

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

Date: 1 December 2021
My Ref:
Your Ref:

**Committee:
Audit Committee**

Date: Thursday, 9 December 2021
Time: 10.00 am
Venue: Shrewsbury/Oswestry Room, Shirehall, Abbey Foregate,
Shrewsbury, Shropshire, SY2 6ND

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

<https://www.shropshire.gov.uk/auditcommittee9december2021/>

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

Tim Collard
Interim Assistant Director – Legal and Democratic Services

Members of Audit Committee

Rosemary Dartnall
Simon Harris (Vice Chairman)
Nigel Lumby

Brian Williams (Chairman)
Roger Evans

Your Committee Officer is:

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

AGENDA

1 Apologies for Absence / Notification of Substitutes

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

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

The Minutes of the meetings held on the 16 September and 22nd October 2021 are attached for confirmation.

Contact Michelle Dulson (01743) 257719

4 Public Questions

To receive any questions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00 am Tuesday 7 December 2021.

5 Member Questions

To receive any questions of which Members of the Council have given notice. The deadline for notification for this meeting is 10.00 am on Tuesday 7 December 2021.

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

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

Contact: James Walton (01743) 258915

7 Second line assurance: Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and activities, including an update on the National Fraud Initiative (Pages 43 - 86)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

8 Governance Assurance: Annual review of Audit Committee Terms of Reference (Pages 87 - 98)

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 99 - 126)

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 (Pages 127 - 146)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski 01743 257739

11 Third line assurance: Internal Audit performance report and revised Annual Audit Plan 2021/22 (Pages 147 - 170)

The report of the Head of Audit is attached.

Contact: Ceri Pilawski (01743) 257739

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

The report of the Engagement Lead is to follow.

Contact: Grant Patterson (0121) 232 5296

13 Date and Time of Next Meeting

The next meeting of the Audit Committee will be held on the 22 February 2022 at 10.00 am.

14 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.

15 Exempt minutes of the previous meeting held on the 16th September 2021 (Pages 171 - 174)

The Exempt Minutes of the meeting held on the 16 September 2021 are attached for confirmation.

Contact: Michelle Dulson 01743 257719

16 Internal Audit: Fraud, Special Investigation and RIPA Update (Exempted by Categories 2, 3 and 7) (Pages 175 - 180)

The report of the Principal Auditor is attached.

Contact: Peter Chadderton (01743) 257737

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Committee and Date

Audit Committee

9 December 2021

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

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

Present

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

23 Apologies for Absence / Notification of Substitutes

No apologies were received.

24 Disclosable Pecuniary Interests

Members were reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

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

RESOLVED:

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

26 Public Questions

There were no questions from members of the public.

27 Member Questions

There were no questions from Members.

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

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

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

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

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

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

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

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

RESOLVED:

To accept the position as set out in the report.

29 Second line assurance: Annual Treasury Report 2020/21

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

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

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

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

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

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

RESOLVED:

To accept the position as set out in the report.

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

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

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

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

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

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

RESOLVED:

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

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

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

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

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

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

RESOLVED:

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

32 Second line assurance: Statement of Accounts 2020/21

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

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

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

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

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

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

RESOLVED:

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

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

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

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

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

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

RESOLVED:

That the contents of the report be noted.

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

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

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

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

RESOLVED:

That the contents of the report be noted.

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

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

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

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

RESOLVED:

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

36 Date and time of next meeting

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

37 Exclusion of Press and Public

RESOLVED:

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

38 Exempt Minutes

RESOLVED:

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

39 First line assurance: Highways Term Maintenance update

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

RESOLVED:

To approve the recommendations contained in the report.

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

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

RESOLVED:

That the contents of the report be noted.

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

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

RESOLVED:

That the contents of the report be noted.

Signed (Chairman)

Date:

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Committee and Date

Audit Committee

9 December 2021

MINUTES OF THE AUDIT COMMITTEE MEETING HELD ON 22 OCTOBER 2021 2.00 - 2.50 PM

Responsible Officer: Michelle Dulson

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

Present

Councillor Brian Williams (Chairman)

Councillors Rosemary Dartnall, Nigel Lumby and Roger Evans

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

42 Apologies for Absence / Notification of Substitutes

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

43 Disclosable Pecuniary Interests

Members were reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

44 Public Questions

There were no questions from members of the public.

45 Member Questions

There were no questions from Members.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

RESOLVED:

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

47. **Date and Time of Next Meeting**

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

Signed (Chairman)

Date:



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 9 December 2021	
Cabinet 15 December 2021	
Council 13 January 2022	<u>Public</u>

TREASURY STRATEGY 2021/22 – MID YEAR REVIEW

**Responsible
Officer**

James Walton

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

1. Synopsis

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

2. Executive Summary

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

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

2.2. The key points to note are:-

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

- In the first six months all treasury management activities have been in accordance with the approved limits and prudential indicators set out in the Council's Treasury Strategy
- Cornovii Development Ltd (CDL) and Shropshire Council have agreed to renegotiate the existing finance and borrowing arrangements for the company, subject to the appropriate approvals. Currently CDL have loan facilities of £14m, £35m and £250k available from Shropshire Council for investment in new housing within Shropshire. To ensure CDL have the capacity to deliver a number of key developments which have been recently identified, CDL and Shropshire Council are proposing to collapse the three facilities in to a single £49.25m funding arrangement.

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

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

by Council in the preceding February. Performance outside of these assumptions results in increased or reduced income for the Council.

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

6. Climate Change Appraisal

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

7. Background

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

- A high-level overview of how capital expenditure, capital financing and treasury management activity contribute to the provision of services
 - An overview of how associated risk is managed
 - The implications for future financial sustainability
- A report setting out the Council's Capital Strategy was taken to full Council in February 2021

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

8. Economic Update and Forecast

- 8.1. A detailed commentary can be found in Appendix D.
- 8.2. The Council receives its treasury advice from Link Asset Services. Their latest interest rate forecasts were updated 8 November and are shown below:

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

9. Treasury Strategy update

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

10. Annual Investment Strategy

- 10.1. The Council's Annual Investment Strategy, which is incorporated in the TMS, outlines the Council's investment priorities as the security and liquidity of its capital. As shown by forecasts in section 8.1, it is a very difficult investment market in terms of

earning the level of interest rates commonly seen in previous decades as rates are very low and in line with the current 0.10% bank rate. However, with the potential increase of bank rate on the horizon, we expect to see some improvement in interest earned going forward.

- 10.2. The Council aims to achieve the optimum return on investments commensurate with the proper levels of security and liquidity. In the current economic climate it is considered appropriate to keep investments short term (up to 1 year), and only invest with highly credit rated financial institutions using Link's suggested creditworthiness approach, including sovereign credit rating and Credit Default Swap (CDS) overlay information provided by Link. The Treasury Team continue to take a prudent approach keeping investments short term and with the most highly credit rated organisations.
- 10.3. In the first six months of 2021/22, the internal treasury team outperformed its benchmark by 0.22%. The investment return was 0.14% compared to the benchmark of -0.08%. This amounts to additional income of £198,180 during the first six months which is included within the Council's projected outturn position in the quarterly financial monitoring report.
- 10.4. A full list of investments held as at 30 September 2021, compared to Link's counterparty list, and changes to Fitch, Moody's and Standard & Poor's credit ratings are shown in **Appendix A**. None of the approved limits within the Annual Investment Strategy were breached during the first six months of 2021/22 and have not been previously breached. Officers continue to monitor the credit ratings of institutions on a daily basis. Delegated authority has been put in place to make any amendments to the approved lending list.
- 10.5. As illustrated in the economic background section above, investment rates available in the market have decreased significantly due to the bank rate decrease to 0.10% in March 2020. The average level of funds available for investment purposes in the first six months of 2021/22 was £180 million.
- 10.6. The Council's interest receivable/payable budgets are currently projecting a surplus of £1.87 million as reported in the monthly revenue monitoring reports due to no long-term borrowing being undertaken, changes to the Minimum Revenue Provision (MRP) calculation previously approved by Council and minor changes in borrowing requirements.

11. Borrowing

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

12. Cornovii Development Ltd

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

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

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

Cabinet Member:

Gwilym Butler, Portfolio Holder for Resources

Local Member

N/A

Appendices

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



Shropshire Council

Monthly Investment Analysis Review

September 2021

Monthly Economic Summary

General Economy

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

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

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

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

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

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

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

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

Housing

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

Currency

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

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

Forecast

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

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

Shropshire Council

Current Investment List

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

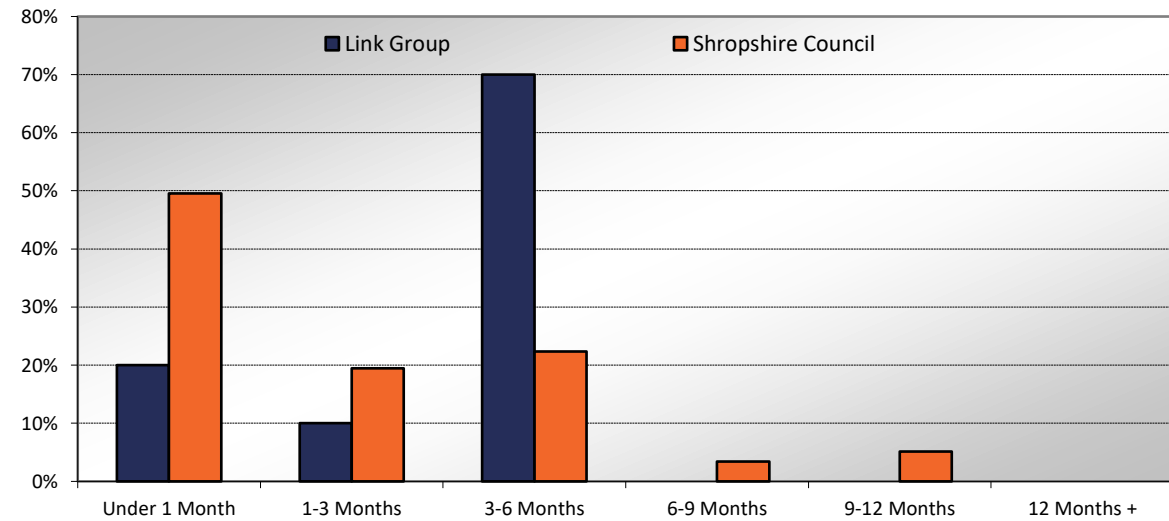
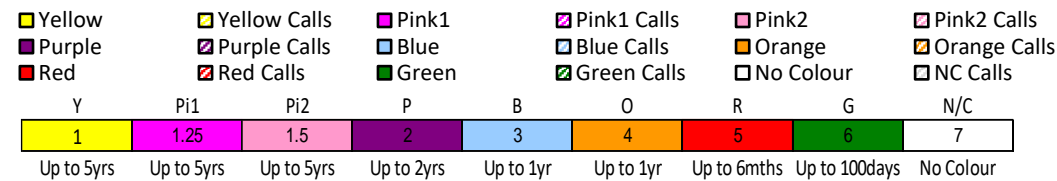
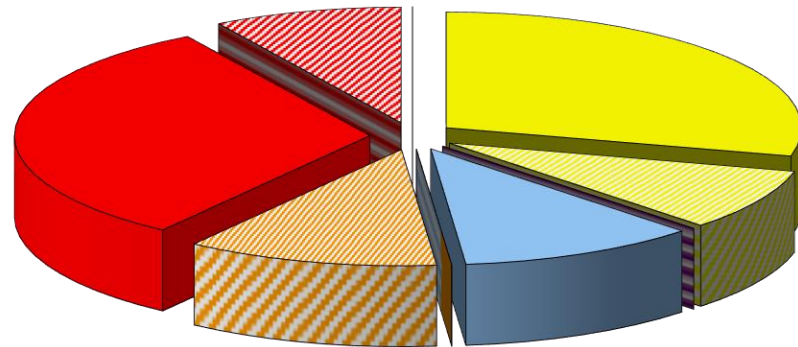
Note: An historic risk of default is only provided if a counterparty has a counterparty credit rating and is not provided for an MME or USDRE for which the rating agencies

