposition Member. Whilst this report is focused on informing our 2023/24 value for money conclusion we have commented on our findings from the review relating to the risk arising from the Member complaint.

Table 5 – Commenting on risks identified in Member complaint

Risk from Member complaint	Findings from review
The Council has not followed its own procedures around the approval of capital expenditure by approving £17 million of advanced works ahead of approval of the FBC.	<p>The delivery of delivery of advanced works ahead of FBC approval is not unusual in large construction projects.</p> <p>We have not identified any instance of the Council failing to follow its own procedures, with the exception of exceeding delegated limits, which was previously identified by Internal Audit and reported to Audit Committee, and which prompted a further delegation approval.</p>
Starting construction of the NWRR before funding has been guaranteed exposes the Council to a serious risk of bankruptcy.	<p>The Council does not have a robust funding plan approved and in place - It is noted that only advanced works have been started and that the main works are still subject to the approval of the FBC. However, should the NWRR project not be approved, there are potentially cancellation costs associated with the advance works which could crystallise.</p> <p>It is recognised that the DfT LTF to be received potentially provides a credible funding option (alongside other reported funding streams), although there are uncertainties with this, such as the profile and mechanism for the receipt of the funding.</p> <p>We recommend a formal funding plan and options appraisal is developed and approved as a matter of urgency, alongside appropriate contingencies were the project to be cancelled, and abortive costs be realised. This funding plan should be maintained and reported regularly through the project's governance to ensure stakeholders are sighted on plans and risks.</p> <p>With regard the risk of cancellation, it is recommended that a formal plan is developed to address the consequences of this. We recommend that the funding plan and options appraisal includes a plan for the handling of the risk associated with abortive costs related to project cancellation against each option. This should be formalised as a matter of urgency, in discussion with the s.151 Officer, who will be accountable for ensuring adequate provision for the identified risk is made. This risk should be monitored by the Project Lead in conjunction with the s.151 Officer.</p>
Committing £17 million to a project which is unlikely to be complete exposes the Council to a level of risk which is unacceptable.	<p>It is not within the remit of external auditors to speculate upon the likelihood of completion of an infrastructure project, either from a deliverability or political perspective.</p> <p>However, it is not unusual for funding to be used for advanced works ahead of the main construction starting, as the Council has done for the NWRR. However, the risk of cancellation costs should the project not proceed is recognised and noted above. Delivery of the NWRR is Council policy and it is understood that the Council intends to complete the project at this stage.</p>

# Appendix D:

## North West Relief Road review (cont'd)

Risk from Member complaint	Findings from review
<p>Circulating tender documentation before planning conditions have been agreed risks a serious underestimation of the project's costs.</p>	<p>As per the timeline of key events documented above in Table 2 (of Section 3), planning has been approved by the planning committee. The planning approvals is subject to various conditions.</p> <p>We have not seen any evidence that would suggest that planning conditions are not understood by the Council, with planning conditions included within the tender documentation so that tenderers can fully reflect the impact of planning conditions on their tenders.</p> <p>Release of tender documentation ahead of submission of the FBC is in line with expectations, as the result of the tender will inform the FBC. On assessment of the tender ISIT documentation, we are satisfied that the Council has not committed itself to any main construction contract spend until the award and signature of the final contract. Furthermore, the Council can cancel the tender without incurring any bidders' tendering costs. Specifically, ISIT Sections 4.12 and 9.35 to 9.39 state Council is under no obligation to award the contract and is under no liability to cover tenderers' costs. 9.32 further clarifies Council's "No Liability for Costs".</p>

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### Summary Recommendations

Based on our review we have identified a significant weakness in the Council's arrangements for securing value for money in relation to the NWRR. Based on this we have identified a key recommendation that the Council formalises its governance and reporting arrangements relating to the project. The detailed recommendations are as follows:

