



Telford & Wrekin  
C O U N C I L

Addenbrooke House Ironmasters Way Telford TF3 4NT

## AUDIT COMMITTEE

Date **Tuesday, 14 July 2020**

Time **6.00 pm**

Venue **Remote Conference**

### Enquiries Regarding this Agenda

|                     |  |              |
|---------------------|--|--------------|
| Democratic Services | Jayne Clarke   | 01952 383205 |
| Media Enquiries     | Corporate Communications                             | 01952 382406 |
| Lead Officer        | Anthea Lowe, Associate Director: Policy & Governance | 01952 383200 |

### Committee

Councillors N A M England (Chair), V J Holt, J E Lavery, A Lawrence, K S Sahota, C F Smith (Vice-Chair) and W L Tomlinson

### Membership:

## AGENDA

1. **Apologies for Absence**
2. **Declarations of Interest**
3. **Minutes of the Previous Meeting** 3 - 8  
To confirm the minutes of the previous meeting.
4. **Review of the Audit Committee Terms of Reference** 9 - 12
5. **Outline of Audit Committee Business for 2020/21** 13 - 14
6. **Treasury Management - 2019/20 Annual Report and 2020/21 Update** 15 - 28
7. **External Audit Interim Report 2019/20** 29 - 36
8. **External Audit Plan Addendum** 37 - 54
9. **Informing the Risk Assessment** 55 - 94
10. **Joint Report on the Internal Audit Report 2019/20 & the Audit Committee Annual Report 2019/20 Annual Audit Plan** 95 - 112
11. **Information Governance & Caldicott Guardian Annual Report 2019/20** 113 - 120
12. **Corporate Anti-Fraud & Corruption - 2019/20 Annual Report and Policy Update** 121 - 138



## AUDIT COMMITTEE

### Minutes of a meeting of the Audit Committee held on Tuesday, 28 January 2020 at 6.00 pm in Meeting Rooms G3/G4, Addenbrooke House, Ironmasters Way, Telford, TF3 4NT

**Present:** Councillors N A M England (Chair), V J Holt, K S Sahota, C F Smith (Vice-Chair), W L Tomlinson and P Watling

**In Attendance:**

**Apologies:** Councillors A Lawrence

**AU32      Declarations of Interest**

None.

**AU33      Minutes of the Previous Meeting**

**RESOLVED** that the minutes of the meeting held on 1 October 2019 be agreed and signed by the Chair.

**AU34      2020/21 Treasury Strategy and Treasury Update Report**

P Katrak, Arlingclose, gave a powerpoint presentation on the Treasury Strategy and the management of the Council's borrowing.

The Finance Manager presented a report on the 2020/21 Treasury Strategy and an update on the Treasury Strategy which would go before Cabinet and Council. Throughout recent years, the Council had taken a prudent approach to third party investments so as to minimise risk to the Council. The Council's approach to borrowing had enabled it to take advantage of lower interests rates allowing it to generate treasury management returns of more than £17m in recent years. It was expected that a future report to Audit Committee would show a £3.2m surplus for the 19/20 budget. PWLB rates had increased in October 2019 and the associated impact had been built into the budget strategy going forward. The Council's Minimum Revenue Provision Statement Policy (MRPSP) remained in line with that previously agreed.

The Group Accountant gave an update on the 2019/20 Treasury Management between the period 1 June 2019 and 31 December 2019. Interest rates had remained at 0.75% and Arlingclose expected the base rate to remain at 0.75% for the foreseeable future although this did depend on Brexit.

The Group Accountant also reported on the Treasury Management Strategy for 2020/21 which gave an overview of the Council's borrowing and investments and their associated risks. The Treasury risk management was conducted within the framework of the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Council required to approve a treasury

management strategy prior to the start of each financial year. The Council's strategy, this remained in line with previous years; the balance sheet forecast showed that the Council expected borrowing to increase by year end and to continue to do so over the next few years. An update was given regarding the investment strategies and activities, investments, approved counterparties, ethical investments, 2020/21 Minimum Review Provision Statement (MRP) and the training requirements for Members and Officers. Arlingclose continued to be the Council's external treasury management advisors.

During the discussion some Members raised the impact of a negative interest rate. Other Members asked why Nuplace was listed as a stand alone company.

P Katrak reported that a recession may mean that interest rates were cut to a negative rate, but that this was unlikely to happen and the rate was likely to remain at zero.

P Harris confirmed that Nuplace was listed separately in order for the Council to be clear and transparent and to comply with legislative requirements for companies.

**RESOLVED that:**

- a) the Treasury Management activities for the first half of the year be noted;**
- b) the Treasury Management Policy Statement be noted; and**
- c) Cabinet and Full Council approve the Treasury Strategy, including the Annual Investment Strategy for 2020/21 together with the associated treasury Prudential Indicators and the Minimum Revenue Provision Statement which would apply from 2019/20 onwards.**

**AU35      External Audit Plan 2019/20**

Grant Thornton, External Auditors, reported on the External Audit Plan 2019/20 and gave a summary of the key headlines which included risks, value for money, logistics and the independence of the audit. A significant risk identified under International Standards on Auditing - ISA (UK) 240 relating to fraud arising from revenue recognition had been considered. It had been determined that the risk of fraud arising from revenue recognition could be rebutted as there was little incentive, and very limited opportunity, to manipulate revenue recognition. Work was to be undertaken to evaluate the effectiveness of controls over journal entries and adjusting entries and to address the controls and risks. With regard to the valuation of the Council's pension fund net liability they would look to work on the input of the calculation, its methodology and actuary of the technical work. The valuation of land and buildings would involve evaluating the management's processes and assumptions for the calculation of the estimate, a rolling revaluation

programme and work on assumptions. International Financial Reporting Standard IFRS16 was a new accountancy standard for 2020/21 financial statements which evaluated the substance of transactions involving the legal form of a lease. A Value for Money (VFM) risk assessment was being undertaken and key risks would be reported to the Audit Committee in May 2020. The Annual Audit Fee would increase by £9,000 this year due to additional work required regarding property, plant and equipment. Fees would be increased by £11,000 to £101,000 which would be included within the projected letter. This was due to a general increase in work and work around property plant and equipment, revisions and the new leasing standards.

During the debate some Members raised if the additional work would mean that the opinion on the account would be delayed and if there would be separate accounts for Nuplace. Other Members asked whether the External Auditors could guarantee that there would be no unexpected late costs.

R Percival, External Auditor, explained that the timelines of the audit had been due to issues on the External Audit side and that this year it was envisaged that the audit would be completed by the end of July. With regard to the late fee increase, if something significant was found which had an impact on the accounts then this work would need to be undertaken with an additional fee. However, no issues had been identified at that time which would lead to any further increase.

K Clarke, Director: Finance & Human Resources reported that Grant Thornton had undertaken the audit for Nuplace last year and if they continued to undertake the audit during the current year it would be for a higher fee.

Members were asked to agree to the increased External Audit fee rate of £11,000 for the Council's audit, but it was conveyed to Members that this was still a considerable saving on the fee from the Council's previous accountants.

**RESOLVED - that the report be noted.**

#### **AU36      External Audit Grants Report 2018/19**

R Percival, External Auditors, gave a brief overview of the Audit Letter which summarised the audit findings. The key issues were that an unqualified opinion for the 2018/19 accounts had been given and all issues had been reported on. No other matters had been raised.

During the debate some Members asked if there was a deadline for filing the accounts and if there was a finish deadline.

R Percival, External Auditor, informed Members that 31 July was the deadline for the accounts being completed but if they were not ready there was no sanction for them being late.

**RESOLVED – that the report be noted.**

**AU37      Internal Audit Activity Report and Update to Internal Audit Charter 2020/21**

The Principal Auditor presented the report on Internal Audit activity during the period 7 September 2019 to 3 January 2020 and progress on the 19/20 Audit Plan. There were 69 audits on the annual plan, 11 had been removed or deferred, 13 had been completed and 11 were in progress or nearing completion. A meeting had taken place to review the plan and the changes to the plan were contained within the report. During the reporting period 12 audit reports had been completed with the gradings of risks being 1% high, 49% medium and 50% low. Overall gradings were 17% amber, 50% yellow and 33% green. One amber report was for Holy Trinity School who had since had a follow up and moved to yellow and the second was for Muxton Primary School with their follow up being arranged for March 2020. Quality Assurance work had been undertaken by the Audit & Governance Team Leader. Value had been added to the Internal Audit function by giving advice to schools regarding imprest accounts and setting up new processes and procedures for volunteers handling cash. A piece of work was currently being undertaken on the Adult Social Care systems and it was expected that this would be reported back to the Audit Committee in May 2020.

The Audit & Governance Team Leader presented the Internal Audit Charter 1 April 2020 to 31 March 2021. The Charter is presented to Members annually for approval and defined the Council and the community internal audit activity purpose, authority and responsibilities consistent with the requirements of the Public Sector Internal Audit Standards (PSIAS). The Charter had four changes which included giving assurance on other external bodies, formally reporting on independence and objectivity issues, the Committee having an input on the recruitment of the Chief Internal Auditor, together with input into the APPD for the Chief Internal Auditor.

During the debate some Members asked if there was a best practice for internal audit standards, and if Internal Audit were able to sell on their services.

The Audit & Governance Team Leader reported that the Public Sector Internal Audit standards were covered in the Charter and that potential commercial opportunities were being investigated. It was proposed by the Governance and Legal Service Delivery Manager that a meeting would take place between the Chair and herself in order to take for feedback for to the APPD of the Chief Internal Auditor.

**RESOLVED – that**

- a) the information contained in the report in respect of Internal Audit Work undertaken for the period 7 September 2019 and 3 January 2020 be noted; and**
- b) the revised Internal Audit Charter be approved.**

**AU38      Updated position of the AGS Action Plan 2018/19**

The Organisational Delivery & Development Manager presented the report on the AGS Action Plan which the Council used to promote and review the work of the Council in order to provide good governance. The AGS Plan 18/19 came to Audit Committee last May and the report gave an update on work and progress against the Action Plan up to December 2019.

The Organisational Delivery & Development Manager reported that the Corporate Risk Register would be reviewed in May 2020 and set out external policy, how the Council manages resources internally and the financial position which was set out in the Risk Register.

**RESOLVED – that the report be noted.**

The meeting ended at 7.23 pm

**Chairman:** .....

**Date:**            Tuesday, 14 July 2020

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**TELFORD & WREKIN COUNCIL**

**AUDIT COMMITTEE 14 JULY 2020**

**COUNCIL 16 JULY 2020**

**REVIEW OF THE AUDIT COMMITTEE TERMS OF REFERENCE**

**JOINT REPORT OF THE DIRECTOR FINANCE & HUMAN RESOURCES AND THE MONITORING OFFICER**

**1 SUMMARY OF MAIN PROPOSALS**

1.1 For the Audit Committee to note and recommend to Council the Audit Committee's terms of reference are proposed to be adopted by the Council in July 2020

**2 RECOMMENDATION**

2.1 **That members of the Audit Committee note and recommend the terms of reference attached as Appendix 1 to be adopted by the Council in July 2020**

**3 SUMMARY IMPACT ASSESSMENT**

|   |   |   |
|---|---|---|
| <b>COMMUNITY IMPACT</b>                         | Do these proposals contribute to specific Priority Plan objective(s)? |   |
|   | Yes   | <i>The Audit Committee is part of the Council's Governance Framework encompassing the whole Council and therefore all of the Council's priorities.</i>  |
|   | Will the proposals impact on specific groups of people?               |   |
|   | No  |   |
| <b>TARGET COMPLETION/DELIVERY DATE</b>          | <i>Approval by Council at their July 2020 meeting.</i>                |   |
| <b>FINANCIAL/VALUE FOR MONEY IMPACT</b>         | No  | <i>Good governance processes support value for money in ensuring economy, efficient and effectiveness in the Council's decision making and processes.</i>   |
| <b>LEGAL ISSUES</b>                             | Yes   | <i>The requirement for Terms of Reference for Council Committees is set out within the Council's Constitution. The Constitution also requires terms of reference to be reviewed annually and approved by full Council. AL 3/07/2020</i> |
| <b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b> | Yes   | <i>The Audit Committee provides assurance on good governance and that there is the proper identification and management of risks and robust control arrangements.</i>   |
| <b>IMPACT ON SPECIFIC WARDS</b>                 | Yes   | <i>Borough-wide impact</i>  |

**4 INFORMATION**

4.1 There is a requirement in the Constitution for all Committees to annually review their terms of reference at their first meeting following Annual Council.

