Audit Committee
27 November 2025

Item

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Internal Control Management Update

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Cabinet Member (Portfolio Holder):	Heather Kidd - Leader		

1. Synopsis

On June 26th 2025 the Chief Audit Executive issued his sixth consecutive "Limited Assurance" opinion to Audit Committee. The report highlighted "the need for a proactive approach in addressing the areas rated limited or unsatisfactory assurance during 2024/25" based on the areas audited during the year. The Committee resolved to invite the Chief Executive and Senior Members of the Council to a future meeting of the Audit Committee to discuss the current situation and the changes that would be implemented to move away from a limited assurance level. In the meantime, this report provides an initial response by the Interim Chief Executive and Leader of the Council to the concerns raised by the Audit and Governance Committee Chair & Vice Chair.

2. Executive Summary

2.1. This report provides an initial response to the "Limited Assurance" opinion of the Chief Audit Executive for the year ended 2024/25 and sets out the steps the Interim Chief Executive and Leader of the Council are taking to strengthen the Council's framework for governance, risk and internal control.

2.2. Key findings from the work of the Chief Audit Executive include unsatisfactory action taken to promptly implement audit recommendations and insufficient accountability. Just under half (47%) of all audit recommendations made during

2024/25 were due to significant or fundamental issues identified across the 60 reports issued in the year.

2.3. In light of these concerns and immediately following the May 2025 elections, the new Leader of the Council agreed the appointment of opposition groups as Chair of Audit Committee and several Overview & Scrutiny Committees as a clear demonstration of the commitment there is to addressing these concerns.

2.4. The new administration invited the LGA to carry out a Corporate Peer Challenge (CPC) which took place from the 14 to 17 July 2025. The aim was to establish a baseline position and springboard for the Council at an early stage following the May 2025 Local Elections. The CPC Peer team delivered an initial feedback session on Friday 18 July that Group Leaders, Cabinet and Leadership Board were invited to. The final confirmed LGA CPC Report was received the first week in September 2025 and comprised of 10 recommendations to drive improvement.

2.5. Following appointment of the interim Chief Executive on 22nd September 2025, regular meetings of the Council's Statutory Officers (Chief Executive, Chief Financial Officer (S151 Officer) and the Monitoring Officer) and other key officers, including the Chief Audit Executive, have commenced. Progression has been made on several key actions and work to strengthen corporate governance. This includes overseeing the implementation of all internal audit recommendations amongst other governance priorities, including compliance with the Code of Corporate Governance and a regular review of the Council's internal control environment and strategic risks.

2.6. On September 10th 2025, Cabinet declared a financial emergency following receipt of financial monitoring information suggesting a significant forecast overspend at the end of the financial year. Immediate action was commenced to ensure financial survival and to develop a plan for financial stability and sustainability across the Medium-Term Financial Strategy period 2025-2031.

2.7. In light of these findings and events, both the Administration and Leadership Board have commenced the development of an overall Improvement Plan for the Council. The purpose of the plan is to set out how the Council will address immediate challenges, including the financial emergency, but it will also focus on the future and how the council will operate to best serve the needs of Shropshire and its residents. Details on the Improvement Plan will be presented to Council in December 2025.

2.8. The Council's workforce are pivotal to supporting strong governance and it is a key priority to ensure they are supported to excel. Therefore, over the next 12-18 months work will be focussed on a variety of workstreams including work to reinforce the role of the manager, through our forthcoming people strategy, and getting the basics right which has a strong focus on strengthening governance and compliance. It is important that the Audit and Governance Committee challenge and question the implementation of the Improvement Plan in practice as it will take time for the changes envisaged to become embedded, for the internal control environment to improve and for the evidence to be gathered to confirm this.

2.9. The Leader and Interim Chief Executive will attend Audit Committee to provide assurance on the positive steps being taken, in the meantime they have met with the Chair and Vice Chair and discussed various key points raised by Audit

Committee to provide reassurance on the direction of travel and these questions and answers are provided in Appendix 1.

3. Recommendations

3.1. The Committee is asked to;

a. Note with appropriate comment the positive feedback and actions being undertaken to strengthen governance within the Council.

b. Consider future updates from the Leader and the Interim Chief Executive to attend Audit and Governance Committee to discuss the Improvement Plan and progress to date.

Report

4. Risk Assessment and Opportunities Appraisal

4.1. Strengthening the Council's framework for governance, risk and internal control will support the Council's journey to move away from financial survival to financial stability and sustainability, which in turn will enable the Council to more readily meet the needs of Shropshire and its residents.

4.2. A poor internal control environment increases various risks to the Council aside from the risk of financial instability. These include;

- legal and reputational risks arising from a failure to effectively manage public resources,
- high staff turnover risks resulting from low staff morale and a pressurized working environment,
- not meeting the needs of residents and businesses of Shropshire.

It is fundamental to the improvement plan that the internal control environment is strengthened and in line with best practice subject to continual review and improvement.