- 1) Formalisation of the NWRR Executive Board: the board should be formalised with terms of reference, standing attendees including the following, or equivalent: s.151 Officer, Executive Director – Place, Executive Manager – Strategic Projects, Portfolio Holder for Highways, and Council Leader. This board should meet monthly, with formal minutes taken, and action log maintained. Risk should remain a standing item for each meeting, including the risk of cancellation of the project. This will ensure that key stakeholders are sighted on the status of the project and facilitate strategic alignment between the Resources and Place directorates.
- 2) Formalisation of a funding plan: the Project Lead should devise a formalised funding plan for the project as a matter of urgency. The funding plan should detail options for funding of the scheme, including any associated costs of borrowing, and scenario planning in relation to the LTF funding, assuming different potential funding profiles.
- 3) Monitoring of budget delegations: the Project Lead should ensure that arrangements are made within financial reporting for robust management of delegations, approved by Members. The Project Lead should seek appropriate advice from the Capital Finance Business Partner / s.151 Officer and keep track of spend against delegated funding approved by Council, reporting variances and obtaining further delegations when required, ahead of delegated money depleting.
- 4) Reporting of the status of the project with respect to the funding plan: whilst the Project Lead reports forecasted costs within the project's governance forums, it is recommended that the plan to close the funding gap (once devised) is discussed and agreed with the s.151 Officer and considered at these forums. Consideration should be made, with formal minutes, for wider reporting of the project's financial status within the Council's formal governance structures (Cabinet, Committees and Council).
- 5) Formalisation of a plan to manage abortive costs: the Project Lead should devise a formal plan for the management of abortive costs against identified options were the project not to go ahead. Cancellation of the project could lead to significant costs materialising within the Council's revenue budget, and a plan to mitigate the impact of this is required and should be discussed and agreed with the s.151 Officer.

# Appendix D: North West Relief Road review (cont'd)

## 5. Management Response to recommendations

Following the completion of our report on the North West Relief Road, it was shared with management for comment and management issued a response on 1 November 2024. The management responses to the recommendations raised are as follows:

### Recommendation 1

Formalisation of the NWRR Executive Board: the board should be formalised with terms of reference, standing attendees including the following, or equivalent: s.151 Officer, Executive Director – Place, Executive Manager – Strategic Projects, Portfolio Holder for Highways, and Council Leader. This board should meet monthly, with formal minutes taken, and action log maintained. Risk should remain a standing item for each meeting, including the risk of cancellation of the project. This will ensure that key stakeholders are sighted on the status of the project and facilitate strategic alignment between the Resources and Place directorates.

### Project Response

The project governance structure hierarchy is currently established as below



In the light of the report recommendations, the constituents of the Executive Steering Group will be updated in advance of the next meeting. A revised Terms of Reference for this group will also be developed as an early priority for the group. These Terms of Reference will cascade through the projects wider governance structure to ensure that opportunities, synergies and whole Council reporting is ensured. The risk register update exists as a standing item on the group agenda, and this will now be further developed to ensure that the associated action log is captured at, and reviewed within, each meeting going forward. Agendas and minutes for the Executive Steering Group will continue to be placed within the dedicated internal SharePoint site for internal reference, along with the risk register and finance updates. This will continue to ensure that full visibility is available

internally across the whole council on a “self-serve” basis for all officers associated with the project. The structure shown above will adapt to its imminent delivery function at the point of Main Contractor appointment (post Full Business Case approval by DfT, programmed for Feb 2025), and the terms of reference will be further developed at this stage to ensure ongoing effective project management across all areas of the council concerned.

# Appendix D:

## North West Relief Road review (cont'd)

### Recommendation 2

Formalisation of a funding plan: the Project Lead should devise a formalised funding plan for the project as a matter of urgency. The funding plan should detail options for funding of the scheme, including any associated costs of borrowing, and scenario planning in relation to the LTF funding, assuming different potential funding profiles.

#### Project Response

The project will have completed its Full Business Case for the delivery of the scheme by December 2024. Within this is the requirement to comprehensively set out the route to project funding across both external grant opportunities, and the provision of required local match contributions. The project, with the oversight of the Executive Board have already considered a strategic approach to this at a high level, and this is now being developed in full to encompass a wider range of local fundings sources. These include the opportunity to use local developer contributions, CiL, land asset receipts, and the internal allocation of other national capital funding sources. The approach will be ratified by Full Council in December 2024 as part of its consideration of the Full Business case.