4.2 The Audit Committee terms of reference reflect the requirements of the Council under the Local Audit & Accountability Act 2014 in respect to the appointment of external auditors.

## **5 IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

N/A

## **6 PREVIOUS MINUTES**

- 6.1 Audit Committees – 1<sup>st</sup> meeting after the commencement of the municipal year

## **7 BACKGROUND PAPERS**

Constitution

The Accounts & Audit Regulations 2015

Local Audit & Accountability Act 2014

Report by Rob Montgomery – Audit & Governance 383103

## Audit Committee Terms of Reference

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The Committee has the responsibility on behalf of the Council for the overseeing of the Council's audit, governance (including risk management) and financial processes.

Delegated matters (i.e. Matters which can be decided (resolved))

- 1 The approval (but not direction) of, and monitoring of progress against, the internal audit Charter and plan
- 2 Review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary
- 3 To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee – governance (including information governance), internal audit, risk management, statement of accounts and external audit.
- 4 The Committee will not receive detailed information on investigations relating to individuals. The general governance principles and control issues may be discussed, in confidential session if applicable, at an appropriate time, to protect the identity of individuals and so as not to prejudice any action being taken by the Council.
- 5 External Auditors:
  - a) Recommend the appointment of the External Auditors to the Council
  - b) Review and agree the External Auditors annual plan, including the annual audit fee
  - c) Receive regular update reports on progress and other reports of external auditor.
  - d) Meet privately with the external auditor as required.
  - e) Ensure that there are effective relationships between external and internal audit so that the value of the combined internal and external audit process is maximised
- 6 Consider the effectiveness of the Council's governance processes and their compliance with legislation and best practice including:
  - a) The Council's Code of Corporate Governance
  - b) The Council's information security framework
  - c) Receipt of the Caldicott Guardian's Annual report
  - d) Oversight of Commercial projects
  - e) The management of opportunities and risks
  - f) Other corporate governance arrangements
- 7 Be responsible for the review and approval of the authority's Annual Governance Statement ensuring that it properly reflects the governance, control and risk environment and any actions required to improve it. Following approval, it should accompany the Accounts.
- 8 To review and monitor the Council's Treasury Management arrangements including Treasury policies, procedures and the management of the associated risks and make recommendations to the Cabinet as appropriate.
- 9 Review and approve the Statement of Accounts, external auditor's opinion and reports on them to members and monitor management action in response to the issues raised by external audit.
- 10 To approve the Anti-Fraud and Corruption Policy and to recommend its adoption by the Council, and to monitor its operation. The policy will be reviewed at least once every two years.
- 11 To approve the Speak Up Policy ('whistle blowing') and to recommend its adoption by the Council, and to monitor its operation. This policy will be reviewed at least once every two years.

- 12 Recognising that Complaints/Compliments are a Cabinet function, the Committee should Review the Annual Complaints Report and seek assurances that the Council is improving in response to complaints raised
- 13 The meetings will follow the principles of scrutiny, i.e. no party whip will be applied and a constructive, evidence based approach will be used.
- 14 To ensure that adequate training is received by the members of the committee on the areas covered by these terms of reference.
- 15 To ensure that any sensitive or confidential information obtained as a result of membership of the Committee is treated as confidential.
- 16 Annually review their effectiveness and their terms of reference.

# Agenda Item 5

**TELFORD & WREKIN AUDIT COMMITTEE**  
**OUTLINE OF BUSINESS FOR FUTURE MEETINGS 2020/21**

| DATE OF MEETING     | ITEM   | RESPONSIBLE OFFICER |
|---------------------|--|---------------------|
| <b>14 July 2020</b> | 1. Review of TOR for the Committee   | RM                  |
|                     | 2. Outline of Audit Committee Business for 2020/21   | RM/TD               |
|                     | 3. Treasury Management Outturn 2019/2020 and Update 2020/21  | PH                  |
|                     | 4. External Audit Fee Letter   | GT                  |
|                     | 5. External Audit Interim Report 2019/20   | GT                  |
|                     | 6. Report to those Charged with Governance 2019/2020 update  | GT                  |
|                     | 7. 2019/20 Internal Audit Annual Update Report including the Audit Committee Annual Report and 2020/21 Internal Audit Plan | RM/TD               |
|                     | 8. 2019/2020 Annual Information Governance Report & 2020/21 IG Work Programme  | RM                  |
|                     | 9. 2019/2020 Anti-Fraud & Corruption Annual Report and updated Policy 2019/20  | RM                  |
|                     | 10. 2019/20 Annual Governance Statement  | RM                  |
| <b>1 Oct 2020</b>   | 1. External Audit Annual Audit Letter  | GT                  |
|                     | 2. Report to those Charged with Governance 2019/2020 – Full audit findings report  | GT                  |
|                     | 3. Audited Annual Statement of Accounts 2019/2020  | KC/PH               |
|                     | 4. Publication of Information on Councillors who Traded with the Council during 2019/2020                                  |                     |
|                     | 5. Update report on the work of Internal Audit (from April)  | RM/TD               |
|                     | 6. Public Sector Internal Audit Standards – Self Assessment  | RM/TD               |
|                     | 7. Strategic Risk Register Update  | JP/RM               |
|                     | 8. Annual Customer Feedback Report and assurance on lessons learnt 2019/2020   | LH/AA               |
| <b>28 Jan 2021</b>  | 1. Treasury Management – update from Arling close  | Arling Close        |
|                     | 2. Draft Treasury Management Strategy 2021/2022 and update 2020/2021   | KC/PH               |
|                     | 3. External Audit Plan 2021/2022   | GT                  |
|                     | 4. External Audit Grants Report  | GT                  |
|                     | 5. Internal Audit Activity Report and Update to Internal Audit Charter 2021/2022   | RM/TD               |
|                     | 6. Updated position of the AGS Action Plan 2019/2020   | JP/RM               |

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**TELFORD & WREKIN COUNCIL****AUDIT COMMITTEE – 14 JULY 2020****TREASURY MANAGEMENT - 2019/20 ANNUAL REPORT AND 2020/21 UPDATE****REPORT OF THE DIRECTOR: FINANCE & HR (CHIEF FINANCIAL OFFICER)****PART A) – SUMMARY REPORT****1. SUMMARY OF MAIN PROPOSALS**

This report updates members on the outcome of Treasury Management activities for 2019/20 and details the position for 2020/21 to date.

**1.1 2019/20 Treasury Outturn**

The treasury portfolio ended the year with net indebtedness of £245.7m (excluding NuPlace Share capital) which was a reduction of £5.5m over the year. In response to the coronavirus pandemic, Base rate was reduced twice in March 2020 by the Bank of England's Monetary Policy Committee as part of a range of measures to keep domestic and global economies operating, firstly from 0.75% to 0.25% and then to 0.1% where it remained for the rest of 2019/20. Given the scale of the crisis, low rates are likely to remain for a considerable period and the possibility that Bank Rate will be cut to zero/negative cannot be ruled out.

The borrowing strategy for 2019/20 was to borrow temporarily to take advantage of low interest rates where possible and review opportunities for new longer term borrowing as appropriate. Maintaining high levels of very cheap temporary borrowing has contributed to surplus treasury management returns of more than £20m since 2015/16 which has reduced the impact of Government cuts and therefore helped to protect front line services.

Borrowing was £9.3m higher at 31 March 2020 compared to 31 March 2019 however, investments were £14.8m higher (excluding NuPlace share capital). Short term borrowing was used during the year at favourable interest rates generating a significant benefit for the Council's budget. Following advice from Arlingclose, the Council's external treasury advisors, some longer, fixed term borrowing was also taken to manage exposure to interest rate fluctuations.

The investment strategy for 2019/20 was to gain maximum benefit with security of capital being the key consideration. The average return on investments for the year was 0.57% against a benchmark of 0.44%

Overall, treasury delivered a net over-achievement of £3.837m against budget during 2019/20. The majority of the saving relates to the benefit of low interest rates on the levels of temporary borrowing we held during the year and the active approach of maintaining short-term funding rather than locking into longer-term funding options at higher interest rates.

## 1.2 **2020/21 Update**

The strategy for 2020/21 remains consistent with that of the previous year. Investment opportunities will be reviewed as they arise and we will seek to gain maximum benefit within the agreed risk parameters. There are currently no long term investments, which reduces counter-party risk and also reduces net interest costs as longer-term borrowing costs tend to be greater than we are able to earn on new investments.

Arlingclose, the Council's treasury advisors, are providing regular investment and borrowing updates during this unprecedented period, including updated counterparty advice, which is being followed.

As anticipated, the Council is facing extreme financial pressure as a result of coronavirus. Pressures include increased costs, particularly relating to the provision of Social Care and safeguarding the most vulnerable in our community and income shortfalls relating to closed facilities and services and Council Tax and Non Domestic Rates which are key funding streams. Further information is available in the Financial Monitoring Report presented to Cabinet on 9 July 2020. As a result of these financial pressures, more focus has been placed on monitoring cash flow to ensure that sufficient funds are available to meet financial obligations. The provision of emergency government funding has assisted and short-term funding has been available to cover cash flow requirements. If temporary funds become unavailable, there may be a need to take more expensive longer-term PWLB borrowing. As mentioned above, there is also the possibility of zero or negative interest rates, which would impact on investment returns and borrowing costs. The position will be closely monitored and will clearly be influenced by the easing of lock-down and the speed of economic recovery.

Based on the capital programme, borrowing will be required during the year and consideration will be given to the maturity profile of current debt, interest rates and refinancing risks as well as the source, which is primarily expected to be the Public Works Loans Board.

Total borrowing was £276.2m at 31 March 2020 and has reduced to £262.8m as at 31 May 2020. Investments were £19.1m at 31 May 2020.

## 2. **RECOMMENDATIONS**

**Audit Committee Members are asked to:-**

- 2.1 note the contents of the report
- 2.2 note the performance against Prudential Indicators.

## 3. ***SUMMARY IMPACT ASSESSMENT***

***COMMUNITY IMPACT*** Do these proposals contribute to specific priority plan objectives?

Yes/No    Efficient    Community    Focussed  
                 Council



Will the proposals impact on specific groups of people?

Yes/No

**TARGET  
COMPLETION /  
DELIVERY DATE**

Part of ongoing Treasury Management Activities within the Treasury Management Strategy and Policy approved by Council.

**FINANCIAL/VALUE  
FOR MONEY IMPACT**

Yes/No Where appropriate these are detailed in the body of the report.

**LEGAL ISSUES**

Yes/No The Director: Finance & HR (Section 151 Officer), has responsibility for the administration of the financial affairs of the Council. In providing this report the Section 151 Officer is meeting one of the responsibilities of the post contained within the Council's Constitution at Part 2, Article 12, paragraph 12.04(f) which states "The Chief financial Officer will contribute to the promotion and maintenance of high standards of governance, audit, probity and propriety, risk management and the approval of the statement of accounts through provision of support to the Audit Committee."

**OTHER IMPACTS,  
RISKS AND  
OPPORTUNITIES**

Yes/No The key opportunities and risks associated with treasury management activities are set out in the body of the report and in the Treasury Management Strategy and Policy approved by Council and will be regularly monitored throughout the year.

**IMPACT ON  
SPECIFIC WARDS**

Yes/No

4. **PREVIOUS MINUTES**

Council - 5<sup>th</sup> March 2020

Audit Committee – 28<sup>th</sup> January 2020

**PART B) – ADDITIONAL INFORMATION**

5. **BACKGROUND**

- 5.1 Treasury Management in local government is regulated by the CIPFA Treasury Management in Public Services: Code of Practice (the Code). This Council has adopted the Code and fully complies with its requirements. The primary requirement of the Code is the formulation and agreement by full Council of a Treasury Policy Statement, which

states the policies and objectives of its treasury management activities. The Authority's treasury management strategy for 2019/20 was approved at Full Council on 28 February 2019 and the Strategy for 2020/21 at Full Council on 5 March 2020

- 5.2 A requirement of the Council's Treasury Management Practices is the reporting to the Council of both the expected treasury activity for the forthcoming financial year (the annual treasury strategy statement) and subsequently the results of the Council's treasury management activities in that year (this annual treasury report).
- 5.3 The successful identification, monitoring and control of risk remains central to the Authority's treasury management strategy.