Current Investment List

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

Portfolio Composition by Link Group's Suggested Lending Criteria



Portfolios weighted average risk number = **3.17**

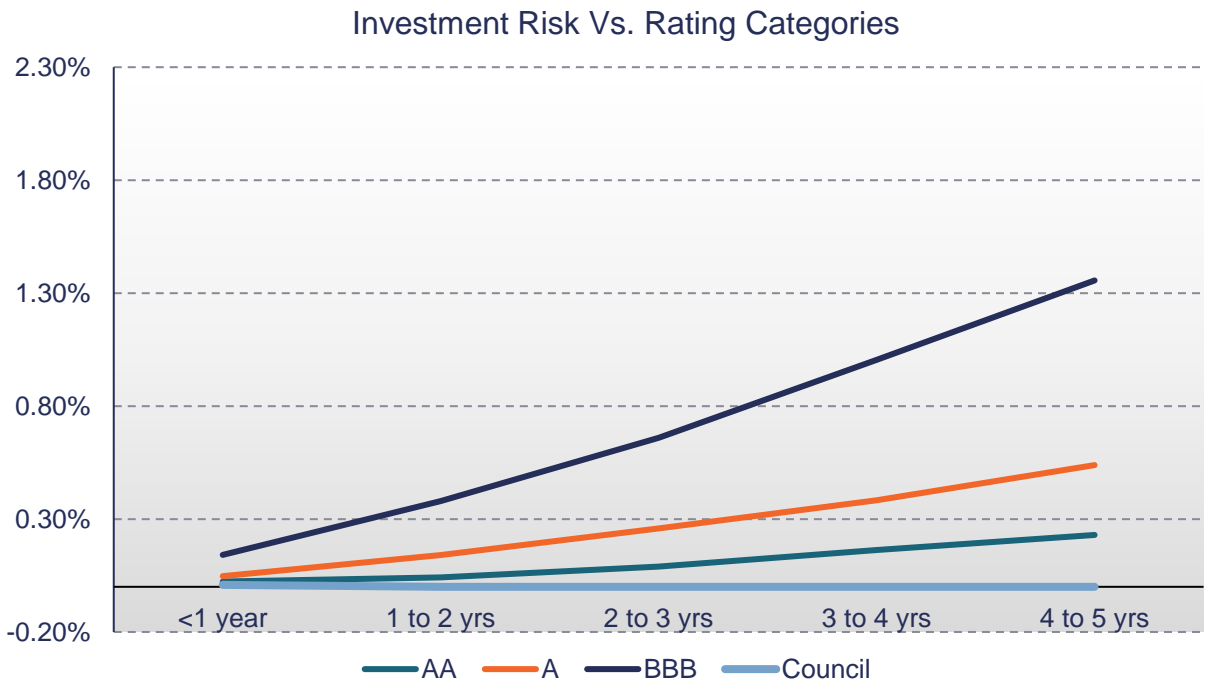
WARoR = Weighted Average Rate of Return

WAM = Weighted Average Time to Maturity

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

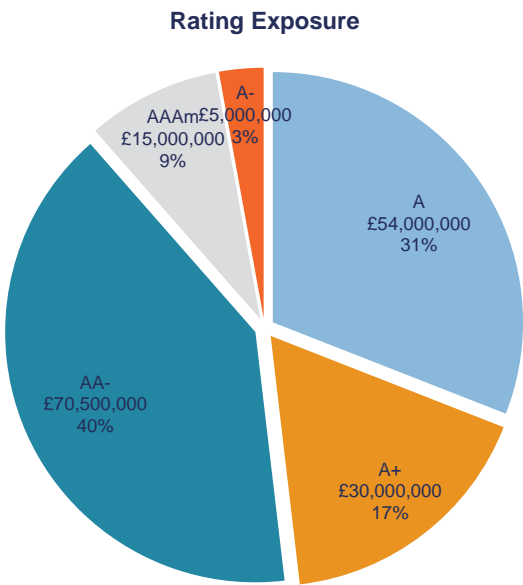
Shropshire Council

Investment Risk and Rating Exposure



Historic Risk of Default

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



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

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

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

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

Shropshire Council

Monthly Credit Rating Changes FITCH

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

Shropshire Council

Monthly Credit Rating Changes
MOODY'S

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

Shropshire Council

Monthly Credit Rating Changes S&P

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

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Appendix B

Prudential Indicators – Quarter 2 2021/22

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

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

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Capital Financing Summary

Prudential Borrowing Approvals	Date Approved	Amount Approved £	Applied (Spent) 2006/07 £	Applied (Spent) 2007/08 £	Applied Outturn 08/09 2008/09 £	Applied Outturn 09/10 2009/10 £	Applied Outturn 10/11 2010/11 £	Applied Outturn 11/12 2011/12 £	Applied Outturn 12/13 2012/13 £	Applied Outturn 13/14 2013/14 £	Applied Outturn 14/15 2014/15 £	Applied Outturn 15/16 2015/16 £	Applied Outturn 16/17 2016/17 £	Applied Outturn 17/18 2017/18 £	Applied Outturn 18/19 2018/19 £	Applied Outturn 19/20 2019/20 £	Applied Outturn 20/21 2020/21 £	Budgeted 2021/22 £	Budgeted 2022/23 £	Budgeted 2023/24 £	First year MRP Charged	Asset Life	Final year MRP Charged	
Monkmoor Campus	24/02/06	3,580,000																						
Capital Receipts Shortfall -Cashflow	24/02/06	5,000,000																						
Applied:																								
Monkmoor Campus			3,000,000		0																			
William Brooks					0		3,580,000																	
Tern Valley					2,000,000																			
		8,580,000	3,000,000	0	2,000,000	0	3,580,000	0	0	0	0	0	0	0	0.00	0	0	0	0	0				
Highways	24/02/06	2,000,000	2,000,000																					
Accommodation Changes	24/02/06	650,000	410,200	39,800																				
Accommodation Changes - Saving	31/03/07	(200,000)																						
		450,000	410,200	39,800	0	0	0	0	0	0	0	0	0	0	0.00	0	0	0	0	0				
The Ptarmigan Building	05/11/09	3,744,000				3,744,000																		
The Mount McKinley Building	05/11/09	2,782,000				2,782,000																		
The Mount McKinley Building	05/11/09	0					-																	
Capital Strategy Schemes - Potential Capital Receipts shortfall - Desktop Virtualisation	25/02/10	187,600				187,600	-	-	-	0	-	-	-	-	0.00	-								
Carbon Efficiency Schemes/Self Financing	25/02/10	1,512,442					115,656	1,312,810	83,976	-	-	-	-	-	0.00	-								
Transformation schemes		92,635						92,635	-	-														
Renewables - Biomass - Self Financing	14/09/11	92,996						82,408	98,258	(87,670)	-													
Solar PV Council Buildings - Self Financing	11/05/11	56,342						1,283,959	124,584	(1,352,202)	-													
Depot Redevelopment - Self Financing	23/02/12	0							-	-	-													
Oswestry Leisure Centre Equipment - Self Financing	04/04/12	124,521						124,521																
Leisure Services - Self Financing	01/08/12	711,197							711,197															
Mardol House Acquisition	26/02/15	4,160,000									4,160,000	-												
Mardol House Adaptation and Refit	26/02/15	3,340,000									167,640.84	3,172,358.86	-	-	0.00	-								
Oswestry Leisure Centre Equipment - Self Financing	01/08/12	290,274												274,239		16,035								
Car Parking Strategy Implementation		590,021													588,497.06	1,524								
JPUT - Investment in Units re Shrewsbury Shopping Centres		55,108,080													52,204,603	-208,569.18	2,791,967	320,079						
JPUT - SSC No 1 Ltd		527,319													527,319									
CDL Shareholding																		1						
Children's Residential Care		2,000,000														1,381,539	230,765	387,697						
Pride Hill Shopping Centre Reconfiguration		10,860,807																434,027	7,184,669	3,242,111				
Greenacres Supported Living Development		3,125,000																	1,812,500	1,312,500				
Bishops Cleeve Business Park	19/09/19	3,108,999															2,900	1,175,442	1,132,205	798,452				
Whitchurch Medical Practice (Pauls Moss Development)	26/07/18	3,778,000																		3,778,000				
Oswestry Care Home - Site Acquisition	19/12/19	3,256,241														3,256,241								
DVSA Site Acquisition		1,200,000																	1,200,000					
NCP Car Park, Wyle Cop, Shrewsbury		3,983,620																	3,983,620					
Former Morrisons Site, Oswestry	19/09/19	3,390,145																3,390,145						
Commercial Investment Fund	Fin Strat 19/20	21,946,806																	6,946,806	10,000,000	5,000,000			
The Tannery Development - Student Block		7,445,188														3,677,843.83	3,456,019	311,325						
Previous NSDC Borrowing		955,595			821,138	134,457																		
		149,399,827	5,410,200	39,800	2,821,138	6,848,057	3,695,656	2,896,333	1,018,015	(1,439,872)	4,327,641	3,172,359	0	53,006,161	4,057,772	10,903,325	4,689,242.81	22,690,734	19,464,816	5,798,452				
				-	-			0	0	0	0	0	0	-	0.00	(1)		-	-					
£80m investment fund - reduced to £45m 2021/22 budget setting		45,000,000																						

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Appendix D

Economic Update

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Economic Forecast

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

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

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

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

Significant risks to the forecasts

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

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

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

Borrowing

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

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

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

Debt Rescheduling

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



Committee and Date

Audit Committee
9th December 2021
10:00 am

Item

Public

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

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

1. Synopsis

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

2. Executive Summary

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

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

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

6. Climate Change Appraisal

- 6.1. This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting and mitigation; or on climate change 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 2021. In reviewing the Strategy, only minor adjustments have been made to reflect structure changes at the Council and the move to a more digital approach. All proposed changes are identified in the Strategy in bold italic, underlined font
- 7.3. The Strategy can be located on the Council's website alongside Speaking up about Wrongdoing policies for both staff and the public and Anti Money Laundering (AML) procedures and guidance. A review of these has identified minor changes which have been reflected in the Strategy and supporting policies, procedures and guidance.

8. Additional Information

Counter Fraud, Bribery and Anti-Corruption Strategy

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

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

National Picture

CIFAS Fraudscape 2021

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

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

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

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

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

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

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

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

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

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

8.8. The full report is available at:

<https://www.fraudscape.co.uk/#welcome>

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

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

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

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

Action Plan

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

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

CIPFA Fraud and Corruption Tracker (CFaCT) annual survey

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

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

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

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

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

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

8.15. The report highlights:

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

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

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

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

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

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

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

8.20. Overall messages were that:

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

International Fraud Awareness Week

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

⁵ National Anti-Fraud Network

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

CIPFA's Counter Fraud Assessment Tool

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

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

National Fraud Initiative (NFI)

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

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

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

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

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

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

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

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

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

Transparency requirements

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

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

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

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

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

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

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

Whistleblowing Policy

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

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

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

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

Anti-Money Laundering (AML) Procedure

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

Serious Organised Crime Checklist

- 8.35. Organised crime includes drug trafficking, human trafficking, child sexual exploitation, high value fraud and cyber-crime. Organised crime groups may seek to benefit from public services in different ways, including to raise money through fraudulent activity and to use businesses / services used by local authorities to launder criminal proceeds. In this way public money can be lost to local authorities and can ultimately fund other illegal activity.
- 8.36. The Home Office Serious and Organised Crime report and checklist provides a methodology to assess the risk from serious and organised crime and corruption and is essential in allowing the Council to identify areas of concern, potential vulnerabilities and to act to strengthen processes and structures that safeguard public money. The checklist evaluates our response and activities in relation to:
- Awareness, Strategy, Guidance and Training
 - Risk Management
 - Communication and Information/ Intelligence Sharing
 - Whistleblowing
 - Assurance
 - Operational controls for
 - Licensing
 - Planning/ Development management
 - Social Housing

- Procurement
- Insider threat

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

Awareness and training

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

Qualified officers

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

Shropshire Council counter fraud risks and plans

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

High

- Housing benefits
- Cybercrime

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

Medium

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

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

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

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

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

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

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

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

The Bribery Act 2010

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

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

Regulation of Investigatory Powers Policy 1 October 2015

CIPFA Fraud and Corruption Tracker (CFaCT) survey report 2020

National Fraud Initiative (NFI) Report 2020

Home Office Serious and Organised Crime report and checklist 2017

Cifas Fraudscape 2020 Full Digital Report

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

Local Member N/A

Appendices:

Appendix A: Counter Fraud Bribery and Anti-Corruption Strategy

Appendix B: Counter Fraud Assessment Tool – reviewed Oct 2021

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



Provide Resources

85%

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

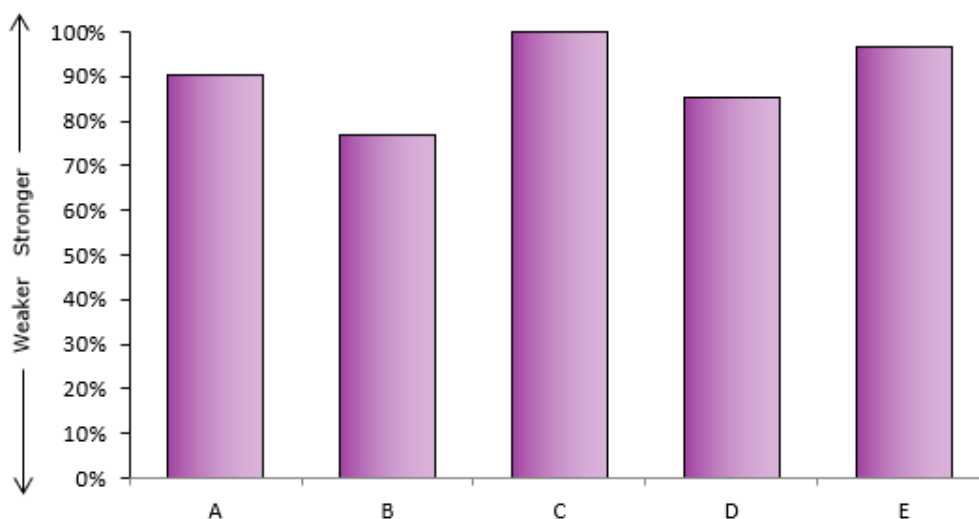
Take Action

97%

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

Summary Page

91%



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

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Counter Fraud, Bribery and Anti-Corruption Strategy

POLICY STATEMENT AND STRATEGY

Document Details:

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

Date: November 2021

Review Arrangements: Next Review Date - November 2022

Counter Fraud, Bribery and Anti-Corruption Policy Statement

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

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

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

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

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

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

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

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

Counter Fraud, Bribery and Anti-Corruption Strategy

1. Introduction

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

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

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

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

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

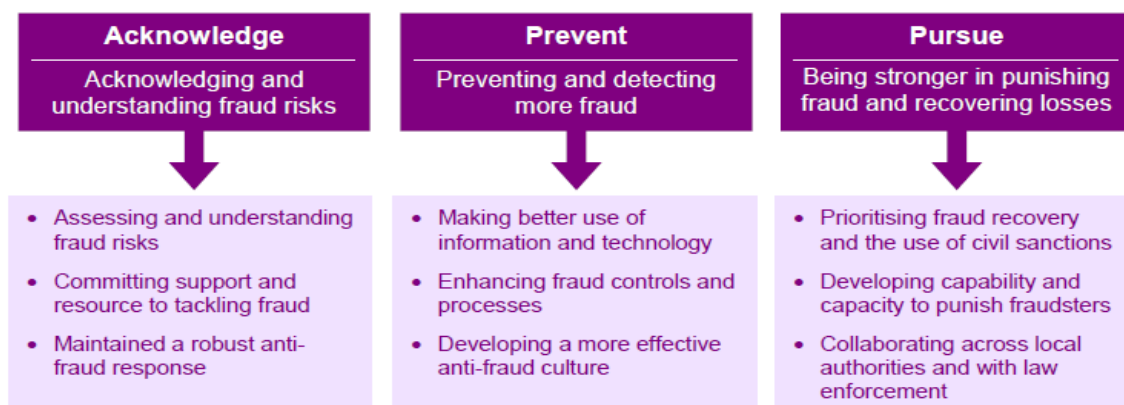
The five key elements of the CIPFA Code are to:

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

ACKNOWLEDGE

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

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



2. Definitions

What is Fraud?

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

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

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

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

What is Bribery?

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

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

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

What is Corruption?

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

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

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

What is Theft?

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

3. Scope

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

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

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

4. Strategy Aims and Objectives

The aims and objectives of this strategy are to:

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

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

Managing the Risk of Fraud and Corruption

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

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

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

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

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

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

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

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

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

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

PREVENT	Better Use of Information Technology	We will make use of data and analytical software to prevent and detect fraudulent activity. We will look for opportunities to share data and fraud intelligence to increase our capability to uncover potential and actual fraud. We will also use computer assisted audit techniques, search engines and data matching facilities at a local level to investigate suspected frauds. Any such exchange or use of information will be undertaken in accordance with the principles contained in the Data Protection Act 2018. We will play an active part in the National Fraud Initiative (NFI) data matching exercise.
	Fraud Controls and Processes	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.
	Anti-Fraud Culture	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. 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.

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

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

This theme lies across all pillars of this strategy.

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

7. Responsibilities

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

8. Reporting, Advice, Support

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

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

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

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

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

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

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

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

9. Investigations

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

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

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

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

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

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

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

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

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

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

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

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

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

10. Strategy Review

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

APPENDIX 1



FRAUD RESPONSE PLAN

INTRODUCTION

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

WHAT YOU SHOULD DO IF YOU SUSPECT FRAUD

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

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

TOP TIPS

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

SAFEGUARDS

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

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

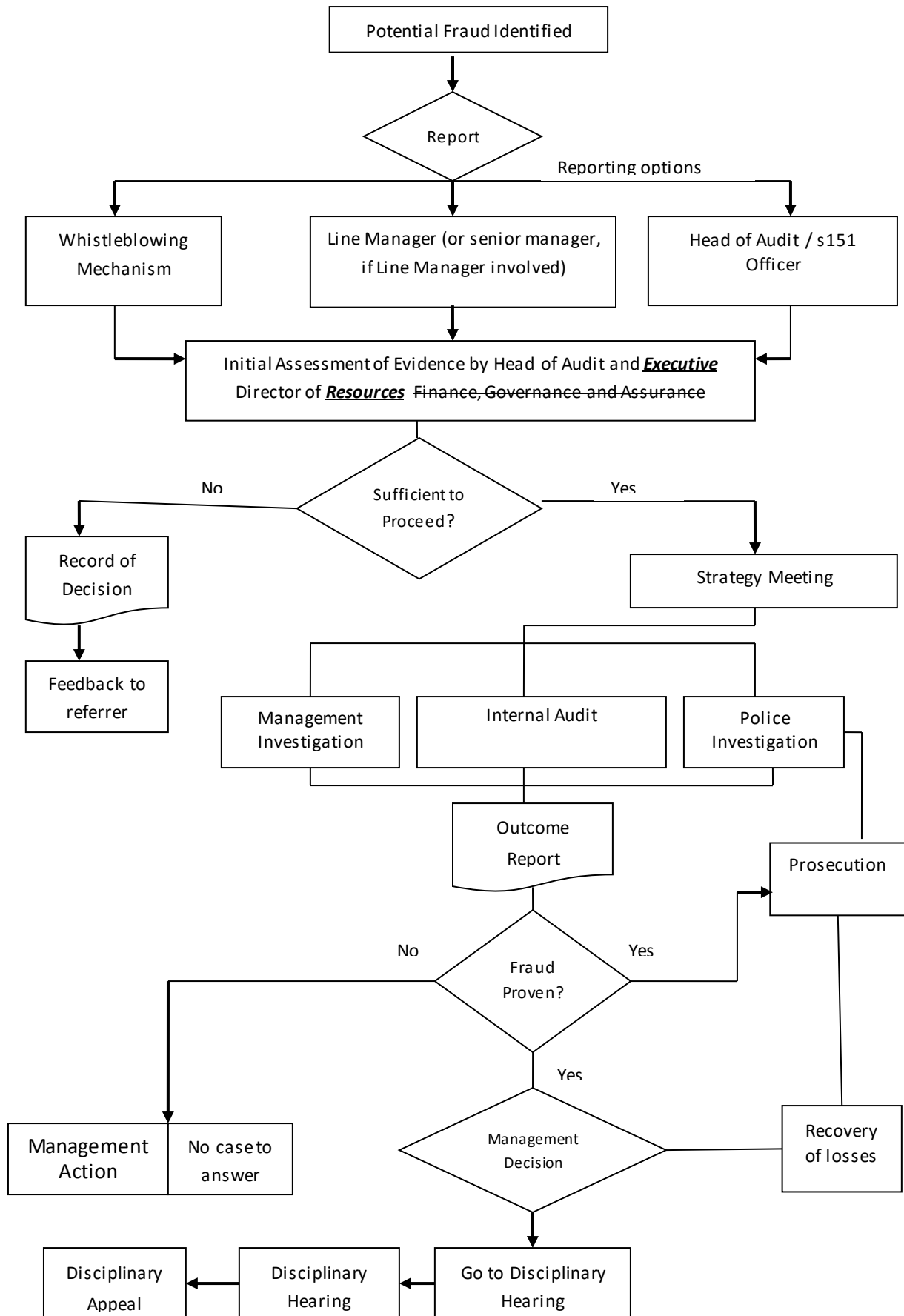
INVESTIGATION

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

POTENTIAL OUTCOMES

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

Appendix 1 - The Council's typical fraud response plan



APPENDIX 2

NOLAN COMMITTEE REPORT – THE SEVEN PRINCIPLES OF PUBLIC LIFE

Selflessness

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

Integrity

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

Objectivity

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

Accountability

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

Openness

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

Honesty

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

Leadership

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

SPECIFIC RESPONSIBILITIES

APPENDIX 3

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

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

Appendix 4

Shropshire Council – Loss Recovery Approach

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

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

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

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

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

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

Financial Considerations in relation to reporting fraud to law enforcement authorities

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

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

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

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

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

² Section 40 (1) Magistrates' Courts Act 1980

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

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

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

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

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

Adopted Strategy

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

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

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

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

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



Committee and Date

Audit Committee

9 December 2021

10 am

Item

Public

ANNUAL REVIEW OF AUDIT COMMITTEE TERMS OF REFERENCE

Responsible Officer

James Walton

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

1. Synopsis

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

2. Executive Summary

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

3. Recommendations

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

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 adaption. Therefore, no effect to report.

7. Background

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

sound financial management, the Section 151 Officer requires an effective audit committee and an internal audit service which evaluates the effectiveness of its risk management, control and governance processes. Both elements are enshrined in the Public Sector Internal Audit Standards and the supporting Local Government Application Note.

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

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

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

8. Additional Information

8.1. At Council, on the 24th September 2020, the Audit Committee was given responsibility for approving the Final Accounts Pack including the Statement of Accounts for the financial year 2019/20 onwards. To accommodate this, detailed changes were proposed and accepted for the Constitution, these were reflected in the Audit Committee's Terms of Reference. In addition, reflecting on these changes and the current responsibilities of the Committee the following proposed adjustments are suggested for paragraph: -

- 43, to reflect the ability of Audit Committee to escalate concerns to Council.
- 44, to update the reports received from External Audit.
- 45, to fully reflect the delegated powers the Committee was awarded in the previous year in respect of approving the Statement of Accounts when required.

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

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

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

TIS Online CIPFA Audit Committee

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

Local Government Act 1972

Accounts and Audit (England) Regulations

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

Cabinet Member (Portfolio Holder)

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

Local Member N/A

Appendices

Audit Committee Terms of Reference

AUDIT COMMITTEE TERMS OF REFERENCE**Membership**

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

Meetings

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

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

CORE FUNCTIONS

Governance risk and control

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

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

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

Internal Audit

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

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

External Audit

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

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

Financial reporting

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

Treasury Management

39. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet and Full Council, ensuring that controls are satisfactory.
40. To receive regular reports on activities, issues and trends to support the Committee's understanding of treasury management activities. The Committee is not responsible for the regular monitoring of treasury management activity².
41. To review the treasury risk profile and adequacy of treasury risk management procedures and assurances on treasury management in accordance with best practice.

Accountability Arrangements

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

² Clause 3 Treasury Management Code of Practice

Work plan

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

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

Powers of the Audit Committee

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

Audit Committee Competency Framework

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

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

And that the Committee should receive appropriate levels of training.

Reviewed November 2021.