The project fully acknowledges the value in the development of this work further into a standalone Funding Plan. The Executive Board will task the Project Manager with the support of the Capital Finance Business Partner to complete the collation of this and then take it through internal and associated Member forums for ratification and adoption.

Close alignment with the existing and future Council Capital Strategy will be ensured. The associated risks and opportunities within this plan will also, on completion, be further integrated into the existing project risk register for allocation to specific owners and the continuing development of mitigation approaches as the scheme matures into its delivery phase.

### Recommendation 3

Monitoring of budget delegations: the Project Lead should ensure that arrangements are made within financial reporting for robust management of delegations, approved by Members. The Project Lead should seek appropriate advice from the Capital Finance Business Partner / s.151 Officer and keep track of spend against delegated funding approved by Council, reporting variances and obtaining further delegations when required, ahead of delegated money depleting.

#### Project Response

The project will continue to receive regular reports at both Officer and Executive Board levels on approved spend against existing delegated limits. These reports are also contributed to by the projects Commercial Manager, who reviews payment requests and applications for payment on receipt, to ensure works are completed as described and to the required level of performance / quality. With reference to the forward programme for the project, existing delegations will be revised as part of the Full Business Case consideration by Full Council in December 24, and then again early in 2025 as regards the award of the Main Works contract. The fully resolved costs of these elements of the project to completion will be established at these milestones, along with the required and proportionate levels of risk and contingency allocation, in order to make further requests for delegated spend robust against project risks as captured in the risk register. The spend against current and future delegations will continue to be actively monitored by the Project Lead (supported by the Capital Finance Business Partner), and the reporting to the section 151 Officer / Council Capital Strategy will continue and be enhanced further in line with the report recommendations. This approach will continue to allow the required visibility of spend against forecast and allow further timely amendments to delegations to be made as and if required up to project completion.

# Appendix D:

## North West Relief Road review (cont'd)

### Recommendation 4

Reporting of the status of the project with respect to the funding plan: whilst the Project Lead reports forecasted costs within the project's governance forums, it is recommended that the plan to close the funding gap (once devised) is discussed and agreed with the s.151 Officer and considered at these forums. Consideration should be made, with formal minutes, for wider reporting of the project's financial status within the Council's formal governance structures (Cabinet, Committees and Council).

### Project Response

As per the response to recommendation 2, the funding plan will be developed under liaison with the Capital Finance Team and the Section 151 Officer. The project acknowledges that the plan will necessarily be a council wide funding approach, and that many contributing areas of the council are not under the direct control of the project alone. For this reason, the project fully supports a collaborative approach to developing its approach to any funding gap identified in specific scenarios and will fully implement this recommendation under the guidance of the Executive Board.

### Recommendation 5

Formalisation of a plan to manage abortive costs: the Project Lead should devise a formal plan for the management of abortive costs against identified options were the project not to go ahead. Cancellation of the project could lead to significant costs materialising within the Council's revenue budget, and a plan to mitigate the impact of this is required and should be discussed and agreed with the s.151 Officer.

### Project Response

In line with the response to recommendation 4, the project recognises that any reversion to revenue around the project becoming partly or wholly abortive requires a council wide approach, given the potential impact in areas of spend outside of the projects immediate power of control or mitigation. To deliver on this recommendation, abortive cost scenarios will be developed within the project Finance Team. As part of the council's wider budget considerations and management, these will be played through to assess wider impacts and potential required interventions across the council. The project welcomes this recommendation as part of its role in not only delivering on a wider range of council priorities outside of the immediate project outputs itself, but also to establish a stronger understanding of the synergies, opportunities, and risks that the project presents for that wider council activity. It will be key to developing further confidence in the councils' own abilities to deliver a project of this size for local residents, Members and external funders and stakeholders. Referencing this recommendation to the current programme, it will be key that this is developed and agreed in parallel with the Full Business Case submission, and the Executive Board will be overseeing its production as a key activity up to the point of Main Contractor appointment in February 2025.