## 6. 2019/20

6.1 The annual report is covered in paragraphs 6-15 and deals with: -

- 2019/20 Portfolio position;
- the current economic climate;
- the borrowing strategy for 2019/20;
- the borrowing outturn for 2019/20;
- investments strategy for 2019/20;
- investments outturn for 2019/20;
- Shropshire Council debt;
- overall outturn position;
- leasing; and
- compliance with treasury limits

## 7. 2019/20 PORTFOLIO POSITION

7.1 The Council's treasury management position at the beginning and the end of the year was as follows: -

|   | 31 March 2020    |           | 31 March 2019    |           |
|---|------------------|-----------|------------------|-----------|
|   | Principal<br>£m  | Rate<br>% | Principal<br>£m  | Rate<br>% |
| Borrowing                                     | 276.185          | 2.46      | 266.924          | 2.41      |
| Investments (excluding NuPlace share capital) | 30.455           | 0.57      | 15.685           | 0.51      |
| <b>Net Indebtedness (ex NuPlace)</b>          | <b>(245.730)</b> |           | <b>(251.239)</b> |           |
| Investment in NuPlace                         | 13.300           |           | 11.600           |           |
| <b>Net Indebtedness</b>                       | <b>(232.430)</b> |           | <b>(239.639)</b> |           |

There was continued use of temporary borrowing through 2019/20, temporary borrowing was £67.1m at 31 March 2020 (including £7.6m PWLB due to mature in 2020/21). £7.9m of PWLB loans were repaid in 2019/20 the year and new PWLB borrowing of £25.0m was raised. The

capital programme was funded from a combination of borrowing, capital receipts, grants and other external contributions. This would normally result in an increase to net indebtedness during the year. However the Council received significant grant payments from the Government in late March as part of the response to the COVID-19 pandemic therefore a higher than forecast investment holding was recorded as at 31 March 2020 which has resulted in a reduction net indebtedness.

Prudential borrowing increased in 2019/20 due to planned capital expenditure approved as part of the capital programme.

Investments at 31 March 2020 included £13.3m share capital in NuPlace.

***The Adopted Treasury Strategy was to:-***

- Monitor borrowing opportunities determined by the prevailing markets.
- Only investing short term in line with cashflow requirements.
- Reduce the volatility of investment returns while maintaining adequate flexibility in arrangements.
- To achieve optimum return on investments commensurate with proper levels of security and liquidity.

**8. COUNCILS RESPONSE TO ECONOMIC CLIMATE**

- 8.1 **Economic background:** The UK's exit from the European Union and future trading arrangements, had remained one of the major influences on the UK economy and sentiment during 2019/20. The 29<sup>th</sup> March 2019 Brexit deadline was extended to 12<sup>th</sup> April, then to 31<sup>st</sup> October and finally to 31<sup>st</sup> January 2020. Politics played a major role in financial markets over the period as the UK's tenuous progress negotiating its exit from the European Union together with its future trading arrangements drove volatility, particularly in foreign exchange markets. The outcome of December's General Election removed a lot of the uncertainty and looked set to provide a 'bounce' to confidence and activity.

The headline rate of UK Consumer Price Inflation UK Consumer Price Inflation fell to 1.7% y/y in February, below the Bank of England's target of 2%. Labour market data remained positive. The ILO unemployment rate was 3.9% in the three months to January 2020 while the employment rate hit a record high of 76.5%. The average annual growth rate for pay excluding bonuses was 3.1% in January 2020 and the same when bonuses were included, providing some evidence that a shortage of labour had been supporting wages.

GDP growth in Q4 2019 was reported as flat by the Office for National Statistics and service sector growth slowed and production and construction activity contracted on the back of what at the time were concerns over the impact of global trade tensions on economic activity. The annual rate of GDP growth remained below-trend at 1.1%.

Then coronavirus swiftly changed everything. COVID-19, which had first appeared in China in December 2019, started spreading across the globe causing plummeting sentiment and falls in financial markets not seen since the Global Financial Crisis as part of a flight to quality into sovereign

debt and other perceived 'safe' assets.

In response to the spread of the virus and sharp increase in those infected, the government enforced lockdowns, central banks and governments around the world cut interest rates and introduced massive stimulus packages in an attempt to reduce some of the negative economic impact to domestic and global growth.

The Bank of England, which had held policy rates steady at 0.75% through most of 2019/20, moved in March to cut rates to 0.25% from 0.75% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

The US economy grew at an annualised rate of 2.1% in Q4 2019. After escalating trade wars and a protracted standoff, the signing of Phase 1 of the trade agreement between the US and China in January was initially positive for both economies, but COVID-19 severely impacted sentiment and production in both countries. Against a slowing economic outlook, the US Federal Reserve began cutting rates in August. Following a series of five cuts, the largest of which were in March 2020, the Fed Funds rate fell from 2.5% to range of 0% - 0.25%. The US government also unleashed a raft of COVID-19 related measures and support for its economy including a \$2 trillion fiscal stimulus package. With interest rates already on (or below) the floor, the European Central Bank held its base rate at 0% and deposit rate at -0.5%.

**Financial markets:** Financial markets sold off sharply as the impact from the coronavirus worsened. After starting positively in 2020, the FTSE 100 fell over 30% at its worst point with stock markets in other countries seeing similar huge falls. In March sterling touched its lowest level against the dollar since 1985. The measures implemented by central banks and governments helped restore some confidence and financial markets have rebounded in recent weeks but remain extremely volatile. The flight to quality caused gilts yields to fall substantially. The 5-year benchmark falling from 0.75% in April 2019 to 0.26% on 31<sup>st</sup> March 2020. The 10-year benchmark yield fell from 1% to 0.4%, the 20-year benchmark yield from 1.47% to 0.76% over the same period. 1-month, 3-month and 12-month bid rates averaged 0.61%, 0.72% and 0.88% respectively over the period.

Since the start of the calendar year 2020, the yield on 2-year US treasuries had fallen from 1.573% to 0.20% and from 1.877% to 0.61% for 10-year treasuries. German bund yields remain negative.

**Credit review:** In Q4 2019 Fitch affirmed the UK's AA sovereign rating, removed it from Rating Watch Negative (RWN) and assigned a negative outlook. Fitch then affirmed UK banks' long-term ratings, removed the RWN and assigned a stable outlook. Standard & Poor's also affirmed the UK sovereign AA rating and revised the outlook to stable from negative. The Bank of England announced its latest stress tests results for the main seven UK banking groups. All seven passed on both a common equity

Tier 1 (CET1) ratio and a leverage ratio basis. Under the test scenario the banks' aggregate level of CET1 capital would remain twice their level before the 2008 financial crisis.

After remaining flat in January and February and between a range of 30-55bps, Credit Default Swap spreads rose sharply in March as the potential impact of the coronavirus on bank balance sheets gave cause for concern. Spreads declined in late March and through to mid-April but remain above their initial 2020 levels. NatWest Markets Plc (non-ring-fenced) remains the highest at 128bps and National Westminster Bank Plc (ring-fenced) still the lowest at 56bps. The other main UK banks are between 65bps and 123bps, with the latter being the thinly traded and volatile Santander UK CDS.

While the UK and Non-UK banks on the Arlingclose counterparty list remain in a strong and well-capitalised position, the duration advice on all these banks was cut to 35 days in mid-March.

Fitch downgraded the UK sovereign rating to AA- in March which was followed by a number of actions on UK and Non-UK banks. This included revising the outlook on all banks on the counterparty list to negative, with the exception of Barclays Bank, Rabobank, Handelsbanken and Nordea Bank which were placed on Rating Watch Negative, as well as cutting Close Brothers long-term rating to A-. Having revised their outlooks to negative, Fitch upgraded the long-term ratings on Canadian and German banks but downgraded the long-term ratings for Australian banks. HSBC Bank and HSBC UK Bank, however, had their long-term ratings increased by Fitch to AA-.

## 9. **BORROWING 2019/20**

### 9.1 **Original Economic Projections**

The Expectation for Interest Rates – When the budget was set for 2019/20 it was anticipated that the Interest Rate would rise from 0.75% by two 0.25% increases during 2019 to take the official rate to 1.25%. The Bank of England's MPC had maintained expectations for slow and steady rate rises over the forecast horizon. The MPC continued to have a bias towards tighter monetary policy but was reluctant to push interest rate expectations too strongly.

### 9.2 **Outturn 2019/20**

On 9th October 2019 the PWLB raised the cost of certainty rate borrowing by 1% to 1.8% above UK gilt yields as HM Treasury was concerned about the overall level of local authority debt. The Chancellor's March 2020 Budget statement included significant changes to Public Works Loan Board (PWLB) policy and launched a wide-ranging consultation on the PWLB's future direction.

In response to the COVID-19 pandemic, the Bank of England moved in March to cut rates from 0.75%, which had held policy rates steady at 0.75% through most of 2019/20, to 0.25% and then swiftly thereafter brought them down further to the record low of 0.1%. In conjunction with these cuts, the UK government introduced a number of measures to help

businesses and households impacted by a series of ever-tightening social restrictions, culminating in pretty much the entire lockdown of the UK.

### **Borrowing and Investment Rates in 2019/20**

The overnight investment rate fell in March 2020 in line with the Bank Rate.

### **Treasury Borrowing**

The borrowing strategy for the current year was to borrow temporarily to take advantage of low interest rates where possible and review opportunities for new longer term borrowing as appropriate.

During the year we borrowed new PWLB loans totalling £25.0m at the discounted certainty rate, prior to the PWLB interest rate increase, and we had maturities totalling £7.9m. These new loans were a mixture of Equal Instalments of Principal, Annuity and Maturity loans.

### **PWLB Repayments**

No loans were repaid early or rescheduled during the year.

An analysis of the maturity structure of our debt is shown on page 8. The maturing in less than 1 year includes £7.6m of PWLB loans.

### **Lenders Option Borrowers Option Redemption**

The Authority has £25m of Lenders Option Borrowers Option loans, as at 31 March 2020, where the lender has the option to propose an increase in the interest rate as at set dates, following which the Authority has the option to either accept the new rate or to repay the loan at no additional cost. No banks exercised their option during the year and current expectations are that calls in the foreseeable future are unlikely.

### **Analysis of Debt Maturity as at 31<sup>st</sup> March**

|                                 | <b>2020</b>    |          | <b>2019</b>    |          |
|---------------------------------|----------------|----------|----------------|----------|
|                                 | <b>£'000</b>   | <b>%</b> | <b>£'000</b>   | <b>%</b> |
| Maturing in less than 1 year    | 67,149         | 24.3     | 75,101         | 28.1     |
| Maturing in 1-2 years           | 7,128          | 2.6      | 7,226          | 2.7      |
| Maturing in 2-5 years           | 21,549         | 7.8      | 20,318         | 7.6      |
| Maturing in 5-10 years          | 29,751         | 10.8     | 30,115         | 11.3     |
| Maturing in more than 10 years* | 150,608        | 54.5     | 134,164        | 50.3     |
|                                 | <b>276,185</b> | 100.0    | <b>266,924</b> | 100.0    |

\* this includes £25m LOBO (Lenders Option Borrowers Option) loans that are potentially callable at certain points before the maturity date.

### **Debt Performance**

As highlighted in section 7 the average interest rate for borrowing has risen over the course of the year from 2.41% to 2.46%. This is due to the reduction in use of temporary borrowing being undertaken in 2019/20 (£59.5m as at 31 March 2020 compared to £67.4m as at 31 March 2019).

## 10. **INVESTMENTS 2019/20**

### 10.1 **Strategy**

The authority currently manages the majority of its investments in-house and invests within the institutions complying with its counterparty limits and credit rating requirements. All investments are short term related to cash flows in order to minimise counterparty risk and to minimise overall treasury management costs. Investments include £4.980m in Money Market Funds (MMFs) which provide greater diversification of credit risk and achieve a slightly higher return than our call accounts.

Investment Strategy - The agreed short term investment strategy for 2019/20 was to achieve optimum return on investments commensurate with proper levels of security and liquidity.

The Council has continued to maintain short duration and relatively low level of investments during 2019/20. This reduces exposure to investment risk.

We have closely followed investment guidance issued by our Treasury Advisors in relation to credit ratings, financial standing and duration and take advice on borrowing strategies and options.