5. Financial Implications

5.1. Shropshire Council continues to manage unprecedented financial demands and a financial emergency was declared by Cabinet on 10 September 2025. The overall financial position of the Council is set out in the monitoring position presented to Cabinet on a monthly basis. Significant management action has been instigated at all levels of the Council reducing spend to ensure the Council's financial survival. While all reports to Members provide the financial implications of decisions being taken, this may change as officers and/or Portfolio Holders review the overall financial situation and make decisions aligned to financial survivability.

All non-essential spend will be stopped and all essential spend challenged. These actions may involve (this is not exhaustive):

- scaling down initiatives,
- changing the scope of activities,
- delaying implementation of agreed plans, or
- extending delivery timescales.

5.2. In the context of improving the Council's internal control environment, it is anticipated there will be a corresponding improvement in the Council's financial position in the short term through enhanced oversight of the delivery of the necessary financial savings and on a longer-term basis through the alignment of resources to priorities and outcomes.

6. Climate Change Appraisal

6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption. However, the work of the Committee will look at these aspects relevant to the governance, risk management and control environment.

7. Background

7.1. On 26th June 2025 the Chief Audit Executive presented to Audit Committee his "Limited Assurance" audit opinion of the Council's framework for internal control, risk and governance. This was based on internal audit work completed during the year and, that the overall opinion on the control environment has been "Limited" for the last six years. The report presented to Audit Committee outlined the evidence reviewed during 2024/25 and concluded that there had been no notable improvement in the internal control environment. It further stated that it is essential for the Council to demonstrate improvements in governance, internal control, and risk management throughout the 2025/2026 period. The findings of the report highlighted the need for a proactive approach in addressing the areas rated limited or unsatisfactory assurance during 2024/2025.

7.2. Furthermore, the LGA Corporate Peer Challenge (CPC), as stated in paragraph 2.4, also identified areas for improvement and these were presented to Council on 25th September 2025. The 10 recommendations from the findings will form part of the forthcoming Improvement Plan which will be presented to Council in December.

7.3. This report sets out the progress made to date, to strengthen the internal control environment of the Council. In advance of inviting the Leader and the Interim Chief Executive to provide an update on the progress, the Chair and Vice Chair sought answers to six questions posed during October 2025 which are detailed in Appendix 1 along with the answers discussed. Further details will be provided on the progress made over the coming weeks and months.

7.4. Progress to date includes;

a. Senior Leadership Forum collaboration and discussions on their collective role, the role of the manager and governance responsibilities. These meetings are taking place weekly during October and November and provide all Service

Managers the opportunity to be heard and actively shape the Council's direction of travel. Additional communications at Leadership Board covering FOI and outstanding audit recommendations on 6 November 2025 attended by CAE. The focus is on improving controls in addition to the implementation of overdue recommendations.

b. All staff email sent 09 October 2025 regarding compliance with the Council's Constitution, policies and procedures. Specific reference was made to financial rules, contract procedure rules and information security policies. A copy of the letter is attached at Appendix 2.
c. All staff email (CEO update) sent on 30 October 2025 reminding staff to prioritise overdue FOI responses within the "getting the basics right" section.
d. As stated in paragraph 2.5, Statutory Officers meetings have commenced with a focus on compliance and strengthening governance.
e. As stated in paragraphs 2.7 and 7.2, work is underway to develop the Improvement Plan and this will be presented to Council in December.
f. Development of the 2025-2030 People Plan. This builds on feedback from the Staff Pulse survey, broader engagement sessions, best practice arrangements elsewhere and the CPC feedback. Initial actions will focus on culture, leadership and talent, capability and capacity, performance and systems and establishment. Key deliverables for these five areas will have a strong governance focus to develop and embed a strong assurance framework.
g. An independently chaired improvement board has been established with its first full meeting taking place on 10 November 2025. This is a cross-party board, with an LGA recommended independent chair and will have oversight of the delivery of the Improvement Plan.
h. A review of strategic risks, with an officer workshop on 18 November to develop this work further. This will be closely interlinked with the Improvement Plan and a key area of focus over the next 12-18 months.
i. Management assurance on the implementation of internal audit recommendation and FOI responses. Positive progress has been made across the Council, however at this stage this does not include internal audit testing of the implemented recommendations.
j. Ongoing monitoring of overdue Internal Audit recommendations is covered in the statutory officers group meetings.

8. Conclusions

8.1. Positive steps have been taken to address the challenges identified by the Chief Audit Executive, External Audit and subsequently by the LGA Corporate Peer Challenge.

8.2. Further updates will be provided to the Committee before the end of the financial year and over the course of the next 12-18 months.

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

Internal Audit Annual Opinion 2024/25 Audit Committee 26th June 2025

LGA Corporate Peer Challenge Report July 2025 Council 25th September 2025

Corporate Peer Challenge Action Plan Cabinet 15th October 2025

Local Member:	**All**
Appendices	

Appendix 1: Audit Committee questions to and answers from the Leader & Interim Chief Executive

Appendix 2: All staff compliance letter