# IT Audit Findings

## Shropshire Council

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**Year ended 31 March 2024**

**Issued 15 July 2024**

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Agenda Item 17

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# Section 1: Executive Summary

## 01. Executive Summary

## 02. Scope and Summary of Work Completed

## 03. Summary of IT Audit Findings

## Detail of IT Audit Findings

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To support the financial statement audit of Shropshire Council and Pension Fund for year ended 31 March 2024, Grant Thornton has completed a design and implementation review of IT General Controls (ITGC) for applications identified as relevant to the audit.

This report sets out the summary of findings, scope of the work, the detailed findings and recommendations for control improvements.

We would like to take this opportunity to thank all the staff at Shropshire Council and Pension Fund for their assistance in completing this IT Audit.

## Section 2: Scope and Summary of Work Completed

01. Executive Summary

**02. Scope and Summary of Work Completed**

Summary of IT Audit Findings

Detail of IT Audit Findings

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The objective of this IT audit was to complete a design and implementation review over Shropshire Council and Pension Fund's IT environment to support the financial statement audit. The applications in scope for this audit were:

- Altair
- Unit 4
- Active Directory

We completed the following tasks as part of this IT Audit:

- Evaluated the design and implementation for security management, change management controls and scheduled job monitoring controls
- Performed an assessment of the processes and controls used as part of transitioning Shropshire Council and Pension Fund's Altair system during the audit period.
- Performed an assessment of the cyber security environment during the audit period.
- Performed high level walkthroughs, inspected supporting documentation and analysis of configurable controls in the above areas
- Documented the test results and provided evidence of the findings to the IT team for remediation actions where necessary

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## Section 3: Summary of IT audit findings

01. Executive Summary

02. Scope and Summary of Work Completed













**03. Summary of IT Audit Findings**

Detail of IT Audit Findings

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# Summary of IT Audit Findings

This section provides an overview of results from our assessment of the relevant Information Technology (IT) systems and controls operating over them which was performed as part of obtaining an understanding of the information systems relevant to financial reporting. This includes an overall IT General Control (ITGC) rating per IT system and details of the ratings assigned to individual control areas.





IT system	Level of assessment performed	Overall ITGC rating	ITGC control area rating			Related significant risks / other risks
			Security management	Technology acquisition, development and maintenance	Technology infrastructure	
Altair	Detailed ITGC assessment (design effectiveness only)					N/A
Unit 4	Detailed ITGC assessment (design effectiveness only)					N/A
Active Directory	Detailed ITGC assessment (design effectiveness only)					N/A

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We also performed specific procedures in relation to the significant changes during the audit period, specifically the new system implementation. We observed the following results:

IT system	Event	Result	Related significant risks / other risks
Altair	New system implementation		N/A

#### Assessment

-  Significant deficiencies identified in IT controls relevant to the audit of financial statements
-  Non-significant deficiencies identified in IT controls relevant to the audit of financial statements / significant deficiencies identified but with sufficient mitigation of relevant risk
-  IT controls relevant to the audit of financial statements judged to be effective at the level of testing in scope
-  Not in scope for testing

# Section 4: Detail of IT Audit Findings

- 01. Executive Summary
- 02. Scope and Summary of Work Completed
- 03. Summary of IT Audit Findings
- Detail of IT Audit Findings**

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# IT General Controls Assessment Findings

	Assessment	Issue and risk	Recommendations
1.	●	<p><b>Information on the privileged accounts within the Active Directory were not provided</b></p> <p>We were not provided with the accounts under the Active Directory group "AD Admins ". Hence, we could not provide assurance on privilege access and its appropriateness</p> <p><b>Risk</b></p> <p>Users with administrative privileges at application level have the ability to bypass system-enforced internal control mechanisms and may compromise the integrity of financial data.</p>	<p>The Council should undertake a review of all user accounts on the Active Directory to identify all privileged accounts. For each account identified the Council should confirm the</p> <ul style="list-style-type: none"> <li>• requirement for the account to be active and be assigned privileged access</li> <li>• which users have access</li> <li>• controls in place to safeguard the account from misuse.</li> </ul> <p>Where possible, privileged accounts should be removed, and individuals should have their own uniquely identifiable user accounts created to ensure accountability for actions performed. Alternately, the Council should implement suitable controls to limit access and monitor the usage of these accounts (i.e. through increased use of password vault tools / logging and periodic monitoring of the activities performed). Where monitoring is undertaken this should be formally documented and recorded.</p> <p><b>Management response</b></p> <p>The AD admins screen shot evidence requested was unfortunately not supplied for this audit due to security team workload pressure. We do regularly review Privileged access accounts including Active directory/ Entra, O365 and infrastructure accounts that are applicable to the service offered to the Pensions team. We have previously responded to evidence this area in the council's GT Financial Management audit and can provide evidence but on this occasion, we have failed to do so.</p>