### 10.2 **Outturn 2019/20**

Detailed below are the results of the investment strategy undertaken by the Council, based on the average investment during the year.

|             | <b>Average Investment</b> | <b>Rate of Return (gross of fees)</b> | <b>Rate of Return (net of fees)</b> | <b>Benchmark Return *</b> |
|-------------|---------------------------|---------------------------------------|-------------------------------------|---------------------------|
| Investments | £23.292m                  | 0.57%                                 | 0.57%                               | 0.44%                     |

\*DMO Overnight rate

No institutions in which investments were made showed any difficulty in repaying investments and interest in full during the year.

## 11. **SHROPSHIRE COUNCIL DEBT**

11.1 The Council makes an annual contribution (£1.268m in 2019/20) towards Shropshire Council costs on pre disaggregation debt (i.e. pre unitary inception) - interest paid averaged 5.1% last year. The rate of interest paid on this is managed by Shropshire and is considerably higher than the rate payable by Telford & Wrekin Council on its borrowing.

## 12. **OVERALL OUTTURN FOR 2019/20**

12.1 The net overall position is summarised in the table below. The sound overall position has resulted from a mix of cash flow benefits plus proactive treasury management activities. The budget reflected the position when the budget was set, the underspend has been achieved through

active management of borrowing and the low interest rates prevailing for the year. Overall a net saving of £3.837m was made against budget for the year.

13. **LEASING**

- 13.1 Each year the Council arranges operating leases for assets such as vehicles, computers and equipment. This helps spread the cost over a number of years in line with the anticipated life of the equipment.

Only two leasing drawdown were completed for 2019/20 both in January 2020. These were reported in the last update to members in January.

14. **COMPLIANCE WITH TREASURY LIMITS**

- 14.1 During the financial year the Council operated within the Treasury Limits and Prudential Indicators set out in the Council's Treasury Policy Statement and annual Treasury Strategy Statement.

15. **2020/21 UPDATE**

The remainder of this report deals with the current financial year based largely on information to 31 May 2020.

15.1 **Strategy**

The strategy for 2020/21 was approved by Full Council 5<sup>th</sup> March 2020. The strategy is to continue to keep investments as short term, where possible, to reduce the need to borrow thus reducing investment exposure and maximising overall returns to the revenue account. We will review investment opportunities if they arise and also review borrowing opportunities as we progress through the year and look to take advantage of advantageous interest rates where appropriate. 2020/21 and 2021/22 will see the Council continue to invest in significant regeneration projects including highways and building homes and commercial property for rent as part of the approved Housing Investment Programme. In order to comply with MiFID II the Council will maintain a minimum investment balance of £10m.

15.2 **Interest Rates**

Base rate began the year at 0.75% and has remained there until March when there were two cuts the base rate in quick succession, firstly to 0.25% secondly to 0.1% following the global outbreak of the COVID-19 pandemic. Given the scale of the crisis, low rates are likely to remain for a considerable period and the possibility that Bank Rate will be cut to zero/negative cannot be ruled out. This would impact on investment returns and borrowing costs. The position will be closely monitored and will depending on the easing of lock-down and speed of economic recovery.

15.3 **Prudential Regime**

This Council agreed its required indicators at Council on 5<sup>th</sup> March 2020. There have been no breaches of the indicators and none have been amended. The Council set itself an Operational Limit for external debt of



£490m for 2020/21 and an Authorised limit of £514m. Our total borrowing outstanding as at 31 May 2020 (including PFI) is £327.5m which is within both limits.

#### 15.4 **Borrowing**

We have taken no new PWLB loans so far during in 2020/21. In total we have £7.9m of PWLB Loans maturing during the year. Temporary borrowing has been used to cover cash flow requirements. As a result of financial pressures caused by the coronavirus pandemic, more focus has been placed on monitoring cash flow to ensure that sufficient funds are available to meet financial obligations. The provision of emergency government funding has assisted and loans from other local authorities have so far been available to cover cash flow requirements. If temporary funds become unavailable, there may be a need to take more expensive longer-term PWLB borrowing.

#### 15.5 **Investments**

The strategy for the year is to gain maximum benefit at minimum risk whilst achieving as a minimum, the overnight deposit rate. For the period to 31 May 2020 some £1,959m worth of investments have been made in our overnight call accounts or with the Debt Management Office (DMO). Rates have ranged from 0.00% to 0.06%. As at 31 May 2020 internal investments stood at £19.1m including Money Market Funds.

Potentially the Council can place up to £15.0m with any Counterparty, with the exception of Treasury's DMO facility which is Government backed and therefore considered to be very secure so no limit is placed on investments with the DMO. At the end of May the greatest exposure with a single counterparty was £8.0m (41.9% of the portfolio) with the DMO. A detailed breakdown of the investment portfolio is shown in Appendix 2.

The Council also has investments in money market funds which gives increased diversification of counter-party risk and slightly higher yield whilst retaining a high degree of liquidity. The amount invested in money market funds at 31<sup>st</sup> May 2020 is £4.98m. This investment is held solely in one diversified fund.

#### 15.6 **Projected Performance 2020/21**

Senior Finance Officers are closely monitoring the Treasury position, particularly in light of the COVID-19 financial pressures. Updates will be provided in future financial monitoring reports taken to Cabinet.

### 16. **BACKGROUND PAPERS**

- 16.1 CIPFA Code of Practice for Treasury Management in Local Authorities; Fund Manager Valuations; Temporary Borrowing records; PWLB records; Investment records.

Report prepared by:  
Ed Rushton, Group Accountant (Corporate & Capital Finance) – Tel.  
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## PRUDENTIAL INDICATORS

| PRUDENTIAL INDICATOR   | 2018/19<br>Actual<br>Outturn | 2019/20<br>Original<br>Estimate | 2019/20<br>Actual<br>Outturn |
|--|------------------------------|---------------------------------|------------------------------|
| <b>(1). EXTRACT FROM BUDGET<br/>SETTING REPORT</b>             | <b>£m</b>                    | <b>£m</b>                       | <b>£m</b>                    |
| <b>Capital Expenditure</b>                                     |                              |                                 |                              |
| TOTAL  | 57.6                         | 77.8                            | 41.8                         |
|  |                              |                                 |                              |
| <b>Ratio of financing costs to net revenue stream</b>          |                              |                                 |                              |
| General fund   | 4.62%                        | 7.89%                           | 5.3%                         |
|  |                              |                                 |                              |
| <b>Net borrowing requirement</b>                               |                              |                                 |                              |
| brought forward 1 April  | 256.7                        | 287.7                           | 266.9                        |
| carried forward 31 March                                       | 266.9                        | 322.1                           | 276.2                        |
| in year borrowing requirement                                  | +9.2                         | +34.4                           | +9.3                         |
|  |                              |                                 |                              |
| <b>Capital Financing Requirement as at 31 March</b>            |                              |                                 |                              |
| TOTAL  | 445.0                        | 482.0                           | 460.1                        |
|  |                              |                                 |                              |
| <b>Annual change in Cap. Financing Requirement</b>             |                              |                                 |                              |
| TOTAL  | +24.2                        | +31.1                           | +15.1                        |
|  |                              |                                 |                              |
| <b>Incremental impact of capital investment<br/>decisions</b>  | <b>£ p</b>                   | <b>£ p</b>                      | <b>£ p</b>                   |
| Increase in council tax (band D) per annum (not<br>cumulative) | 0.05                         | 1.03                            | 0.29                         |

| PRUDENTIAL INDICATOR  | 2018/19<br>final | 2019/20<br>original | 2019/20<br>final |
|---|------------------|---------------------|------------------|
| <b>(2). TREASURY MANAGEMENT<br/>PRUDENTIAL INDICATORS</b>   | <b>£m</b>        | <b>£m</b>           | <b>£m</b>        |
| <b>Authorised limit for external debt -</b>   |                  |                     |                  |
| Borrowing   | 440              | 440                 | 440              |
| other long term liabilities   | 61               | 64                  | 64               |
| <b>TOTAL</b>  | <b>501</b>       | <b>504</b>          | <b>504</b>       |
|   |                  |                     |                  |
| <b>Operational boundary for external debt -</b>   |                  |                     |                  |
| Borrowing   | 420              | 420                 | 420              |
| other long term liabilities   | 59               | 60                  | 60               |
| <b>TOTAL</b>  | <b>479</b>       | <b>480</b>          | <b>480</b>       |
|   |                  |                     |                  |
| <b>Upper limit for fixed interest rate exposure</b>   |                  |                     |                  |
| Net principal re fixed rate borrowing / investments   | 100              | 100                 | 100              |
|   |                  |                     |                  |
| <b>Upper limit for variable rate exposure</b>   |                  |                     |                  |
| Net principal re variable rate borrowing /<br>investments:-                                       | 30%              | 30%                 | 30%              |
|   |                  |                     |                  |
| <b>Upper limit for total principal sums invested for<br/>over 364 days</b><br>(per maturity date) | 95%              | 95%                 | 95%              |

| <b>Maturity structure of fixed rate borrowing during 2019/20</b> | lower limit | upper limit |
|--|-------------|-------------|
| under 12 months  | 0%          | 70%         |
| 12 months and within 24 months                                   | 0%          | 30%         |
| 24 months and within 5 years                                     | 0%          | 50%         |
| 5 years and within 10 years                                      | 0%          | 75%         |
| 10 years and above   | 25%         | 100%        |

**Summary of Investments at 31 May 2020**

|                                 | <b>Sovereign<br/>Credit<br/>Rating</b> | <b>Individual<br/>credit Rating</b> | <b>Total<br/>£m</b> | <b>%</b>     |
|---------------------------------|--|-------------------------------------|---------------------|--------------|
| <b>Call Accounts</b>            |  |                                     |                     |              |
| Lloyds                          | UK AA                                  | F1 A+ support 5                     | 6.078               | 31.9         |
| Debt Management<br>Office (DMO) | Government                             |                                     | 8.000               | 42.0         |
| <b>Other Investments</b>        |  |                                     |                     |              |
| Money Market<br>Funds           | N/A                                    | AAA                                 | 4.980               | 26.1         |
| <b>Total</b>                    |  |                                     | <b>19.058</b>       | <b>100.0</b> |

Call Accounts Non UK holding £0.0m (Limit £15m)

Please note - part of the Money Market Funds are invested in non UK sovereigns, at 31<sup>st</sup> May 2020 this amounted to 92.2% of the funds.

# External Audit Plan update

Telford and Wrekin Council  
Year ending 31 March 2020

Page 29  
May 2020



# Introduction & headlines

## Purpose

This document provides an update to the planned scope and timing of the statutory audit of Telford and Wrekin Council ('the Authority') as reported in our Audit Plan we presented to the Audit Committee (those charged with governance) on 28 January 2020.

## The current environment

In addition to the audit risks communicated to those charged with governance in our Audit Plan, recent events have led us to update our planning risk assessment and reconsider our audit and value for money (VfM) approach to reflect the unprecedented global response to the Covid-19 pandemic. The significance of the situation cannot be underestimated and the implications for individuals, organisations and communities remains highly uncertain. For our public sector audited bodies, we appreciate the significant responsibility and burden your staff have to ensure vital public services are provided. As far we can, our aim is to work with you in these unprecedented times, ensuring up to date communication and flexibility where possible in our audit procedures.

## Impact on our audit and VfM work

Management and those charged with governance are still required to prepare financial statements in accordance with the relevant accounting standards and the Code of Audit Practice, albeit to an extended deadline for the preparation of the financial statements up to 31 August 2020 and the date for audited financials statements to 30 November 2020, however we will liaise with management to agree appropriate timescales. We continue to be responsible for forming and expressing an opinion on the Authority and group's financial statements and VfM arrangements.

In order to fulfil our responsibilities under International Auditing Standards (ISA's (UK)) we have revisited our planning risk assessment. We may also need to consider implementing changes to the procedures we had planned and reported in our Audit Plan to reflect current restrictions to working practices, such as the application of technology to allow remote working. Additionally, it has been confirmed since our Audit Plan was issued that the implementation of IFRS 16 has been delayed for the public sector until 2021/22.