Committee and Date

Audit Committee

9th December 2021

10 am

Item

Public

Audit Committee Self-Assessment 2021

Responsible Officer James Walton

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

1. Synopsis

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

2. Executive Summary

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

3. Recommendations

Members are asked to:

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

REPORT

4. Risk Assessment and Opportunities Appraisal

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

5. Financial Implications

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

6. Climate Change Appraisal

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

7. Background

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

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

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

SAR ¹	Partial compliance	Proposed action
4	Is the role and purpose of the audit committee understood and accepted across the authority?	Members continue to raise awareness as to the role and purpose of the Audit Committee and the value that can be added by all to improve governance, risk management and internal controls. Members can refer others to the Induction training of Audit.
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Members continue to consider areas identified for improvement in the Annual Governance Statement against their work and training plans, to ensure coverage of all areas the committee requires assurances from.
12	Has an effective audit committee structure and composition of the committee been selected?	The Audit Committee structure provides representation from the three major political groups. New members are having knowledge of

¹ SAR = Self-assessment reference

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

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

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

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

Cabinet Member (Portfolio Holder)

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

Local Member

N/A

Appendices

A Self-assessment of good practice November 2021

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

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

C Self-assessment of good practice showing evidence

Appendix A: Self-assessment of Good Practice November 2021

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

Good practice questions		Yes	Partly	No
	• Internal audit	✓		
	• External audit	✓		
	• Financial reporting	✓		
	• Risk management	✓		
	• Value for money or best value	✓		
	• Counter-fraud and corruption	✓		
	• Supporting the ethical framework	✓		
8.	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓		
9.	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	✓		
10.	Where coverage of core areas has been found to be limited, are plans in place to address this?	✓		
11.	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓		
Membership and support				

Good practice questions		Yes	Partly	No
12.	Has an effective audit committee structure and composition of the committee been selected? This should include:		✓	
	• Separation from the executive	✓		
	• An appropriate mix of knowledge and skills among the membership		✓	
	• A size of committee that is not unwieldy	✓		
	• Consideration has been given to the inclusion of at least one independent member (where this is not already a mandatory requirement).	✓		
13.	Have independent members appointed to the committee been recruited in an open and transparent way and approved by the full council?			N/A
14.	Does the chair of the committee have appropriate knowledge and skills?	✓		
15.	Are arrangements in place to support the committee with briefings and training?	✓		
16.	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	✓		
17.	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓		

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

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

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

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

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

Key to ranking

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

H High

M Medium

L Low

Training delivered and planned for 2021/22

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

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

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

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

⁴ AC) Member training specific to Audit Committee

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

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

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

⁵ SAR = Self-assessment reference

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

Appendix C: Self-assessment of Good Practice showing evidence

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

⁶ Terms of reference⁷ Induction presentations have been delivered on this topic

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

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

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

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

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

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

⁹ Completed 2021 to provide a baseline for new members.

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

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

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

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

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

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

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Committee and Date

Committee and Date

Audit Committee

9th December 2021

10 am

Item

Public

INTERNAL AUDIT CHARTER

Responsible Officer Ceri Pilawski

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

1. Synopsis

The Charter demonstrates how Internal Audit complies with Public Sector Internal Audit Standards. The Audit Committee approves the Charter which incorporates the mission, code of ethics, definition and core principles of Internal Audit. There are no significant changes.

2. Executive Summary

- 2.1. The Internal Audit Team works to a Charter which complies with the Public Sector Internal Audit Standards (PSIAS) as applied in the UK, based on international standards. The Charter is reviewed and considered by the Audit Committee on an annual basis; for 2021 there is one update, the addition of Senior Management and Board details in **Appendix A, Annex B** to reflect a new client.

3. Recommendations

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

REPORT

4. Risk Assessment and Opportunities Appraisal

- 4.1. Audit Committee has a key function in ensuring that effective corporate governance arrangements are maintained in the Council. The Internal Audit Charter provides evidence of such arrangements in respect of the Internal Audit function and complies with the Public Sector Internal Audit Standards.

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

5. Financial Implications

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

6. Climate Change Appraisal

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

7. Background

- 7.1. The Public Sector Internal Audit Standards (PSIAS) 2017 are mandatory for internal audit in public services, including local government. They reflect and are based upon the International Professional Practices Framework (IPPF) of the Global Institute of Internal Auditors. In addition, amendments were made to the public-sector requirements and public-sector interpretations which form part of the PSIAS. The Internal Audit Charter continues to reflect the standards.
- 7.2. Public Sector Internal Audit Standard 1000 requires that Purpose, Authority and Responsibility be defined in an Audit Charter. The Charter establishes Internal Audit's position within the organisation, including the nature of the Head of Audit's reporting relationship with the Audit Committee; authorises access to personnel, records, and physical properties relevant to audit work; and defines the scope of internal audit activities. The senior management and board representatives for Internal Audit's client organisations is set out in **Annex B** of the Charter and there has been an addition made here to reflect a new client, details of which appear in **bold, underlined and italic** font.
- 7.3. The Internal Audit Charter refers to;
- The nature of assurance services provided to the Council.
 - Organisational independence
 - Individual objectivity
 - Impairment to independence or objectivity
 - Proficiency and due professional care
 - Continuing professional development
 - Quality assurance and improvement programme – internal and external.

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

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

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

8. Additional Information

8.1. During 2021/22 Cornovii Developments Limited have engaged Shropshire Internal Audit to complete a programme of audits for them. To reflect this engagement and the responsibility and roles of the two parties, **Annex B** of The Charter, that sets out the senior management and board representatives for Internal Audit's client organisations has been updated. Please see the **bold, underlined and italic font** in the Annex.

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

Accounts and Audit Regulations 2015

Public Sector Internal Audit Standards 2017

Internal Audit Quality Assurance Improvement Programme – External Assessment, February 2017

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

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

Cabinet Member (Portfolio Holder)

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

Local Member N/A

Appendix A: Internal Audit Charter with annexes A and B



INTERNAL AUDIT CHARTER

MISSION STATEMENT

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

INTERNAL AUDIT CHARTER

INTRODUCTION

1. This charter defines for the Council and the community Internal Audit's activities, purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS)¹. It establishes Internal Audit's position within the Council, including functional reporting relationships with the Audit Committee², authority to access personnel, records, and physical properties relevant to the undertaking of its engagements³; and defines the scope of the Internal Audit activity. Final approval of this Charter rests with the Audit Committee⁴.
2. The PSIAS which encompasses the mandatory elements of the Institute of Internal Auditors (IIA) define Internal Audit as follows: *"Internal Audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment, by evaluating its effectiveness in achieving the organisation's objectives. It objectively examines, evaluates and reports on the adequacy of the control environment as a contribution to the proper economic, efficient and effective use of resource"*.
3. The basis of internal financial administration within the Council lies in the Financial Rules contained in the Council's Constitution. This Charter should be read in conjunction with the relevant sections of these Financial Rules.
4. The authority and requirement for an internal audit function derives from two pieces of legislation: **Section 151 of the Local Government Act 1972**, requires that authorities 'make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has responsibility for the administration of those affairs'. The **Accounts and Audit Regulations 2015** require that a relevant body must 'evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'. Any officer or member of a relevant body shall if the body requires-make available such documents, records

¹ PSIAS apply the IIA International Standards to the UK Public Sector and have been endorsed as proper practices by CIPFA, the internal audit standard setters for Local Government.

² See glossary for translation of the terms used in the Public Sector Internal Audit Standards in respect of Shropshire Council's Internal Audit activity and those of its external clients.

³ Engagement is the term in the PSIAS used to represent audit work.

⁴ The Audit Committee is referenced in the PSIAS as the Board.

and information and explanations as are considered necessary by the internal auditors.

5. The Financial Rules (Part 4, Appendix C2) state the Section 151 Officer has a 'statutory responsibility for the overall financial administration of the Council's affairs and is responsible for maintaining an adequate and effective internal audit'.
6. In accordance with good practice, this Charter will be reviewed annually by the Audit Committee after consultation with senior management⁵.

INTERNAL AUDIT PURPOSE AND RESPONSIBILITIES

Purpose

7. Internal Audit led by the Head of Internal Audit⁶ is 'an independent, objective assurance and consulting activity designed to add value and improve an organisation's operations. It helps an organisation accomplish its objectives by bringing a systematic, disciplined approach to evaluating and improving the effectiveness of risk management, control and governance processes.'⁷

Principles

8. Internal Audit, the auditors and the internal audit activity, comply with the following principles in delivering and achieving internal audit's mission:
 - Demonstrates integrity.
 - Demonstrates competence and due professional care.
 - Is objective and free from undue influence (independent).
 - Aligns with the strategies, objectives, and risks of the organisation.
 - Is positioned appropriately and resourced adequately.
 - Demonstrates quality and continuous improvement.
 - Communicates effectively.
 - Provides risk-based assurance⁸.
 - Is insightful, proactive, and future-focused.
 - Promotes organisational improvement.

Objectives

9. Internal Audit's objective is to give assurance and an opinion to the Section 151 Officer, Audit Committee and the Council, on the adequacy of the Council's risk management, governance and control

⁵ Senior management comprises of the Head of the Paid Service, Monitoring Officer, Section 151 Officer and directors.

⁶ The Head of Audit is the Council's Chief Audit Executive as defined in the PSIAS.

⁷ Source Public Sector Internal Audit Standards April 1st, 2017.

⁸ Assurance opinions and recommendation categories are defined in Annex A

environment and the extent to which it can be relied upon, in line with the Accounts and Audit (England) Regulations 2015.

Responsibilities

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

INDEPENDENCE AND OBJECTIVITY

14. Independence is the freedom from conditions that threaten the ability of the internal audit activity to carry out their responsibilities in an unbiased manner.
15. Objectivity is an unbiased mental attitude that allows internal auditors to perform audit reviews in such a manner that they believe in their work product and that no quality compromises are made. Objectivity requires that internal auditors do not allow their judgement on audit matters to be influenced, distorted, or subordinated by others.
16. Threats to objectivity and independence must be managed at the individual auditor, audit, functional and organisational levels.
17. Internal Audit has no executive responsibilities and is independent of the activities that it audits to enable Auditors to provide impartial and unbiased professional evaluations, opinions and recommendations. Internal Audit is free to plan, undertake and report on its work as the Head of Internal Audit deems appropriate, in consultation with relevant managers. Counter fraud is a responsibility of the Head of Internal Audit but remains independent of the services from where counter fraud controls are operating.
18. The Head of Internal Audit has direct access to the Section 151 Officer, the External Auditor, senior managers, the Leader, Audit Committee and other members as required.
19. The Head of Internal Audit fosters constructive working relationships and mutual understanding with management, external auditors and with other review agencies.
20. Constructive working relationships make it more likely that internal audit work will be accepted and acted upon, although the internal auditor does not allow their objectivity or impartiality to be impaired.
21. Internal auditors are required to have an impartial, unbiased attitude characterised by integrity and objectivity in their approach to work. They avoid conflicts of interest and a register of interests is maintained. Audit reviews are planned to ensure potential conflicts are avoided. To ensure integrity and objectivity are not impaired, auditors will not audit areas of previous responsibility for a period of at least twelve months after the responsibility ended. Auditors should not allow external factors to compromise their professional judgement and must maintain confidentiality in their work.
22. The Head of Internal Audit cannot give total assurance that control weaknesses or irregularities do not exist. Managers are fully

responsible for the quality of internal control within their area of responsibility. They should ensure that appropriate and adequate risk management processes, control systems, accounting records, financial processes and governance arrangements i.e. the control environment, exist without depending on internal audit activity to identify weaknesses.

23. The Head of Internal Audit is to be consulted about significant proposed changes in the internal control system and the implementation of new systems and shall make recommendations on the standards of control to be applied. This need not prejudice the audit objectivity when reviewing the systems later.

COMPETENCIES AND STANDARDS

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

INTERNAL AUDIT PLANNING

27. The Head of Internal Audit produces the Council's annual risk-based audit plan, in consultation with the Section 151 Officer, to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources. The plan considers the Accounts and Audit (England) Regulations 2015, the management of risk, previous internal/external audit work, discussions with the Head of the Paid Service and senior managers, external networking intelligence, local and national risks, comments from the Audit Committee and any requirements of the External Auditor.
28. The Plan is subject to regular reviews and revisions as required to reflect changes to the risk environment and these changes are

approved when significant. The Plan includes an element of contingency to allow Internal Audit to be responsive to changing risks and requests for assistance from managers. It is the responsibility of the Section 151 Officer to ensure that the budget⁹ and resources allocated to Internal Audit are sufficient to ensure delivery of the plan and to report any concerns to the Audit Committee. The Audit Committee agree the annual risk based plan and any significant change to the plan during the year.

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

NATURE OF WORK

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

Governance

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

Risk Management

32. Determining whether risk management processes are effective is a judgment resulting from the internal auditor's assessment that:
- organisational objectives support and align with the organisation's mission;
 - significant risks are identified and assessed;

⁹ The budget, including the remuneration the Audit Service Manager is approved by Council.