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## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach



# IT General Controls Assessment Findings

	Assessment	Issue and risk	Recommendations
2.	●	<p><b>Lack of Change Management Controls for Batch Scheduling in Altair</b></p> <p>The IT audit uncovered a deficiency in change management controls related to batch scheduling configurations. Specifically, there is a lack of formalised procedures for documenting, reviewing, and approving changes made to batch scheduling parameters and job schedules.</p> <p><b>Risk</b></p> <p>Without adequate change management controls, unauthorised or undocumented changes to batch scheduling configurations can lead to disruptions in critical business processes, data loss, and security vulnerabilities.</p> <p>Furthermore, the absence of a structured change management process increases the likelihood of configuration errors and inconsistencies.</p>	<p>Establish a formalised change management process for batch scheduling configurations, including documentation of proposed changes, impact assessment, approval workflows, and implementation controls. Implement segregation of duties to ensure that only authorised personnel can make and approve changes to batch scheduling parameters.</p> <p><b>Management response</b></p> <p>It has been confirmed that the only batch job managed by the Pension Fund are the scheduled monthly reports. A process will be implemented to manage any change to these. It will involve the change and sign off by Senior Systems Officers.</p>

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## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

# IT General Controls Assessment Findings

Assessment	Issue and risk	Recommendations
3.	<p data-bbox="198 337 236 376">●</p> <p data-bbox="327 337 890 357"><b>Lack of UAT testing completed for Altair changes</b></p> <p data-bbox="327 376 1044 454">We noted that for the sample change obtained, testing was not conducted before promoting the change into the live environment. Additionally, no approval was given prior to implementation.</p> <p data-bbox="327 474 1044 522">However, we noted that post implementation approvals were given to confirm the change implemented had met that change request.</p> <p data-bbox="327 542 381 562"><b>Risk</b></p> <p data-bbox="327 582 1044 684">Failure to adequately perform change management testing prior to releasing the change into the production environment could lead to a loss of data integrity, processing integrity and/or system downtime.</p>	<p data-bbox="1058 337 1993 414">Management should ensure that change management procedures are recomunicated to staff so that testing is performed and approved prior to introducing a change into the live environment.</p> <p data-bbox="1058 434 1317 454"><b>Management response</b></p> <p data-bbox="1058 474 1993 579">When a system release is being deployed by Heywood's there will be Systems Team Leader sign off on the test plan following the testing undertaken in the TEST environment to the release being deployed into the LIVE environment. Please note that dates to the TEST and LIVE environment are agreed before testing is undertaken.</p>

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## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