## Changes to our audit approach

To date we have:

- Identified a new significant financial statement risk, (see page 3)
- Reviewed the materiality levels we determined for the audit and have not identified any changes to our materiality assessment due to the risk identified Covid-19 risks
- Confirmed that our VfM arrangements will concentrate on the Authority's financial resilience (see page 4)
- Estimated that the overall impact on our audit fee of enhanced quality requirements to be £11,000, making the total fee £101,182 (see pages 5 and 6)

## Impact on our VfM approach

In our audit plan (presented to those charged with governance in January 2020) we advised that we were in the process of completing our initial VfM risk assessment. During the interim period, we have determined that a review of the Authority's financial sustainability would be appropriate for the basis of our VfM opinion and have therefore identified this to be a significant VfM risk. The Covid-19 pandemic presents a new set of challenges to the Authority with regards to its VfM arrangements and we are therefore further updating our VfM risk assessment to document our understanding of your arrangements to ensure critical business continuity in the current environment in addition to consideration of the Authority's overall financial resilience. We have not identified any new VfM risks in relation to Covid-19.

## Conclusion

We will ensure any further changes in our audit and VfM approach and procedures are communicated with management and reported in our Audit Findings Report. We wish to thank management for their timely collaboration in this difficult time.

# Significant risk identified – COVID-19 pandemic

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

| Risk  | Reason for risk identification   | Key aspects of our proposed response to the risk  |
|---|--|---|
| Covid-19  | <p>The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to;</p> <ul style="list-style-type: none"> <li>• Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation</li> <li>• Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation and receivable recovery estimates, and the reliability of evidence we can obtain to corroborate management estimates</li> <li>• Financial uncertainty will require management to reconsider financial forecasts supporting their going concern assessment and whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and</li> <li>• Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties.</li> </ul> | <p>We will:</p> <ul style="list-style-type: none"> <li>• Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach</li> <li>• Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise</li> <li>• Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic.</li> <li>• Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely</li> <li>• Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as asset valuations and recovery of receivable balances</li> <li>• Evaluate management's assumptions that underpin the revised financial forecasts and the impact on management's going concern assessment</li> <li>• Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence</li> </ul> |
| <p>We therefore identified the global outbreak of the Covid-19 virus as a significant risk, which was one of the most significant assessed risks of material misstatement</p> |  |   |

# Value for Money update

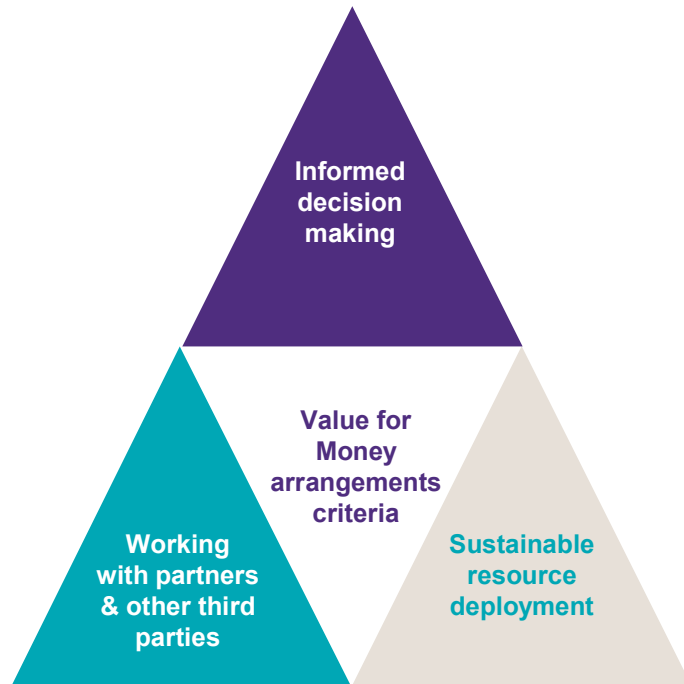
## Background to our VFM approach

The NAO issued its guidance for auditors on Value for Money work in November 2017. The guidance states that for Local Government bodies, auditors are required to give a conclusion on whether the Authority has proper arrangements in place to secure value for money.

The guidance identifies one single criterion for auditors to evaluate:

*“In all significant respects, the audited body takes properly informed decisions and deploys resources to achieve planned and sustainable outcomes for taxpayers and local people.”*

This is supported by three sub-criteria, as set out below:



## Significant VFM risks

Those risks requiring audit consideration and procedures to address the likelihood that proper arrangements are not in place at the Authority to deliver value for money.



### Financial Sustainability

In common with the Local Government sector as a whole, the Authority is under increasing funding pressure and, as a result, is facing a challenging savings target which presents a number of potential issues with regard to ensuring appropriate This is further complicated by the issues arising as a result of the Covid-19 pandemic.

We will continue to meet with senior management to consider how the financial pressures are being managed on an ongoing basis. We will also discuss working arrangements during the Covid-19 pandemic, with a particular focus on both the reprofiling of planned expenditure to meet changing demands, oversight of additional funding provided both to the Authority and on an agency basis and governance and data security arrangements during a period of widespread remote working.



# Audit fees update

## Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government financial reporting, in particular, property, plant and equipment and pensions, needs to be improved. We have also identified an increase in the complexity of local government financial transactions. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee for 2019/20 at the planning stage, as set out below and with further analysis overleaf, has been agreed with the Assistant Director, Finance & Human Resources and is subject to PSAA agreement.

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|               | Actual Fee 2018/19 | Proposed fee 2019/20 |
|---------------|--------------------|----------------------|
| Council Audit | £99,182            | 101,182              |

### Assumptions:

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

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

### Relevant professional standards:

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

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees. In agreement with PSAA (where applicable) we will be seeking approval to secure these additional fees for the remainder of the contract via a formal rebasing of your scale fee to reflect the increased level of audit work required to enable us to discharge our responsibilities. Should any further issues arise during the course of the audit that necessitate further audit work additional fees will be incurred, subject to PSAA approval.

| Audit area   | £               | Rationale for fee variation   |
|--|-----------------|---|
| Scale/original fee   | 90,182          |   |
| Raising the bar (increased challenge and depth of work)  | 3,500           | The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.           |
| PE Valuation – work of experts   | £3,000          | The FRC has also determined that auditors need to improve the quality of audit challenge on Property Plant and Equipment valuations across the sector. We have therefore increased the volume and scope of our audit work to ensure an adequate level of scrutiny and challenge over the assumptions that underpin Property Plant and Equipment valuations. |
| Pensions – valuation of net pension liabilities under International Auditing Standard (IAS) 19 | £3,000          | We have increased the granularity, depth and scope of coverage, with increased levels of sampling, additional levels of challenge and explanation sought, and heightened levels of documentation and reporting.   |
| New standards and developments/impact of remote working  | £1,500          | We initially estimated the fee cost of additional work required for IFRS16 implementation and corresponding disclosure required in 2019/20 under IAS8.. Although this work has reduced with the postponement of IFRS16 implementation we anticipate that there will be an additional cost due to remote working.  |
| <b>Revised scale fee (to be approved by PSAA)</b>  | <b>£101,182</b> |   |

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



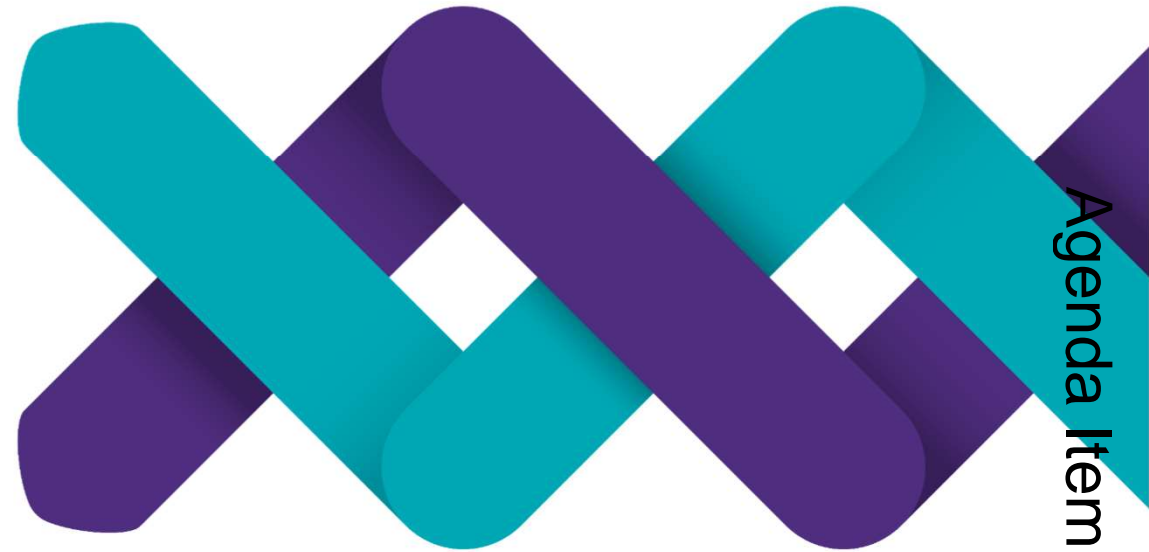
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# Audit Progress Report and Sector Update

Telford and Wrekin Council  
Year ending 31 March 2020  
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July 2020



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# Introduction

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**This paper** provides the Audit Committee with a report on progress in delivering our responsibilities as your external **auditors**.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a local authority; and

Members of the Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications [www.grantthornton.co.uk](http://www.grantthornton.co.uk) ..

If you would like further information on any items in this briefing, or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

# Progress at July 2020

## Financial Statements Audit

We began our planning for the 2019/20 audit in January, and we began our interim audit in February 2020. Our interim fieldwork includes:

- Updated review of the Council's control environment
- Updated understanding of financial systems
- Review of Internal Audit reports on core financial systems
- Early work on emerging accounting issues

The results of our work to date are included in this report.

In January we issued a detailed audit plan, setting out our proposed approach to the audit of the Council's 2019/20 financial statements and following this an Addendum in relation to Covid-19 was circulated to committee members in June.

We will report our work in the Audit Findings Report and aim to give our opinion on the Statement of Accounts ahead of the new statutory deadline of 30 November 2020.

## Value for Money

The scope of our work is set out in the guidance issued by the National Audit Office. The Code requires auditors to satisfy themselves that; "the Council has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources".

The guidance confirmed the overall criterion as: "in all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people".

The three sub criteria for assessment to be able to give a conclusion overall are:

- Informed decision making
- Sustainable resource deployment
- Working with partners and other third parties

Details of our initial risk assessment to determine our approach are included in our Audit Plan.

We will report our work in the Audit Findings Report and aim to give our Value For Money Conclusion by 30 November 2020.

The NAO has consulted on a new Code of Audit Practice and published a draft version. Subject to Parliamentary approval the new Code will come into force no later than 1 April 2020 and includes significant changes to the auditor's Value for Money work. Please see later for more details.



# Progress at July 2020 (Cont.)

## Other areas

### Certification of claims and returns

We certify the Council's annual Housing Benefit Subsidy claim in accordance with procedures agreed with the Department for Work and Pensions. The certification work for the 2019/20 claim is planned to be completed in advance of the 31 January deadline.

We certify the Council's annual Teachers' Pensions return in accordance with procedures agreed with Teachers' Pensions. The certification work for the 2019/20 claim is planned to be completed in advance of the 30 November 2020 deadline.

### Meetings

We met with your Section 151 Officer, Head of Internal Audit and Chief Accountant in March and June as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective

### Events

We provide a range of workshops along with network events for members and publications to support the Council. Your officers attended our Financial Reporting Workshop in February, which should help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

Further details of the publications that may be of interest to the Council are set out in our Sector Update section of this report.

## Audit Fees

During 2017, PSAA awarded contracts for audit for a five year period beginning on 1 April 2018. 2019/20 is the second year of that contract. Since that time, there have been a number of developments within the accounting and audit profession. Across all sectors and firms, the Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing.

Our work in the Local Government sector in 2018/19 has highlighted areas where financial reporting, in particular, property, plant and equipment and pensions, needs to improve. There is also an increase in the complexity of Local Government financial transactions and financial reporting. This combined with the FRC requirement that all Local Government audits are at or above the "few improvements needed" (2A) rating means that additional audit work is required.

We have reviewed the impact of these changes on both the cost and timing of audits. We have discussed this with your s151 Officer including any proposed variations to the Scale Fee set by PSAA Limited.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting.

Further to this, under the new arrangements the process for agreeing fees on an ongoing basis has also changed. Fees are now agreed between the audit team and client without reference to the former PSAA scale fee and auditors are no longer required to issue an annual fee letter. Fee updates will instead be communicated as part of our Audit Plan.