- appropriate risk responses are selected that align risks and their mitigation with the organisation's risk appetite;
 - relevant risk information is captured and communicated in a timely manner across the organisation, enabling staff, management and the board to carry out their responsibilities.
33. The internal audit activity must evaluate the potential for the occurrence of fraud and how the organisation manages fraud risk.
34. When assisting management in establishing or improving risk management processes, internal auditors must refrain from assuming any management responsibility by managing risks.

Control

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

INTERNAL AUDIT REPORTING

38. Internal Audit findings are reported in writing to appropriate managers against four assurance opinions (good, reasonable, limited and unsatisfactory). The Head of Internal Audit sets standards for reporting, review and approval before issue. The reports:
- prompt management action to implement recommendations for change, leading to improvement in performance and control;
 - provide a formal record of points arising from the assignment, and where appropriate, of agreements reached with management;
 - state scope, purpose and extent of conclusions;
 - make recommendations relative to the risk which are appropriate, relevant and flow from the conclusions;
 - acknowledge the action taken or proposed by management; and
 - ensure that appropriate risk-based arrangements are made to determine whether action has been taken on internal audit recommendations, or that management has understood and assumed the risk of not acting.
39. The Head of Internal Audit reports regularly to the Section 151 Officer and at least three times a year to the Council's Audit Committee on progress against the annual audit plan and other issues of concern in respect of the control environment and emerging issues. The Audit Committee meet at least four times per year and they have a detailed work plan agreed for the year. In addition, the Head of Internal Audit produces an annual report to the Section 151 Officer and Audit Committee on the main issues raised by Internal Audit during the year and on the performance of Internal Audit. The annual report:
- includes an opinion on the overall adequacy and effectiveness of the Council's control environment (definitions in Annex A);
 - discloses any qualifications to that opinion, together with the reasons for the qualification;
 - presents a summary of the audit work undertaken to formulate the opinion, including reliance placed on work by other assurance bodies;
 - draws attention to any issues the Head of Internal Audit considers particularly relevant to the preparation of the Annual Governance Statement;
 - compares the work undertaken with the work as planned and summarises the performance of the Internal Audit function against its performance measures and criteria;
 - comments on compliance with these standards and communicates the results of the Internal Audit quality assurance and improvement programme.

QUALITY ASSURANCE

40. To ensure Internal Audit independence, the audit of any areas managed by the Head of Internal Audit will be carried out by an appropriate auditor and reviewed by an audit senior. The Head of Internal Audit will take no part in the audit or review process other than in the role of auditee. The final report will be issued to the Section 151 Officer as the Head of Internal Audit's line manager.
41. The Head of Internal Audit will develop and maintain a quality assurance and improvement programme covering all aspects of the internal audit activity and conforming to the relevant standards. This will include an on-going internal assessment covering adequate supervision of work performed, an internal review process and the retention of appropriate evidence. In addition, at least once every five years, an external assessment of Internal Audit by an appropriate person¹⁰ external to the Council will be conducted. The timing, form of the assessment, qualifications of any external assessor, results and any improvement plans will be agreed with and reported to the Audit Committee in the annual report¹¹. Significant deviations will be considered for inclusion in the Annual Governance Statement.
42. The Head of Internal Audit develops and maintains a set of performance measures which are reported to the Section 151 Officer and Audit Committee.

FRAUD AND CORRUPTION

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

RIGHTS OF ACCESS

45. Under the Council's Financial Rules, internal auditors have the authority to:
- access at reasonable times, premises or land used by the Council;

¹⁰ Qualified independent assessor or assessment team

¹¹ For both internal and external reviews

- access all assets, records, documents, correspondence and control systems except for those from which they are statutorily prevented;
- require and receive any information and explanation considered necessary concerning any matter under consideration;
- require any employee of the Council to account for cash, stores or any other Council property under his/her control and produce supporting evidence and assets for inspection if required;
- access records belonging to third parties, such as contractors, when required.

Reviewed October 2021

Public Sector Internal Audit Standards

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

Overall Assurance Opinion

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

Overall Assurance Opinion	Indication of when this type of opinion may be given**	Traditional Opinion
Substantial	Limited number of medium risk related weaknesses identified but generally only low risk rated weaknesses have been found in individual assignments/ observations. No one area is classified as high or/ critical risk	Unqualified
Reasonable	Medium risk rated weakness identified in individual assignments/ observations that are not significant in aggregate to the system of governance, risk management or control. High risk rated weaknesses identified in individual assignments/ observations that are isolated to specific systems, processes and services None of the individual assignment reports/ observations have an overall high or critical risk	
Limited	Medium risk related weaknesses identified in individual assignments that are significant in aggregate but discrete parts of the system of internal control remain unaffected and/or High risk rated weaknesses identified in individual assignments/ observations that	

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

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

Audit assurance Opinions for engagements are graded as follows

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

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

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

Consultancy Activity

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

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

The nature and scope of the work may include:

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

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

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

Code of Ethics

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

There are four principles in the code of ethics:

1. **Integrity** – The integrity of internal auditors establishes trust and thus provides the basis for reliance on their judgement.
2. **Objectivity** – Internal auditors exhibit the highest level of professional objectivity in gathering, evaluating and communicating information about the activity or process being examined. Internal auditors make a balanced assessment of all the relevant circumstances and are not unduly influenced by their own interests or by others in forming judgements.
3. **Confidentiality** – Internal auditors respect the value and ownership of information they receive and do not disclose information without appropriate authority unless there is a legal or professional obligation to do so.

4. **Competency** – Internal auditors apply the knowledge, skills and experience needed in the performance of internal audit services.

Internal auditors who work in the public sector must also have regard to the Committee on Standards of Public Life's Seven Principles of Public Life.¹²

Annex B

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

Cornovii Development Ltd

<u>Senior Management</u>	<u>Managing Director</u>
<u>Board</u>	<u>Cornovii Development Board</u>

Oswestry Town Council

Senior Management	Town Clerk
Board	Town Council

Shropshire and Wrekin Fire and Rescue Authority

Senior Management	Chief Fire Officer and direct reports Treasurer
Board	Audit and Performance Management Committee Fire and Rescue Authority

Shropshire County Pension Fund

Senior Management	Pension Fund Administrator
Board	Pensions Committee

STaRH

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

West Mercia Energy

Senior Management	Treasurer Managing Director
Board	Joint Committee

¹² Information can be found at www.public-standards.gov.uk

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<u>Committee and Date</u>	<u>Item</u>
Audit Committee	
9 th December 2021	
10:00am	<u>Public</u>

INTERNAL AUDIT PERFORMANCE AND REVISED ANNUAL AUDIT PLAN 2021/22

Responsible Officer Ceri Pilawski

e-mail: ceri.pilawski@shropshire.gov.uk

Telephone: 01743 257739

1 Synopsis

- 1.1 This report summarises Internal Audit's work to date in 2021/22 with delivery as expected and the plan adjusted to reflect the impact of vacancies and changes to risks. Lower assurances are highlighted, providing members with an opportunity to challenge further.

2. Executive Summary

- 2.1 This report provides members with an update of work undertaken by Internal Audit in the three months since the September Audit Committee. Fifty six percent of the revised plan has been completed (**see Appendix A, Table 1**), which is in line with previous delivery records.
- 2.2 Two good, four reasonable, four limited and one unsatisfactory assurance opinions have been issued. The 11 final reports contained 144 recommendations, two of which were fundamental.
- 2.3 This report proposes minor revisions in the coverage of planned activity for Shropshire Council with a slight change in resources from the 1,797 days reported in September 2021 to 1,741 days. Changes to the planned activity reflect adjustments taking in both risks and a reduction in available resources, recruitment delays and initially at the start of the year, the continuing impact of COVID on both the service and the client; the changes have been discussed with, and agreed by, the Section 151 Officer.
- 2.4 Internal Audit continues to add value to the Council in the delivery of bespoke pieces of work including sharing best practice and providing advice on system developments.

3 Decisions

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

- 3.1 The performance to date against the 2021/22 Audit Plan.
- 3.2 The adjustments required to the 2021/22 plan to take account of changing priorities set out in **Appendix B** and to,
- 3.3 Identify any action(s) it wishes to take in response to any low assurance levels and fundamental recommendations brought to Members' attention.

REPORT

4 Risk Assessment and Opportunities Appraisal

- 4.1 The delivery of a risk-based audit Internal Audit Plan is essential to ensuring the probity and soundness of the Council's control, financial, risk management systems and governance procedures. Areas to be audited are identified following a risk assessment process which considers the Council's risk register information and involves discussions with managers concerning their key risks. These are refreshed throughout the period of the plan as the environment changes. In delivering the plan, the adequacy of control environments is examined, evaluated and reported on independently and objectively by Internal Audit. This contributes to the proper, economic, efficient and effective use of resources. It provides assurances on the internal control systems, by identifying potential weaknesses and areas for improvement, and engaging with management to address these in respect of current systems and during system design. Without this, failure to maintain robust internal control, risk and governance procedures creates an environment where poor performance, fraud, irregularity and inefficiency can go undetected, leading to financial loss and reputational damage.
- 4.2 Provision of the Internal Audit Annual Plan satisfies the Accounts and Audit Regulations 2015, part 2, section 5(1) in relation to internal audit. These state that:

'A relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance'.
- 4.3 'Proper practices' can be demonstrated through compliance with the Public Sector Internal Audit Standards (PSIAS).
- 4.4 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998 and there are no direct environmental or equalities consequences of this proposal.

5 Financial Implications

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

6 Climate Change Appraisal

- 6.1 This report does not directly make decisions on energy and fuel consumption; renewable energy generation; carbon offsetting or mitigation; or on climate change adaption.
- 6.2 Audit work considers compliance with legislation, strategies and policies, climate change is no exception. In practice Auditors look to make recommendations to reduce waste and save energy. Climate related risks benefit from the Auditors helicopter view of the Council, their awareness of links to other strategies, including the digital; commercial; financial and workforce strategies, and the challenges to be considered. Auditors continue to explore key questions with clients to help embed these strategies both internally and externally with suppliers and partners.

7 Background

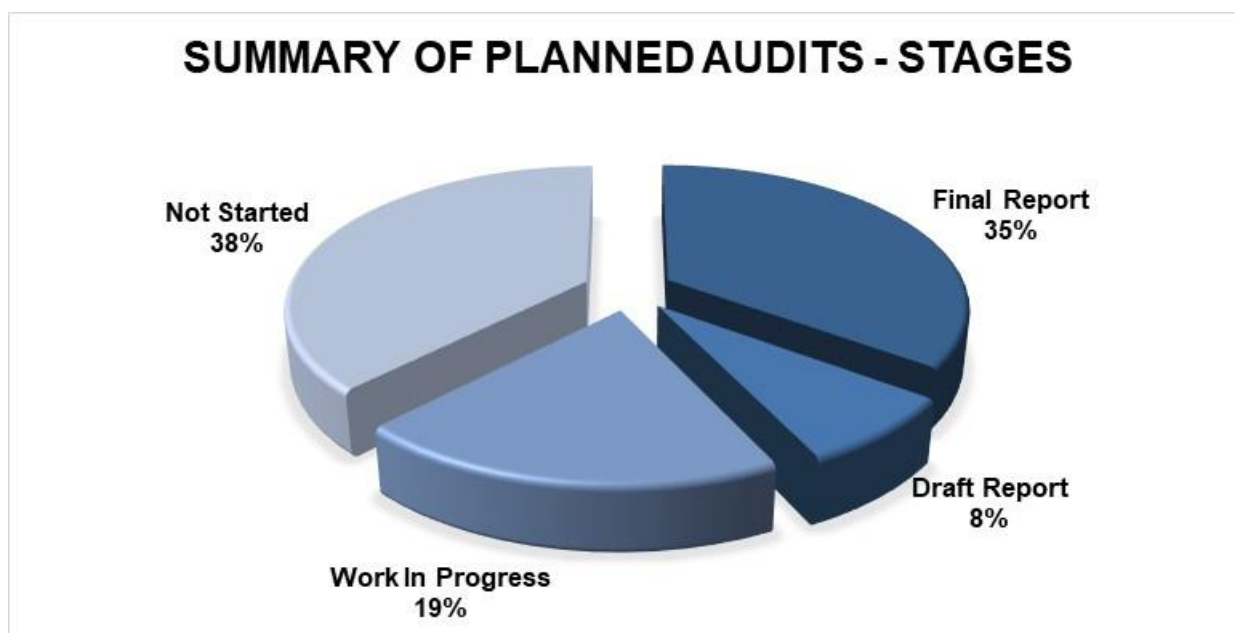
- 7.1 Management is responsible for the system of internal control and should set in place policies and procedures to help ensure that the system is functioning correctly. Internal Audit reviews appraises and reports on the efficiency, effectiveness and economy of financial, governance, risk and other management controls. The Audit Committee is the governing body charged with monitoring progress on the work of Internal Audit.
- 7.2 The 2021/22 Internal Audit Plan was presented to, and approved by, Members at the 4th March 2021 Audit Committee, with adjustments being approved in September. This report provides an update on progress made against the plan up to 12th November 2021 and includes revisions.
- 7.3 Resources reflect the resignation of two qualified auditors, the addition of a secondee from finance and a new trainee plus one vacancy, which will be held whilst current trainees and secondees are brought up to speed; a small increase in external work attracting additional one-off income and the impact of some challenging areas of work demanding additional time on audit work, agreeing reports and follow up measures.