# Cyber Security Assessment Findings

Assessment	Issue and risk	Recommendations
1.	<p data-bbox="198 337 236 379">●</p> <p data-bbox="327 337 882 361"><b>Lack of a cyber security policies and procedures</b></p> <p data-bbox="327 375 1044 425">During our review, we observed the following deficiencies in the Council's cyber environment:</p> <ul data-bbox="327 439 1044 963" style="list-style-type: none"> <li data-bbox="327 439 1044 489">• We identified that the Council does not adhere or implement a cyber security framework in place to govern its IT environment</li> <li data-bbox="327 504 1044 675">• We identified that the following cyber security related policies in place (Asset Management, Back Ups, Risk Management and Business Continuity) did not consider cyber security related issues. Additionally, the Asset Management, Risk Management and Back Up policy had not been reviewed during the audit period.</li> <li data-bbox="327 689 1044 739">• We identified that the Council's security configuration standards and configurations for IT components are not documented.</li> <li data-bbox="327 753 1044 868">• We identified that data retention and monitoring policies are not in place. However, we acknowledge that they are under development with the goal of being implemented in the next financial year.</li> <li data-bbox="327 882 1044 963">• We identified that the IT organisational chart does not reflect those responsible for oversight and management of cybersecurity and its relevant controls.</li> </ul> <p data-bbox="327 978 381 1002"><b>Risk</b></p> <p data-bbox="327 1016 1044 1099">Cybersecurity operational processes and control requirements may not be communicated to or understood by those within the organisation responsible for observing and/or implementing them</p>	<p data-bbox="1058 337 1993 386">The Council should implement a cyber security framework that is followed to design, implement, and monitor cybersecurity controls.</p> <p data-bbox="1058 401 1993 482">The Council should maintain documentation that details the cyber security policies governing the IT environment. These policies should be reviewed periodically to reflect and take into consideration the current cyber security landscape.</p> <p data-bbox="1058 496 1317 521"><b>Management response</b></p> <p data-bbox="1058 535 1993 875">a) Policy and communication: The council is in the process of creating a cyber strategy. SC does review its IG policies with cyber security in mind as part of the overall risk to the organisation but to simplify policy, cyber threats are not specifically given their own mention, but applicable controls are included. This has been a conscious decision to create policies that are applicable to many risks rather than create specific section or policies related to specific risks. The backup policy is mentioned and that does have cyber elements such as a requirement for backups to be immutable but does not mention cyber although this is specifically a cyber threat requirement. The council also forcibly mandates completion of its cyber training withholding access to council systems for those not completing it. The council has also recently issued a request to system owners to review their supply chain arrangements in light of Central Government and NCSC advice.</p> <p data-bbox="1058 889 1993 971">b) Cyber Framework: We agree that this would be beneficial and there is an existing internal audit recommendation. This will be considered as resourcing and priority allow.</p> <p data-bbox="1058 985 1993 1042">c) Cyber policy documentation: The council is in the process of creating a cyber strategy and policy changes may arise from the strategy.</p>

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## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
- Improvement opportunity – improvement to control, minimal risk of misstatement within financial statements and no direct impact on the planned financial audit approach

# Cyber Security Assessment Findings

1.	Assessment	Issue and risk	Recommendations (cont.)
	●	Lack of a cyber security policies and procedures	<p>I would also add that the council has incorporated cyber and other risks into a supplier procurement document. We require new externally facing systems to provide evidence of vulnerability testing or we conduct 3rd party testing to provide assurance of data protection. We undertake external 3rd party assessment of our security controls multiple times a year. We have a 24x7 SOC monitoring and driving cyber response activity. The risk team are undertaking a major exercise to ensure business areas have reviewed their DR and BC plans specifically in relation to cyber. Directors require regular official updates on the council's cyber readiness via the IGLOO process. We recently undertook a real-world exercise to test ICT and directors' response to a potential cyber incident and a further Cyber response exercise is planned based around a loss of key material systems.</p> <p>Overall SC focuses a great deal of attention to attempting to manage the cyber threat.</p>

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## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
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# Controls for which assurance could not be provided

Control Name and Description	Reason/Justification
1. Administrative access to the Altair database.	No controls relating to privileged access to the database were identified in the Service Now SOC 2 type II report.
2. Batch management within Altair.	No evidence was available to verify that batch jobs had not failed during the audit period. Therefore, we were able to test this control

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## Assessment

- Significant deficiency – ineffective control/s creating risk of significant misstatement within financial statements and / or directly impact on the planned financial audit approach.
- Deficiency – ineffective control/s creating risk of inconsequential misstatement within financial statements and not directly impacting on the planned financial audit approach
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# Review of findings raised in prior year

Assessment	Issue previously communicated	Update on actions taken to address the issue
✓	Lack of review of information security/audit logs in the Active Directory	This finding has been remediated.
X	Insufficient evidence of Implementation of Cyber Security Controls	This finding has not been remediated. Please refer to Cyber Security Assessment Findings - finding 1 in this report for more details on the prior year finding.

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## Assessment

- ✓ Action completed
- X Not yet addressed



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