With regard to the likely level of fees going forward, we anticipate that, owing to the reasons outlined above, the uplifted fee from 19/20 is likely to form the basis of our 20/21 fee. We also draw the attention of the committee to the additional requirements in relation to Value for Money reporting from 20/21 onwards which may also have an impact on future fees.

# COVID-19 Update

## Impact on working arrangements:

- following the government's announcement on Monday 16 March 2020, we have closed our Grant Thornton offices for the foreseeable future and your audit team are now working from home
- it is therefore likely that we will be working remotely during the accounts audit. We are continuing to discuss how this will work in practice with the finance team and will draw upon our experience working with NHS bodies.
- although there are some audit tasks which are best undertaken in person, the majority of the audit will be able to be completed remotely. This is however likely to make the audit process longer. We will work closely with the finance team to make this different way of working as efficient as possible.
- we acknowledge there may need to be further changes to planned audit timings due to potential illness within the audit team or the finance team and due to the further developments of COVID-19.

## Impact on accounts and audit opinions:

The following sets out a number of the key issues which finance teams will need to consider as part of the year end closedown.

- impact on reserves and financial health and whether the audited body needs to provide additional disclosures that draw attention to a Material Uncertainty around Going Concern (this could also impact on the VfM conclusion)
- valuation of PPE and assumptions made by valuers, particularly in respect of carrying value to current value assessment
- valuation of pension fund investments and their classification in the fair value hierarchy (L1 – L3)
- impact on collectability of debt and assumptions made in bad debt provisions
- impact on post-balance sheets events (the consequences of the virus post 31 March 2020 will generally be non-adjusting post balance sheet events but some form of disclosure may be needed)
- disclosure of impact in Narrative report
- disclosure of critical judgements
- disclosure of material estimation uncertainties
- impact on the content of the Annual Governance Statement, particularly with regards to risks, controls and mitigation
- considerations in respect of service continuity and disaster planning arrangements (this could impact on the VfM conclusion)
- impact on reporting to those charged with governance and signing arrangements

## Changes to deadlines and requirements:

- the Accounts and Audit (Coronavirus) (Amendment) Regulations 2020, which came into force on 30 April 2020, confirmed that the date for publication of principal authority accounts moves from 31 July 2020 to 30 November 2020.
- the requirement for the public inspection period to include the first 10 working days of June has been removed. Local authorities are instead expected to commence the public inspection period on or before the first working day of September 2020. This means draft accounts must be approved by 31 August 2020 but authorities are encouraged to do so earlier where this is possible.
- IFRS 16 implementation has been delayed by 1 year to 1 April 2021. It is anticipated that the CIPFA Code for 2020/21 will move the requirement for IAS 8 disclosures for accounting standards not yet adopted that will be required for IFRS 16 from 2019/20 into 2020/21.
- given this is a developing situation, there may be further changes to the accounts process for 2019/20 and we will be in regular dialogue with the finance team over the coming months.

# Audit Deliverables

| 2019/20 Deliverables  | Planned Date  | Status      |
|---|---------------|-------------|
| <p><b>Audit Plan</b></p> <p>We are required to issue a detailed audit plan to the Audit and Committee setting out our proposed approach in order to give an opinion on the Council's 2019-20 financial statements and a Conclusion on the Council's Value for Money arrangements.</p> | January 2020  | Complete    |
| <p><b>Interim Audit Findings</b></p> <p>We will report to you the findings from our interim audit and our initial value for money risk assessment within our Progress Report.</p>   | July 2020     | Complete    |
| <p><b>Audit Findings Report</b></p> <p>The Audit Findings Report will be reported to the November Audit Committee.</p>  | Autumn 2020   | Not yet due |
| <p><b>Auditors Report</b></p> <p>This is the opinion on your financial statement, annual governance statement and value for money conclusion.</p>   | Autumn 2020   | Not yet due |
| <p><b>Annual Audit Letter</b></p> <p>This letter communicates the key issues arising from our work.</p>   | December 2020 | Not yet due |

# Results of Interim Audit Work

The findings of our interim audit work, and the impact of our findings on the accounts audit approach, are summarised in the table below:

|                              | Work performed   | Conclusions and recommendations   |
|------------------------------|--|---|
| <b>Internal audit</b>        | <p>We have completed a high level review of internal audit's overall arrangements. Our work has not identified any issues which we wish to bring to your attention.</p> <p>We have also reviewed internal audit's work on the Council's key financial systems to date. We have not identified any significant weaknesses impacting on our responsibilities.</p>  | <p>Our review of internal audit work has not identified any weaknesses which impact on our audit approach.</p>                    |
| <b>Entity level controls</b> | <p>We have obtained an understanding of the overall control environment relevant to the preparation of the financial statements including:</p> <ul style="list-style-type: none"> <li>• Communication and enforcement of integrity and ethical values</li> <li>• Commitment to competence</li> <li>• Participation by those charged with governance</li> <li>• Management's philosophy and operating style</li> <li>• Organisational structure</li> <li>• Assignment of authority and responsibility</li> <li>• Human resource policies and practices</li> </ul> | <p>Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements.</p> |

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|  | <b>Work performed</b>  | <b>Conclusions and recommendations</b>   |
|--|--|--|
| <b>Review of information technology controls</b> | <p>We have performed a high level review of the general IT control environment as part of the overall review of the internal controls system.</p> <p>We have used the reports provided by your service organisations to inform and respond to any identified control risks that would impact on our responsibilities.</p>  | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. |
| <b>Walkthrough testing</b>                       | <p>We have completed walkthrough tests of the Council's controls operating in areas where we consider that there is a risk of material misstatement to the financial statements.</p> <p>Our work has not identified any issues which we wish to bring to your attention. Internal controls have been implemented by the Council in accordance with our documented understanding.</p> | Our work has not identified any weaknesses which impact on our audit approach.   |
| <b>Journal entry controls</b>                    | We have reviewed the Council's journal entry policies and procedures as part of determining our journal entry testing strategy.  | Our work has identified no material weaknesses which are likely to adversely impact on the Council's financial statements. |
| <b>Early substantive testing</b>                 | <p>Early substantive testing has been completed on the following areas:</p> <ul style="list-style-type: none"> <li>- Operating Expenditure</li> <li>- Employee Benefits Expenses</li> <li>- Fees, Charges and Other Service Income</li> <li>- Grant Income</li> </ul>  | We have been able to perform a significant amount of work early on these areas and have no concerns to report to date.     |

# Sector Update

Councils continue to try to achieve greater efficiency in the delivery of public services, whilst facing the challenges to address rising demand, ongoing budget pressures and social inequality.

Our sector update provides you with an up to date summary of emerging operational issues and developments to support you. We cover areas which may have an impact on your organisation, the wider local government sector and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- [Grant Thornton Publications](#)
- [Insights from local government sector specialists](#)
- [Reports of interest](#)
- [Accounting and regulatory updates](#)

More information can be found on our dedicated public sector and local government sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Local  
government

# In-depth insight into the impact of Covid-19 on financial reporting in the local government sector

As a nation we are likely to feel the societal and financial consequences of the Covid-19 pandemic, and the measures to contain and mitigate its effects, for years, and possibly decades to come. A recent Grant Thornton report examines its impact on financial reporting in the local government sector.

The extraordinary events we are living through follow a decade of austerity, triggered by the financial crisis of 2008/09, which had already placed considerable strain on local authorities' finances. Increased demand for many local public services, directly related to the outbreak of the virus, has placed immediate pressure on authorities' cash flows and expenditure budgets. The longer-term consequences of recession and unemployment on demand for services have yet to be experienced.

At the same time, several important sources of local authority income including Council Tax, Nondomestic (business) rates, fees and charges, rents and investment returns have, to a greater or lesser extent, been subject to reduction or suspension. This perfect storm of conditions presents a real threat to the financial sustainability of the sector. Now, more than ever, strong political and executive leadership is needed to re-establish priorities, review strategies and medium-term financial plans and ensure that public funds are being used as efficiently and effectively as possible. A balance has to be struck between responding to the needs of residents and businesses in a timely manner, protecting the most vulnerable and ensuring appropriate measures and controls around financial management are in place to mitigate against future 'financial shock'. In doing so, iterative scenario planning will help officers and elected members to take informed decisions at key stages, revisiting and revising plans along the way. Grant Thornton's 'Financial Foresight' model, developed in collaboration with CIPFA, can help local authorities bring together future spend forecasts with future income streams and combine this with placed based data to reflect the impact of local demographic and economic changes. Narrative reports, as presented in local authorities' statements of accounts, provide an important platform to communicate key information relating to the external environment, risks and opportunities, financial outlook and plans for dealing with potential budget shortfalls. Within the report we explore key considerations for local authority Narrative reports arising from the pandemic.

Local authorities hold a wide range of statutory and non-statutory receivables, including Council Tax and Non-domestic rate debtor balances, trade receivables, loans receivable and bank balances. Measures taken to control Covid-19 are leading to heavy economic losses and this has and will continue to affect collection rates, as some individuals and businesses experience financial effects of the pandemic. In preparing financial statements authorities will need to consider the recoverability of debt and the potential need to recognise impairments. The uncertainties created by the pandemic have also significantly increased volatility and uncertainty in markets. In this environment it is important to maintain regular dialogue with management experts where they have roles in relation to asset valuations used in the preparation of accounts. This applies not only to non-current operational and non-operational property assets held by authorities, but also to investment properties, financial assets and many assets held by pension funds. Additional disclosures in financial statements in relation to major sources of estimation uncertainty may prove to be necessary.

A webinar discussion for Officers and Members at Unitary Councils will be held on 30 July 2020 at 2.00 to 4.00pm. The link to the full report is below;

<https://www.grantthornton.co.uk/en/insights/local-authority-financial-reporting-in-2020/>

# Brydon Review – the quality & effectiveness of audit

The Brydon review is an independent review, led by Sir Donald Brydon, which has looked at the quality and effectiveness of audit, seeking to make proposals that will improve the UK audit ‘product’. The review has examined the nature and scope of audit from a user perspective and seeks to clarify and potentially close the ‘expectation gap’ (ie what stakeholders and society expect from audit compared to what it delivers today).

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Full list of Sir Donald’s recommendations can be found online, and a brief summary is provided below:

## Redefinition of audit and its purpose

- Creation of a corporate auditing profession, governed by principles
- Introduction of suspicion into the qualities of auditing
- Extension of the concept of auditing to areas beyond financial statements
- Mechanisms to encourage greater engagement of shareholders with audit and auditors
- Change in language of the opinion given by auditors
- Introduction of a corporate Audit and Assurance Policy, a Resilience Statement and a Public Interest Statement
- Suggestions to inform the work of BEIS on internal controls and improve clarity on capital maintenance
- Greater clarity around the roles of the audit committee
- A package of measures around fraud detection and prevention
- Improved auditor communication and transparency
- Obligations to acknowledge external signals of concern
- Extension of audit to new areas including Alternative Performance Measures
- Increased use of technology

On the auditor’s responsibility to detect fraud, Jonathan Riley, Grant Thornton Head of Quality and Reputation, said: “We are pleased to note that Sir Donald Brydon makes it clear that not only is there an expectation gap in relation to the purpose of audit and the detection of fraud but that the current ISAs need revision, and training of corporate auditors need to be enhanced, in order to allow auditors to better detect fraud. This is further reinforced by the new ability to make it easier for users of accounts, not just management, to inform the auditor of concerns relating to financial statements.”

“Notwithstanding these proposals, it is neither possible or desirable for an auditor to test in detail every transaction of the company and so materiality will still exist. In addition, a fraud involving collusion and sophistication may still prove extremely hard to detect.”

Grant Thornton welcomes the consideration given by Sir Donald on the quality and effectiveness of audit. These recommendations should bring far greater clarity and transparency to the profession and ultimately result in an audit regime that allows auditors to better assess, assure and inform all users of financial accounts.

Crucially, the Government must now consider these recommendations not just in context of earlier inquiries into the profession, but also against the backdrop of global trade and Britain’s future role as a pillar of global commerce. The report places new obligations not only on auditors, but also on company directors. Together with other regulations such as the revised Ethical Standard and wider corporate governance requirements, the proposed changes need to strike the right balance and not dent our place on the world’s financial stage. Careful explanation particularly of what this means to those fast growing mid-sized public entities seeking capital will be necessary.