8 Performance against the plan 2021/22

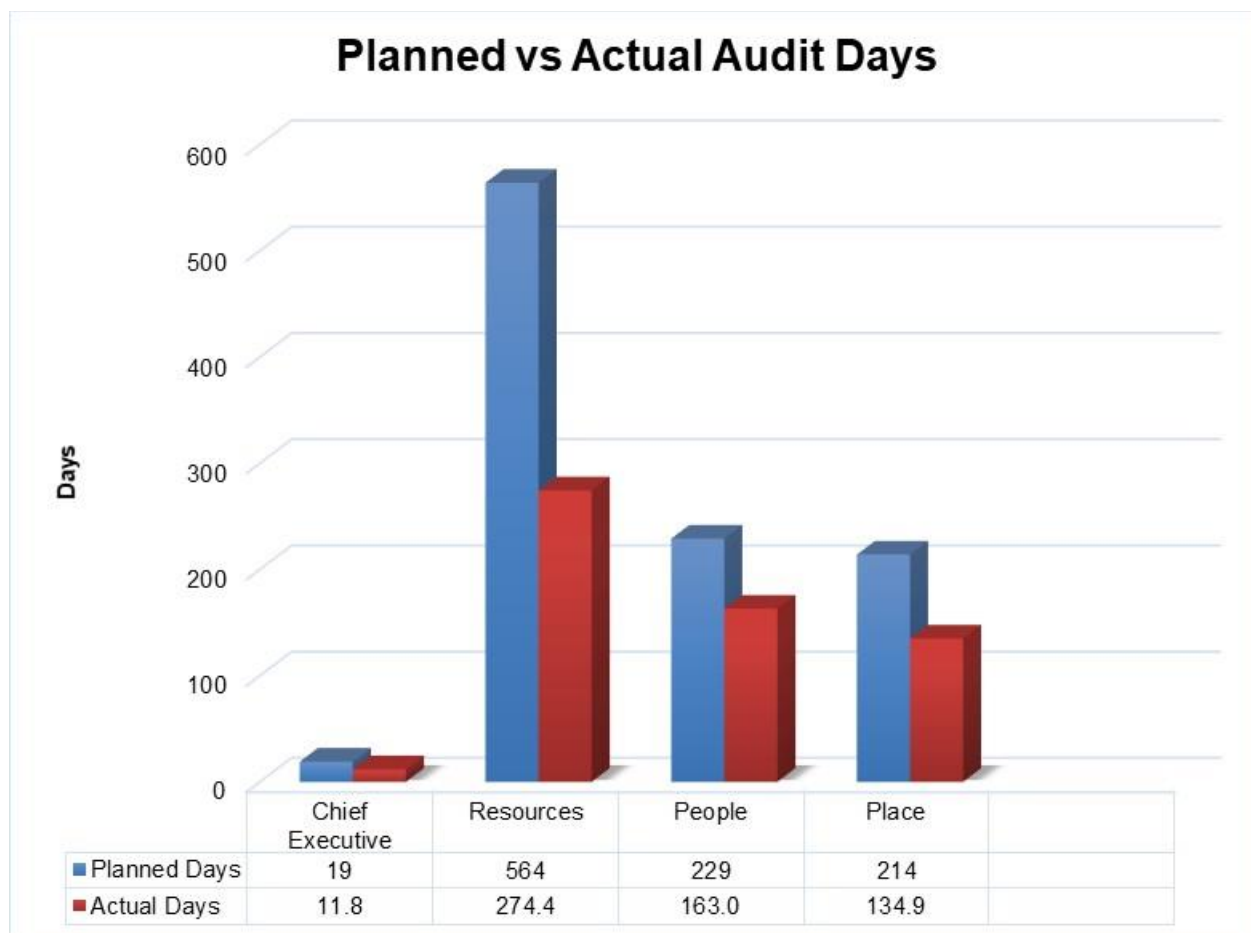
- 8.1 Revisions to the 2021/22 plan provide for a total of 1,741 days. There have been minor changes to planned audit activity which has been adjusted to reflect adjustments in resources and risks, as the Service delivers in an agile

way. Performance to date as a result is in line with previous delivery records at 56% (62% 2020/21), the team is on track to deliver a minimum of 90% of the revised annual plan by the year end.

- 8.2 In total, 11 final reports have been issued in the period from 9th August to 12th November 2021. All are listed with their assurance rating and broken down by service area at **paragraph 8.4**, the year-to-date position is show at **Appendix A, Table 2**. The following chart shows performance against the approved Internal Audit Plan for 2021/22:



- 8.3 Audits have been completed over several service areas as planned:

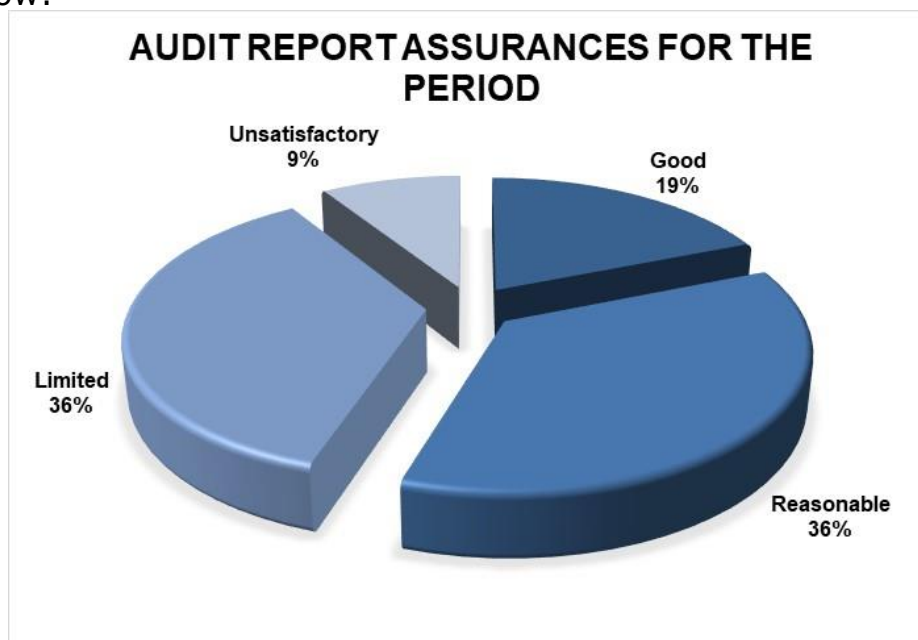


8.4 The following audits have been completed in the period:

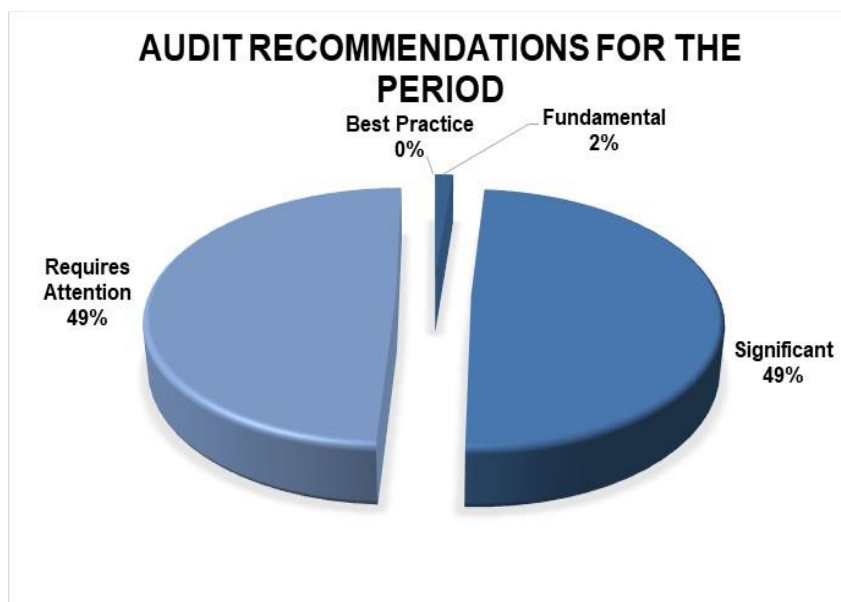
Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
People - Adults								
Appointeeships and Deputyships		1			0	4	13	0
ASC Management Controls Audit (Safeguarding)		1			0	5	5	0
Adult Social Care Assessments		1			0	1	1	0
	0	3	0	0	0	10	19	0
People - Children								
Bishops Castle Community College			1		0	13	15	0
Brockton Primary School				1	1	27	11	0
	0	0	1	1	1	40	26	0
Place								

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Housing Provision - Development Cornovii	1				0	0	1	0
Smallholdings Estate		1			0	2	1	0
Repurposing Project PH 2020/21			1		0	8	3	0
Other, including added value and briefing notes					0	2	2	0
	1	1	1	0	0	12	7	0
Resources - Business Intelligence (Information & Insight, IT, Communications and Information Governance)								
Equitrac	1				0	1	1	0
Encryption 20/21			1		0	4	3	0
Microsoft Dynamics CRM Application (Hosted in Azure)			1		0	2	7	0
Other, including added value and briefing notes					1	2	8	0
	2	4	4	1	2	71	71	0
	19%	36%	36%	9%	2%	49%	49%	0%

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



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



- 8.7 In the period 9th August to the 12th November 2021, six reports have been issued providing good or reasonable assurances and accounting for 55% of the opinions delivered. This represents a slight decrease in the higher levels of assurance for this period, compared to the previous year outturn of 57%. This is offset by a corresponding increase in limited and unsatisfactory assurances, currently 45% compared to the previous year outturn of 43%.
- 8.8 Details of control objectives evaluated and not found to be in place as part of the planned audit reviews that resulted in limited and unsatisfactory assurances, appear in **Appendix A, Table 3**. The appendix also includes descriptions of the levels of assurance used in assessing the control environment and the classification of recommendations, **Tables 4 and 5** and provides a glossary of common terms, **Table 6**.
- 8.9 Six draft reports, awaiting management responses, will be included in the next performance report. Work has also been completed for external clients in addition to the drafting and auditing of financial statements for several honorary funds and the certification of grant claims.
- 8.10A total of 144 recommendations have been made in the 11 final audit reports issued during this period; these are broken down service area at **paragraph 8.4**, the year-to-date position is show at **Appendix A, Table 2**. Two fundamental recommendations have been identified which are detailed below:
- 8.11 **Brockton CE Primary School**
Catering and cleaning contracts have not been subject to tender, the cost of this now exceeds £100,000 and the issue was raised in two previous audits.

Recommendation - Expenditure over £50,000 should be subject to formal tender. The cost of the contract over its whole term should be included when calculating the value. In addition, and as agreed with the school in the Autumn Term 2018, expenditure over £5,000 should be approved by the

Governing Body. Evidence of this should be clearly noted in the Governing Body minutes. The school should ensure that Contract Rules are adhered to with any future contracts. (Updated from recommendation made and agreed in 2017/18 and 2018/19).

Proposed Management Action¹- Tender process for catering and cleaning services to be commenced in Autumn 2021 for services from September 2022.

Date to be Actioned – From September 2021

8.12 **Power Platform Briefing Note**

Findings - Power Platform Administration responsibilities have been allocated however, the basis of individual allocation and responsibilities and overall management are unclear.

Risk - Without an underlying management structure in place the proposed governance arrangements cannot be adequately implemented.