The public perception of audit remains weak and failures continue to happen, so we agree that now is the right time to explore what needs to change to ensure that audit is fit for modern day business and meets the public interest. The report should contribute heavily towards this outcome.

The link to the full report is below:

<https://www.gov.uk/government/publications/the-quality-and-effectiveness-of-audit-independent-review>



# MHCLG – Independent probe into local government audit

In July, the then Communities secretary, James Brokenshire, announced the government is to examine local authority financial reporting and auditing.

At the CIPFA conference he told delegates the independent review will be headed up by Sir Tony Redmond, a former CIPFA president.

The government was “working towards improving its approach to local government oversight and support”, Brokenshire promised.

“A robust local audit system is absolutely pivotal to work on oversight, not just because it reinforces confidence in financial reporting but because it reinforces service delivery and, ultimately, our faith in local democracy,” he said.

“There are potentially far-reaching consequences when audits aren’t carried out properly and fail to detect significant problems.”

The review will look at the quality of local authority audits and whether they are highlighting when an organisation is in financial trouble early enough.

It will also look at whether the public has lost faith in auditors and whether the current audit arrangements for councils are still “fit for purpose”.

On the appointment of Redmond, CIPFA chief executive Rob Whiteman said: “Tony Redmond is uniquely placed to lead this vital review, which will be critical for determining future regulatory requirements.

“Local audit is crucial in providing assurance and accountability to the public, while helping to prevent financial and governance failure.”

He added: “This work will allow us to identify what is needed to make local audit as robust as possible, and how the audit function can meet the assurance needs, both now and in the future, of the sector as a whole.”



In the question and answer session following his speech, Brokenshire said he was not looking to bring back the Audit Commission, which appointed auditors to local bodies and was abolished in 2015. MHCLG note that auditing of local authorities was then taken over by the private, voluntary and not-for-profit sectors.

He explained he was “open minded”, but believed the Audit Commission was “of its time”.

Local authorities in England are responsible for 22% of total UK public sector expenditure so their accounts “must be of the highest level of transparency and quality”, the Ministry of Housing, Local Government and Communities said. The review will also look at how local authorities publish their annual accounts and if the financial reporting system is robust enough.

Redmond, who has also been a local authority treasurer and chief executive, was expected to report to the communities secretary with his initial recommendations in December 2019, with a final report published in March 2020. Redmond has also worked as a local government boundary commissioner and held the post of local government ombudsman.

The terms of reference focus on whether there is an “expectation gap” between the purpose of external audit and what it is currently delivering. It will examine the performance of local authority audit, judged according to the criteria of economy, effectiveness and efficiency.

Other key areas of the review include whether:

- 1) audit recommendations are effective in helping councils to improve financial management
- 2) auditors are using their reporting powers appropriately
- 3) councils are responding to auditors appropriately
- 4) Financial savings from local audit reforms have been realised
- 5) There has been an increase in audit providers
- 6) Auditors are properly responding to questions or objections by local taxpayers
- 7) Council accounts report financial performance in a way that is transparent and open to local press scrutiny

# Redmond Review – Review of local authority financial reporting and external audit

The independent review led by Sir Tony Redmond sought views on the quality of local authority financial reporting and external audit. The consultation ran from 17 September 2019 to 20 December 2019.

Grant Thornton provided a comprehensive submission. We believe that local authority financial reporting and audit is at a crossroads. Recent years have seen major changes. More complex accounting, earlier financial close and lower fees have placed pressure on authorities and auditors alike. The target sign-off date for audited financial statements of 31 July has created a significant peak of workload for auditors. It has made it impossible to maintain specialist teams throughout the year. It has also impacted on individual auditors' well-being, making certain roles difficult to recruit to, especially in remote parts of the country.

Meanwhile, the focus on Value for Money, in its true sense, and on protecting the interests of citizens as taxpayers and users of services are in danger of falling by the wayside. The use of a black and white 'conclusion' has encouraged a mechanistic and tick box approach, with auditors more focused on avoiding criticism from the regulator than on producing Value for Money reports that are of value to local people.

In this environment, persuading talented people to remain in the local audit market is difficult. Many of our promising newly qualified staff and Audit Managers have left the firm to pursue careers elsewhere, often outside the public sector, and almost never to pursue public audit at other firms. Grant Thornton is now the only firm which supports qualification through CIPFA. It is no longer clear where the next generation of local auditors will come from.

We believe that now is the time to reframe both local authority financial reporting and local audit. Specifically, we believe that there is a need for:

- More clearly established system leadership for local audit;
- Simplified local authority financial reporting, particularly in the areas of capital accounting and pensions;

- Investing in improving the quality of financial reporting by local bodies;
- A realistic timescale for audit reporting, with opinion sign off by September each year, rather than July;
- An increase in audit fees to appropriate levels that reflect current levels of complexity and regulatory focus;
- A more tailored and proportional approach to local audit regulation, implementing the Kingman recommendations in full;
- Ensuring that Value for Money audit work has a more impactful scope, as part of the current NAO Code of Audit Practice refresh;
- Introducing urgent reforms which help ensure future audit arrangements are sustainable and attractive to future generations of local audit professionals.

We note that Sir Donald Brydon, in his review published this week, has recommended that *“the Audit, Reporting and Governance Authority (ARGA) (the proposed new regulatory body) should facilitate the establishment of a corporate auditing profession based on a core set of principles. (This should include but not be limited to) the statutory audit of financial statements.”* Recognising the unique nature of public audit, and the special importance of stewardship of public money, we also recommend that a similar profession be established for local audit. This should be overseen by a new public sector regulator.

As the reviews by John Kingman, Sir Donald Brydon, and the CMA have made clear, the market, politicians and the media believe that, in the corporate world, both the transparency of financial reporting and audit quality needs to be improved. Audit fees have fallen too low, and auditors are not perceived to be addressing the key things which matter to stakeholders, including a greater focus on future financial stability. The local audit sector shares many of the challenges facing company audit. All of us in this sector need to be seen to be stepping up to the challenge. This Review presents a unique opportunity to change course, and to help secure the future of local audit, along with meaningful financial reporting.

# National Audit Office – Code of Audit Practice

The Code of Audit Practice sets out what local auditors of relevant local public bodies are required to do to fulfil their statutory responsibilities under the Local Audit and Accountability Act 2014. 'Relevant authorities' are set out in Schedule 2 of the Act and include local councils, fire authorities, police and NHS bodies.

Local auditors must comply with the Code of Audit Practice.

## Consultation – New Code of Audit Practice from 2020

Schedule 6 of the Act requires that the Code be reviewed, and revisions considered at least every five years. The current Code came into force on 1 April 2015, and the maximum five-year lifespan of the Code means it now needs to be reviewed and a new Code laid in Parliament in time for it to come in to force no later than 1 April 2020.

In order to determine what changes might be appropriate, the NAO consulted on potential changes to the Code in two stages:

**Stage 1** involved engagement with key stakeholders and public consultation on the issues that are considered to be relevant to the development of the Code.

The NAO received a total of 41 responses to the consultation which included positive feedback on the two-stage approach to developing the Code that has been adopted. The NAO stated that they considered carefully the views of respondents in respect of the points drawn out from the [Issues paper](#) and this informed the development of the draft Code. A summary of the responses received to the questions set out in the [Issues paper](#) can be found below.

[Local audit in England Code of Audit Practice – Consultation Response \(pdf – 256KB\)](#)

**Stage 2** of the consultation involved consulting on the draft text of the new Code. To support stage 2, the NAO published a consultation document, which highlighted the key changes to each chapter of the draft Code. The most significant changes are in relation to the Value for Money arrangements. The draft Code includes three specific criteria that auditors must consider:

- Financial sustainability: how the body plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the body ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the body uses information about its costs and performance to improve the way it manages and delivers its services.

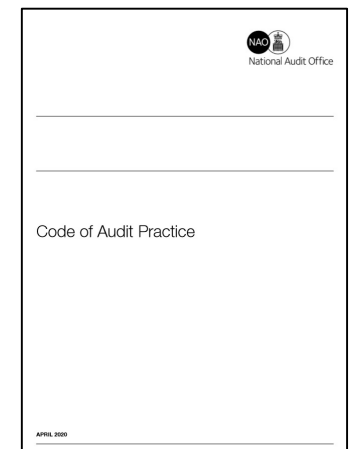
The auditor will be required to provide a commentary on the arrangements in place to secure value for money. Where significant weaknesses are identified the auditor should make recommendations setting out

- Their judgement on the nature of the weakness identified
- The evidence on which their view is based
- The impact on the local body
- The action the body needs to take to address the weakness

The consultation document and a copy of the new Code can be found on the NAO website. The new Code will apply from audits of local bodies' 2020-21 financial statements onwards.

Link to NAO webpage for the new Code:

[https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code\\_of\\_audit\\_practice\\_2020.pdf](https://www.nao.org.uk/code-audit-practice/wp-content/uploads/sites/29/2020/01/Code_of_audit_practice_2020.pdf)



# CIPFA Financial Resilience Index

The Chartered Institute of Public Finance & Accountancy's (CIPFA) Financial Resilience Index is a comparative tool designed to provide analysis on resilience and risk and support good financial management.

CIPFA note "The index shows a council's position on a range of measures associated with financial risk. The selection of indicators has been informed by the extensive financial resilience work undertaken by CIPFA over the past four years, public consultation and technical stakeholder engagement. The index is made up of a set of indicators. These indicators take publicly available data and compare similar authorities across a range of factors. There is no single overall indicator of financial risk, so the index instead highlights areas where additional scrutiny should take place in order to provide additional assurance. This additional scrutiny should be accompanied by a narrative to place the indicator into context."

At the launch of the index in December, CIPFA commented " the index analyses council finances using a suite of nine measures including level of reserves, rate of depletion of reserves, external debt, Ofsted judgements and auditor value for money assessments."

CIPFA found that against these indicators the majority of councils are not showing signs of stress. But around 10% show "some signs of potential risk to their financial stability.



The Financial Resilience tool is available on the CIPFA website below:

<https://www.cipfa.org/services/financial-resilience-index/>



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# Informing the audit risk assessment for Telford and Wrekin Council 2019/20



The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.



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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Telford and Wrekin Council's external auditors and Telford and Wrekin Council's Audit Committee, as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Audit Committee under auditing standards.

## Background

Under International Standards on Auditing (UK) (ISA(UK)) auditors have specific responsibilities to communicate with the Audit Committee. ISA(UK) emphasise the importance of two-way communication between the auditor and the Audit Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Audit Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Audit Committee and supports the Audit Committee in fulfilling its responsibilities in relation to the financial reporting process.

## Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Council's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

This report includes a series of questions on each of these areas and the response we have received from Telford and Wrekin Council's management. The Audit Committee should consider whether these responses are consistent with its understanding and whether there are any further comments it wishes to make.