Recommendation - An agreed management structure and staff responsibilities are defined for the Administration of the Power Platform. In addition, a training strategy should be developed.

Proposed Management Action - ICT leadership has reviewed the recommendation and will define the roles and responsibilities. A business case may be needed if additional staff or duties are required that cannot be resourced with current resources.

Date to be Actioned – November 2021

8.13 It is management's responsibility to ensure accepted audit recommendations are implemented within an agreed timescale. **Appendix A, Table 7 sets out the approach adopted to following up recommendations** highlighting Audit Committee's involvement. Fundamental recommendations that are now due for implementation, allowing for one revision to the agreed date, are shown in **Appendix A, Table 8**.

8.14 The following demonstrates areas where Audit have added value with unplanned, project or advisory work, not included in the original plan located at **Appendix A, Table 1**.

- **Purchase to pay data analytics:** Following the enforcement of the No purchase order no pay policy, a review was undertaken of the requisitions and orders raised to identify where the system controls are being bypassed by raising requisitions once the order has been placed and the invoice received. This information was shared with the Finance team to enable the Finance Business Partners to support those not using the system correctly.

¹ An Acting Head was appointed immediately prior to the start of the current audit. They have provided assurance that the issues identified in the unsatisfactory audit will now be addressed.

- **Power Platform Briefing note:** 'Power Platform' is a collective term for three Microsoft products: Power BI, PowerApps and Power Automate. They provide the means to help people easily manipulate, surface, automate and analyse data and can be used with Office365 and Dynamics 365. This review was to ensure that usage of the Power Platform complies with both internal policies such as the Corporate Information Security Policy, the Access Control Policy and external legislation such as the Data Protection Act 2018. Governance controls were recommended for improvement and a fundamental recommendation appears earlier in this report.
- **Shropshire Council land transfers:** An independent review of the controls and processes around the transfer of land from Shropshire Council to a development company; to allow both parties to reach a better understanding of the process, who has or needs to take on which responsibilities, what went right or wrong in respect of the transfer, and how future transfers can be streamlined. An action plan was delivered for discussion between all parties.
- **Access Control System Data Analytics:** Data was extracted from both the access control system and Human Resources system and compared. To reconcile where there had been new staff or leavers and establish a future reporting tool for this.
- **Fix My Street Project:** Project assurance and advice for an on-line portal and mapping tool which allows the public to register details of defects including a photograph in the highways. The information is provided to highways engineers who provide a response to the user telling them how the issue will be dealt with and when dealt with the user will receive an update that the problem has been solved as well as a photograph. The public will become our eyes on the ground.
- **Flexiroute Implementation Project:** Project assurance and advice on a database of all pupils and other service users who require Council transportation to access education and other services. The software is an automated routing scheduling system which produces the most efficient and effective routes based on the needs of the service users and transport available. There is functionality which allows the software to consider the specific transport needs of each service user.
- **Head of IT Recruitment:** The IT Auditor provided support to the Executive Director of Resources in the recruitment process for the Interim Head of IT post.
- **IT Governance:** Working with the newly appointed SIRO² on governance arrangements within IT, providing advice, consultancy and best practice feeding into reshaping the processes.

² Senior Information Risk Officer

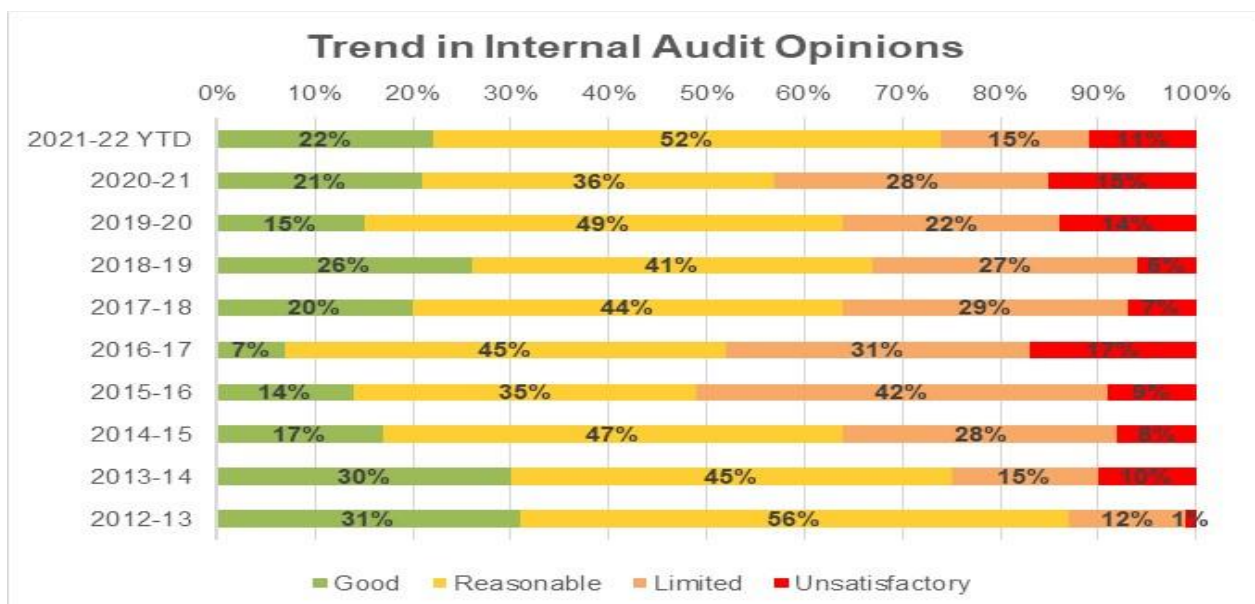
- **LGS Action Plan:** Support in the form of consultancy advice to the Executive Director of Place on the Children's Local Government Association Test of Assurance action plan.
- **Cyber Strategic Risk Consultancy:** Consultancy input and guidance, through meetings, for splitting the Cyber related strategic risk to better represent the current position and the mitigating controls.
- **Microsoft Defender Sophos replacement:** Consultancy, advice and guidance for the IT Service and Support Manager and Infrastructure, Security and Innovation Manager in relation to the decommissioning of the Sophos products and the implementation of the Microsoft Defender tools under the Microsoft E5 licensing arrangements.
- **Interim Head of IT update meetings:** IT Audit specific meetings in relation to planned works, consultancy, findings, action tracking, report finalisation with the newly appointed Interim Head of IT.
- **ISIGIT³ meetings** - Attendance at the governance meetings and input into the set-up of the newly formed group. Providing assurance, advice, guidance and reviewing internal controls.
- **Digital Skills Programme Grant Funding:** Consultancy and advice on allocation and management of funding to private charity organisations and libraries to build on the work their volunteers are already carrying out to improve the digital skills of people who have come forward to improve their skills and confidence. As the Council moves to providing more services on-line this funding will help to address the needs of those who are at risk of becoming excluded because of their lack of digital skills.

Direction of travel

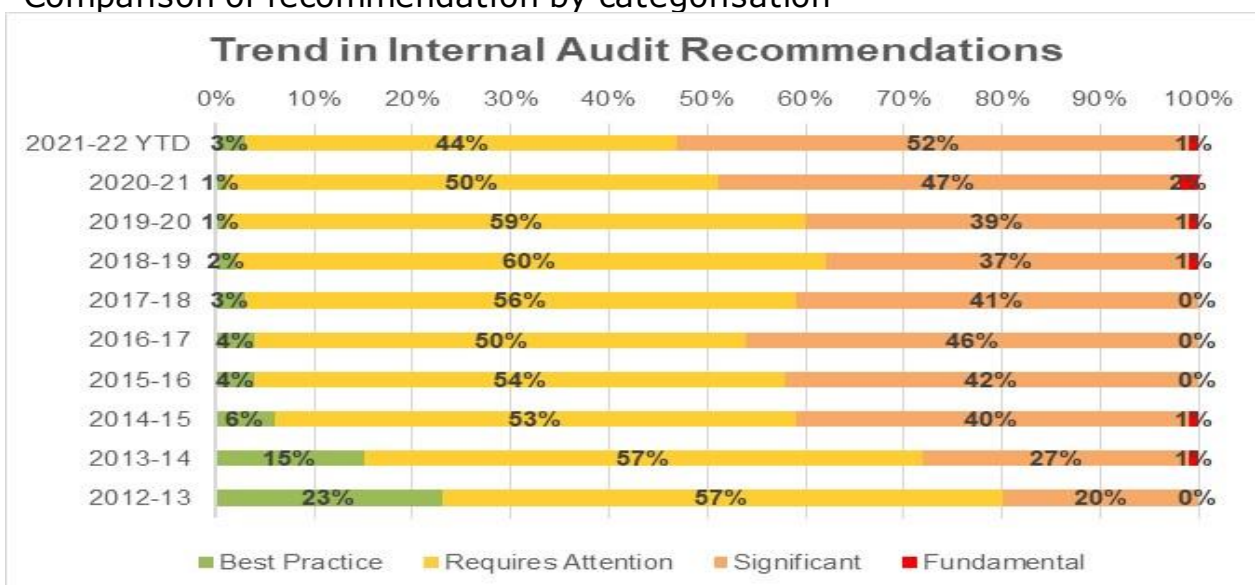
8.15 This section compares the assurance levels (where given), and categorisation of recommendations made, to demonstrate the direction of travel in relation to the control environment.

Comparison of Assurance Levels

³ Information Security, Information Governance and IT



Comparison of recommendation by categorisation



8.16 The number of lower-level assurances 26%, at this point in the year, is significantly lower than the outturn for 2020/21 of 43%. It is important to note that audit reviews for fundamental systems have yet to be completed. **Appendix A, Table 3**, shows a full list of areas that have attracted limited and unsatisfactory assurances during the period 9th August to 12th November 2021.

Performance measures

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

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

Internal Audit Performance and Revised Annual Audit Plan 2021/22 – Audit Committee 16th September 2021
Draft Internal Audit Risk Based Plan 2021/22 - Audit Committee 4th March 2021
Public Sector Internal Audit Standards (PSIAS)
Audit Management system
Accounts and Audit Regulations 2015

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

Local Member: All

Appendices

Appendix A

Table 1: Summary of actual audit days delivered against plan 1st April to 12th November 2021
Table 2: Final audit report assurance opinions and recommendation summary 1st April to 12th November 2021
Table 3: Unsatisfactory and limited assurance opinions in the period 9th August to 12th November 2021
Table 4: Audit assurance opinions
Table 5: Audit recommendation categories
Table 6: Glossary of terms
Table 7: Recommendation follow up process (risk based)
Table 8: Fundamental recommendations due for Implementation
Appendix B - Audit plan by service 1st April to 12th November 2021

APPENDIX A**Table 1: Summary of actual audit days delivered and revisions to the audit plan in the period from 1st April to 12th November 2021**

	Original Plan	Revised Plan	12th Nov 2021 Actual	% of Original Complete	% of Revised Complete
Chief Executive	36	19	11.8	33%	62%
Resources	769	564	274.4	36%	49%
Finance	512	323	166.2	32%	51%
Workforce and Development	68	56	21.1	31%	38%
Business Intelligence	189	185	87.0	46%	47%
Legal and Democratic	0	0	0.1	0%	0%
People	285	229	163	57%	71%
Adult Social Care	95	74	67.0	71%	91%
Public Health	19	2	0.0	0%	0%
Public Protection	8	10	9.8	123%	98%
Bereavement	38	23	13.8	36%	60%
Children's Services	83	60	16.2	20%	27%
Schools	42	60	56.2	143%	94%
Place	195	214	134.9	69%	63%
S151 Planned Audit	1,285	1,026	584.1	45%	57%
Contingencies and other chargeable work	493	450	298.3	61%	66%
Total S151 Audit	1,778	1,476	882.4	50%	60%
External Clients	222	265	90.3	41%	34%
Total	2,000	1,741	972.7	49%	56%

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

Table 2: Final audit report assurance opinions and recommendation summary - 1st April to 12th November 2021

Audit Name	Audit Opinion				Recommendations			
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
Chief Executive								
Corporate Governance 2020/21		1			0	0	0	0
	0	1	0	0	0	0	0	0
People - Adults								
CM2000 Decommissioning	1				0	0	0	0
Parking Cash Collection 20/21		1			0	3	5	0
Appointeeships and Deputyships		1			0	4	13	0
ASC Management Controls Audit (Safeguarding)		1			0	5	5	0
Adult Social Care Assessments		1			0	1	1	0
Other, including added value and briefing notes					1	11	0	0
	1	4	0	0	1	24	24	0
People - Children								
Supporting Families Grant	1				0	0	1	0
Trinity Primary School		1			0	5	11	1
Bishops Castle Community College			1		0	13	15	0
Brockton Primary School				1	1	27	11	0
	1	1	1	1	1	45	38	1
Place								
Housing Provision - Development Cornovii	1				0	0	1	0
Housing Strategy		1			0	1	0	0
Smallholdings Estate		1			0	2	1	0
Repurposing Project PH 2020/21			1		0	8	3	0
Tree Safety 20/21				1	1	0	0	0
Other, including added value and briefing notes					1	4	2	0
	1	2	1	1	2	15	7	0
Resources - Finance (Finance, Revenues & Benefits, Procurement and Treasury)								
COVID Test and Trace Grants	1				0	0	1	0
Comino Application 20/21		1			0	1	4	0
Adobe Sign		1			0	2	4	0
Other, including added value and briefing notes					0	3	2	0
	1	2	0	0	0	6	11	0
Resources - Workforce and Development (HR, Risk & Insurance and Health & Safety)								
Covid PPE procurement and allocation	1				0	0	3	0
Apprenticeship Levy 20/21		1			0	2	6	0
Other, including added value and briefing notes								
	1	1	0	0	0	2	9	0
Resources - Business Intelligence (Information & Insight, IT, Communications and Information Governance)								
Equitrac	1				0	1	1	0
Digital Mailroom Project		1			0	1	1	0

Audit Name	Audit Opinion			Recommendations				
	Good	Reasonable	Limited	Unsatisfactory	Fundamental	Significant	Requires Attention	Best Practice
IT Change Management		1			0	0	3	0
Encryption 20/21			1		0	4	3	0
Microsoft Dynamics CRM Application (Hosted in Azure)			1		0	2	7	0
Internet Security 20/21				1	2	2	8	0
Other, including added value and briefing notes					1	2	8	0
	1	2	2	1	3	12	31	0
Resources - Legal and Democratic								
Members Allowances 20/21		1			0	3	7	0
	0	1	0	0	0	3	7	0
	6	14	4	3	7	107	127	1
	22%	52%	15%	11%	3%	44%	52%	1%

Table 3: Unsatisfactory and limited assurance opinions issued in the period from 9th August to 12th November 2021⁴

Unsatisfactory assurance

People : Brockton Primary School (Unsatisfactory 2018/19, 2017/18 and 2015/16)

- Previous audit recommendations have been implemented.
- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly and comply with Financial Regulations and Contract Procedure Rules.
- Payment is made to bona fide employees only for the work performed through the Payroll system.
- The school fund is operated in accordance with the school fund notes of guidance.
- Regular budget monitoring is performed and any significant variations are investigated.

Limited assurance

Resources: Encryption

- To ensure that end user/manager training is provided on encryption.
- To ensure that the organisation routinely reviews its use of encryption and associated risks.

⁴ Listed are the management controls that were reviewed and found not to be in place and/or operating satisfactorily and therefore positive assurance could not be provided for them.

- To ensure that responsibilities for monitoring file transfers have been defined and that mechanisms/tools exist to ensure encryption is being used where appropriate.
- To ensure that mechanisms are in place to protect all “mobile” devices.

Place: Repurposing of Pride Hill Project

- An approved project plan has been formally documented.
- A governance structure, that meets the needs of the project is in place.
- The financial model set out in the approved project plan has been revisited and a revised project budget is in place.

People : Bishops Castle Community College (Unsatisfactory 2019/20)

- Previous audit recommendations have been implemented
- Governors and staff clearly understand their respective roles and responsibilities.
- Budget income is identified, collected, and banked in accordance with procedures.
- Purchases are appropriate, authorised, recorded correctly, and comply with Financial Regulations and Contract Procedure Rules.
- The imprest account is operated in accordance with Imprest Procedures and all monies can be accounted for.
- The school fund is operated in accordance with the school fund notes of guidance.
- Information Governance and cyber risks are managed in accordance with current best practice and an agreed policy.

Resources : Microsoft Dynamics CRM Application

- To ensure the system and administrative processes are adequately documented.
- To ensure that the application authentication and authorisation mechanisms are secure.
- To ensure that data is accurately input and the authenticity of the data input is subject to validation processes.
- To ensure that cloud (Software as a Service) contract performance and security management arrangements are in place.

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

Good	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is a sound system of control in place which is designed to address relevant risks, with controls being consistently applied.
Reasonable	Evaluation and testing of the controls that are in place confirmed that, in the areas examined, there is generally a

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

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

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

Table 6: Glossary of terms

Significance

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

Head of Internal Audit Annual Opinion

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

Governance

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

Risk

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

Control

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

Impairment

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

Table 7: Recommendation follow up process (risk based)

When recommendations are agreed the responsibility for implementation rests with management. There are four categories of recommendation: fundamental, significant, requires attention and best practice and there are four assurance levels given to audits: unsatisfactory, limited, reasonable and good.

The process for *fundamental recommendations* will continue to be progressed within the agreed time frame with the lead Director being asked to confirm implementation. Audit will conduct testing, either specifically on the recommendation or as part of a re-audit of the whole system. Please note that all agreed fundamental recommendations will continue to be reported to Audit Committee. Fundamental recommendations not implemented after the agreed date, plus one revision to that date where required, will in discussion with the Section 151 Officer be reported to Audit Committee for consideration.

Table 8: Fundamental Recommendations due for Implementation

Audit Area	Recommendation	Date to be Actioned	Revised Date to be Actioned	Lead Officer	Current Position
Leisure Services Contract 2019/20	Contracts should be let in accordance with Contract Rules. The cost of the contract over its whole term including any additional payments should be considered when determining if verbal, written quotes or formal tender process is required.	30/06/20	30/06/21	Peter Davis, Leisure Services Manager.	Follow Up audit due in quarter three.
Debt Recovery 2019/20	The Debt Recovery Team procedures should be updated when the Corporate Credit Policy has been finalised and agreed. It should be ensured that the procedures and practices carried out by the Debt Recovery Team reflect requirements of the agreed Corporate Credit Policy. (As previously recommended and agreed and originally recommended in 2017/18).	Not given due to COVID.	31/12/20	Not given.	Follow up audit due in quarter four.
Dog Wardens 2020/21	A full management review of the Dog Wardens service should be undertaken to ensure that there are appropriate policies and working practices in place to comply with legislation, Council policy and Financial and Contract Rules. This should include a	31/12/20	30/04/21	Carmen Ecclestone, Street Scene Manager and Steve Brown, Head of Environment	Follow up audit currently in draft, recommendation not implemented.

Audit Area	Recommendation	Date to be Actioned	Revised Date to be Actioned	Lead Officer	Current Position
	review of the arrangements with the external service provider to ensure that value for money is obtained and an adequate service is provided. (As previously recommended and agreed in 2019/20).			and Transport Services.	
Highways Term Maintenance Contract	There should be a full review of the Council's approach to contract management within the Highways Section to ensure that there are appropriate resources, skills and knowledge to address the outstanding issues and operate the contract on a commercial basis going forward with reliable contract data and robust challenge of the Contractor on a timely basis.	30/04/21	N/A	Andy Wilde - Interim Head of Highways.	Follow up audit currently in draft, recommendation partially implemented and downgraded to significant.

APPENDIX B**AUDIT PLAN BY SERVICE –PERFORMANCE REPORT FROM 1st APRIL to 12th NOVEMBER 2021**

	Original Plan Days	August Revision	November Revision	Revised Plan Days	12th Nov 2021 Actual	% of Original Complete	% of Revised Complete
CHIEF EXECUTIVE							
Governance	36	-6	-11	19	11.8	33%	62%
CHIEF EXECUTIVE	36	-6	-11	19	11.8	33%	62%
RESOURCES							
Finance							
Finance Transactions	66	1	2	69	5.8	9%	8%
Finance and S151 Officer	265	-108	-45	112	86.9	33%	78%
Financial Management	88	-45	-5	38	6.9	8%	18%
Procurement	48	4	0	52	39.0	81%	75%
Revenues and Benefits	45	6	0	51	26.1	58%	51%
Treasury	0	1	0	1	1.5	0%	150%
	512	-141	-48	323	166.2	32%	51%
Workforce and Development							
Risk Management and Insurance	7	2	1	10	9.5	136%	95%
Human Resources	56	-5	-10	41	6.4	11%	16%
Occupational Health and Safety	5	0	0	5	5.2	104%	104%
	68	-3	-9	56	21.1	31%	38%
Business Intelligence							
Corporate Performance Management	0	20	0	20	19.9	0%	100%
ICT	171	-14	-10	147	57.9	34%	39%
Information Governance	18	0	0	18	9.2	51%	51%

	Original Plan Days	August Revision	November Revision	Revised Plan Days	12th Nov 2021 Actual	% of Original Complete	% of Revised Complete
Legal and Democratic Committee Services	189	6	-10	185	87.0	46%	47%
	0	0	0	0	0.1	0%	0%
RESOURCES	769	-138	-67	564	274.4	36%	49%
PEOPLE							
Adult Social Care							
Social Care Operations	73	-32	0	41	33.2	45%	81%
Social Care Efficiency and Improvement	22	11	0	33	33.8	154%	102%
	95	-21	0	74	67	71%	91%
Public Health	19	-12	-5	2	0.0	0%	0%
Public Protection							
Environmental Protection and Prevention	0	10	0	10	9.8	0%	98%
Community Safety	8	-8	0	0	0.0	0%	0%
	8	2	0	10	9.8	123%	98%
Bereavement							
Bereavement	15	-15	0	0	0.0	0%	0%
Superintendent Registrar	23	0	0	23	13.8	60%	60%
	38	-15	0	23	13.8	36%	60%
Children's Safeguarding							
Children's Placement Services & Joint Adoption	40	-15	0	25	0.4	1%	2%
Safeguarding	20	0	-4	16	8.6	43%	54%

	Original Plan Days	August Revision	November Revision	Revised Plan Days	12th Nov 2021 Actual	% of Original Complete	% of Revised Complete
	60	-15	-4	41	9.0	15%	22%
Learning, Employment and Training	8	-8	0	0	0.0	0%	0%
Learning and Skills							
Business Support	8	0	0	8	0.8	10%	10%
Education Improvements	7	4	0	11	6.4	91%	58%
Primary/Special Schools	32	1	8	41	37.5	117%	91%
Secondary Schools	10	0	9	19	18.7	187%	98%
	57	5	17	79	63.4	111%	80%
PEOPLE	285	-64	8	229	163	57%	71%
PLACE							
Business, Enterprise and Commercial Services							
Housing Services	13	-5	2	10	9.5	73%	95%
Property and Development	31	3	2	36	25.0	81%	69%
	44	-2	4	46	34.5	78%	75%
Economic Development							
Business Growth and Investment	13	7	0	20	15.3	118%	77%
Environment and Sustainability	0	1	0	1	0.8	0%	80%
	13	8	0	21	16.1	124%	77%
Infrastructure and Communities							
Highways	76	-13	26	89	60.3	79%	68%
Library Services	6	0	9	15	10.8	180%	72%
Public Transport	12	2	3	17	4.8	40%	28%

	Original Plan Days	August Revision	November Revision	Revised Plan Days	12th Nov 2021 Actual	% of Original Complete	% of Revised Complete
	94	-11	38	121	75.9	81%	63%
Culture and Heritage							
Theatre Severn and OMH	8	0	-8	0	0.0	0%	0%
Leisure Services	32	-6	0	26	8.4	26%	32%
Visitor Economy	4	0	-4	0	0.0	0%	0%
	44	-6	-12	26	8.4	19%	32%
PLACE	195	-11	30	214	134.9	69%	63%
Total Shropshire Council Planned Work	1,285	-219	-40	1,026	584.1	45%	57%
CONTINGENCIES							
Advisory Contingency	60	-10	0	50	24.5	41%	49%
Fraud Contingency	150	-20	-30	100	55.4	37%	55%
Unplanned Audit Contingency	50	-41	-9	0	0.0	0%	0%
Other non audit Chargeable Work	233	58	9	300	218.4	94%	73%
CONTINGENCIES	493	-13	-30	450	298.3	61%	66%
Total for Shropshire	1,778	-232	-70	1,476	882.4	50%	60%
EXTERNAL CLIENTS	222	29	14	265	90.3	41%	34%
Total Chargeable	2,000	-203	-56	1,741	972.7	49%	56%

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

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