## General Enquiries of Management

| Question  | Management response   |
|---|---|
| <p>1. What do you regard as the key events or issues that will have a significant impact on the financial statements for 2019/20?</p>   | <p>Areas that we will focus on which could have a significant impact on the financial statements for 2019/20:</p> <p>(i) Valuation of fixed assets – following the 18/19 audit, work is in progress to move away from the 5 yearly valuation cycle with a significantly higher proportion of assets due to be valued in 19/20. Indexation will be used to evidence that the risk of mis-statement is not material.</p> <p>(ii) Any unforeseen legal rulings which have a financial impact on local authorities, such as the McCloud judgement which had a significant impact on the Pension Fund valuation in 2018/19</p> <p>(iii) Adults &amp; Childrens Social Care - the overall outturn position will be impacted by any additional pressures in Adults and Children’s Services in the remainder of the financial year.</p> |
| <p>2. Have you considered the appropriateness of the accounting policies adopted by Telford and Wrekin Council?<br/>Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p> | <p>Yes, we consider the accounting policies appropriate, with the exception of PPE where a change is planned as described below.</p> <p>Property, Plant &amp; Equipment – valuation interval to be changed – currently 5 yearly intervals. The intention is to value around 70% (of NBV) in 2019/20 to minimise the risk of material mis-statement.</p>   |
| <p>3. Is there any use of financial instruments, including derivatives?</p>   | <p>Financial instruments are carried in the balance sheet – Note 21 to the 18/19 Statement of Accounts lists the various categories, which are expected to continue to apply in 2019/20</p>   |
| <p>4. Is Are you aware of any significant transaction outside the normal course of business?</p>  | <p>No</p>   |

# General Enquiries of Management

| Question   | Management response   |
|--|---|
| 5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?  | No  |
| 6. Are you aware of any guarantee contracts?   | No  |
| 7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?  | Nothing material.   |
| 8. Have any of the Council's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements? | Not that we are aware of.   |
| 9. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?   | Financial advice was obtained during 2019/20 from:<br>LG Futures Ltd – funding and technical advice<br>PWC – taxation advice in relation to Nuplace<br>Arlingclose Ltd – treasury management advisors |

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# General Enquiries of Management

Commercial in confidence

| Question  | Management response  |
|---|--|
| <p>10. Other than in house solicitors, can you provide details of those solicitors utilised by Telford and Wrekin Council during the year. Please indicate where they are working on open litigation or contingencies from prior years?</p> | <p>The Council instructs a number of external solicitors on a wide range of different matters. Most of these are for discrete pieces of work which do not involve litigation against or for the Council. See below for more information on these:-</p> <p>NP Law – Compulsory Purchase Order case. This is an ongoing case on which NP Law have been instructed since 2018.</p> <p>Browne Jacobson – property, commercial and contract matters. Ongoing basis.</p> <p>Ward Hadaway – school academies work.</p> <p>Sharpe Pritchard – ongoing contracts work in relation to key high-value contracts.</p> <p>Freeths – property and commercial work – ongoing.</p> <p>Weightmans – childcare out of hours service and Adult Social Care.</p> <p>Gowling WLG – single status – ongoing.</p> <p>Anthony Collins – commercial work – ongoing</p> <p>Womble Bond Dickinson – commercial work ongoing.</p> <p><b>NB.</b> Despite what has been said at the outset, Weightmans are our out of hours childcare advice providers and, if circumstances dictate, will bring emergency proceedings in Court to protect a child pending the return of in-house solicitors on the next working day. This may include litigation on the part of the Council but, typically, in relation to interim proceedings such as an EPO.</p> <p>Those matters where solicitors have been instructed in litigation are as follows:-</p> <p>Veale Wasborough Vizards – one instruction in relation to negotiated departure of officer.</p> <p>BLM – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims.</p> <p>Weightmans – instructed by our insurers in relation to claims made against the authority and for which insurance cover is provided. Primarily personal injury claims.</p> |

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# Fraud

## Matters in relation to fraud

ISA (UK) 240 covers auditors responsibilities relating to fraud in an audit of financial statements.

The primary responsibility to prevent and detect fraud rests with both the Audit Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Audit Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Telford and Wrekin Council's external auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls.

As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including:

- assessment that the financial statements could be materially misstated due to fraud,
- process for identifying and responding to risks of fraud, including any identified specific risks,
- communication with the Audit Risk & Assurance Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Audit Committee oversees the above processes. We are also required to make inquiries of both management and the Audit Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from Telford and Wrekin Council's management.

# Fraud risk assessment

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| Question  | Management response  |
|---|--|
| <p>1. Have Telford and Wrekin Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do the Council's risk management processes link to financial reporting?</p> | <p>The risk of material misstatement in the financial statements due to fraud is low because:</p> <ul style="list-style-type: none"> <li>•Arrangements are in place to prevent and detect fraud which includes the work undertaken by Internal Audit, The Investigation Team, Council Tax and Benefits Teams.</li> <li>•The Internal Audit plan covers the key systems which feed into the Statement of Accounts and audits are undertaken on a risk-based approach.</li> <li>•The Chief Executive, Executive Directors, Directors and Service Delivery Mangers complete and sign assurance statements on an annual basis confirming that the governance framework has been operating within their areas of responsibility.</li> <li>•There is an Anti-Fraud and Corruption Policy in place which is monitored and reviewed. Periodic reports are provided to Senior Management Team and cascaded to teams.</li> </ul> |
| <p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>   | <p>The Investigation Team have a fraud risk register highlighting services most at risk. The Council has identified that Social Care is a key are most at risk to fraud. However, in terms of volume, risks are more prevalent in Revenues and Benefits.</p>   |
| <p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within Telford and Wrekin Council as a whole or within specific departments since 1 April 2019?<br/>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>                    | <p>In terms of internal fraud against the council, two matters are currently under investigation. These cases are for relatively low financial amounts, e.g. less than £10k.</p> <p>External to the Council, there have been a number of allegations received regarding fraud by members of the public. These are largely related to Revenues matters. The Investigation Team investigates these matters.</p> <p>Matters investigated are discussed with relevant management and messages/publicity are provided both internally and externally.</p>   |



## Fraud risk assessment

| Question  | Management response   |
|---|---|
| <p>4. Have you identified any specific fraud risks?</p> <p>Do you have any concerns there are areas that are at risk of fraud?</p> <p>Are there particular locations within Telford and Wrekin Council where fraud is more likely to occur?</p> | <p>See question 2 above. Fraud risks have been identified relating to Social Care and in particular Direct Payments. The Investigation Team continue to work with this service in the prevention, detection and investigation of fraud in this area.</p> <p>There are no locations within Telford &amp; Wrekin where fraud is more likely to occur.</p>   |
| <p>5. What processes do Telford and Wrekin Council have in place to identify and respond to risks of fraud?</p>   | <p>Processes in place to identify and respond to fraud:</p> <ul style="list-style-type: none"> <li>•Internal Audit work plan.</li> <li>•Internal Audit along with the Investigations Team undertake proactive fraud work based on a fraud risk register.</li> <li>•Fraud and corruption activities are undertaken by Trading Standards.</li> <li>•Anti-Fraud &amp; Corruption Policy.</li> <li>•Whistleblowing and fraud reporting procedures are in place which allow staff and members of the public to report concerns relating to fraud and error to the Investigation Team via a variety channels.</li> </ul> <p>Frauds highlighted either from the National Anti Fraud Network (NAFN) or the West Midlands Fraud Group are communicated to appropriate stakeholders as soon as they are received.</p> |

## Fraud risk assessment

| Question   | Management response  |
|--|--|
| <p>6. How would you assess the overall control environment for Telford and Wrekin Council, including:<br/>the process for reviewing the effectiveness the system of internal control;<br/>internal controls, including segregation of duties;<br/>exist and work effectively?</p> <p>If not where are the risk areas and what mitigating actions have been taken?</p> <p>What other controls are in place to help prevent, deter or detect fraud?</p> <p>Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?</p> | <p>Assurance is provided to the Audit Committee through:</p> <ul style="list-style-type: none"> <li>•Quarterly internal audit reports are presented to the Committee providing an update on the work of internal audit with particular focus on Amber and Red reports.</li> <li>•Executive Directors/Directors/Service Delivery Managers attend, on request, to provide additional information where requested.</li> <li>•External Audit provide an Annual Audit Letter to the Committee highlighting any areas of concern and recommendations following the annual audit of accounts.</li> <li>•An Anti-Fraud Report is presented at the end of each financial year.</li> <li>•The Strategic Risk Register is presented to Audit Committee.</li> <li>•Finance &amp; Legal comments in all reports; business case approval for major investments .</li> </ul> <p>Management is not aware of any areas where there is potential for override of control or inappropriate influence over the financial reporting process.</p> <p>Reconciliations are undertaken regularly and there is appropriate separation of duties in place with review/challenge by Senior Finance Officers.</p> |
| <p>7. Are there any areas where there is potential for misreporting?</p>   | <p>No particular areas have been identified where there is a potential for misreporting.</p>   |

## Fraud risk assessment

| Question   | Management response  |
|--|--|
| <p>8. How do Telford and Wrekin Council communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?<br/>Have any significant issues been reported?</p> | <p>Training –Fraud module included for all new starters.<br/>Core behaviours for all employees.<br/>Induction of new employees.<br/>Whistleblowing Policy.<br/>Publicity on fraud matters that have been taken to court.<br/>Anti-Fraud &amp; Corruption Policy.</p> <p>The Whistleblowing Policy encourages staff to report any concerns regarding fraud and irregularity through a variety of channels.</p> <p>The Council's Core behaviours encourage staff to report any fraudulent/otherwise unacceptable behaviour.</p> <p>The authority receives a constant flow of allegations, most notably relating to Revenues related fraud by the general public. Referrals have also been received relating to Adult Social Care and a number of internal matters.</p> |

## Fraud risk assessment

| Question  | Management response  |
|---|--|
| <p>9. From a fraud and corruption perspective, what are considered to be high-risk posts?</p> <p>How are the risks relating to these posts identified, assessed and managed?</p>  | <p>Council Tax Support, Single Person Discount and Council Tax liability are areas where fraud is common. The Investigation Team undertake considerable work in this area. There are strong reporting channels where staff and members of the public report their concerns. The Revenues Service undertake an annual Single Person Discount review exercise by using credit data obtained from a third party, and they also take part in the National Fraud Initiative's single person discount review.</p> <p>Direct Payment and Social Care is a growing area of fraud. Significant work has been undertaken by the Investigation Team to increase awareness of fraud in this area and encourage staff to report their concerns.</p> |
| <p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p> | <p>We are not aware of any related party relationships or transactions that could give rise to fraud. Related party transactions have to be disclosed by elected Members and senior officers.</p> <p>All members and officers have to disclose relevant interests in the register of interests.</p>  |

## Fraud risk assessment

| Question  | Management response   |
|---|---|
| <p>11. What arrangements are in place to report fraud issues and risks to the Audit Committee?<br/>How does the Audit Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?<br/>What has been the outcome of these arrangements so far this year?</p> | <p>The Audit Committee's terms of reference include a number of measures concerning internal control and fraud matters. In the main these include:</p> <ul style="list-style-type: none"> <li>•Receiving regular updates on the work of internal audit which would include fraud risks</li> <li>•Receiving an annual report on anti-fraud and corruption</li> <li>•Approving the Councils Anti-Fraud &amp; Corruption Policy and the Whistleblowing Policy</li> </ul> |
| <p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>   | <p>No specific whistle blower reports have been made since April 2019.</p>  |
| <p>13. Have any reports been made under the Bribery Act?</p>  | <p>No specific Bribery Act referrals have been made since April 2019.</p>   |

## Law and regulations

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Audit Committee, is responsible for ensuring that Telford and Wrekin Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements.

As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements.

Risk assessment questions have been set out below together with responses from management.

## Impact of laws and regulations

| Question  | Management response   |
|---|---|
| <p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p> <p>What arrangements does Telford and Wrekin Council have in place to prevent and detect non-compliance with laws and regulations?</p> <p>Are you aware of any changes to the Council's regulatory environment that may have a significant impact on the Council's financial statements?</p> | <p>The Council has a robust Governance Framework in place.</p> <p>The Council has a Monitoring Officer and Section 151 Officer who provide assurance both supported by adequately staffed and trained teams of professional officers.</p> <p>Council/Cabinet reports include a Legal Comment which is completed and signed off by a senior officer in Legal Services.</p> <p>Internal Audit Work.</p> |
| <p>2. How is the Audit Committee provided with assurance that all relevant laws and regulations have been complied with?</p>  | <p>As above. The Monitoring Officer ensures lawfulness and fairness of decision making. The Monitoring Officer will report to Full Council if he considers that any proposal, decision or omission would give rise to unlawfulness. Other Statutory Officers of the authority also provide assurance in relation to their specific function.</p>  |
| <p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>  | <p>No –the position will be reviewed again at the 31 March each year as part of the annual accounts process.</p>  |

## Impact of laws and regulations

| Question   | Management response   |
|--|---|
| 4. What arrangements does Telford and Wrekin Council have in place to identify, evaluate and account for litigation or claims? | <p>Legal and Insurance work together to identify and evaluate any potential litigation or claims against the Council.</p> <p>Potential liabilities are included in the Statement of Accounts.</p>   |
| 5. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?     | None  |
| 6. Is there any actual or potential litigation or claims that would affect the financial statements?                           | <p>It is considered that anything in excess of £50,000 would be reportable. The Council has a number of claims which are dealt with by its insurers. However, the financial liability associated with these claims is limited to the Council's insurance excess. In the current insurance year, that excess is £50,000 per claim. For claims relating to previous years, that excess is £20,000.</p> <p>In 2018/19, the Council disclosed a claim with a potential value of £1million. The Council made an offer to settle this claim at £20,000 (the equivalent of the Council's insurance excess at that time). No response was received to that offer and the file has been closed although the limitation period for this case has not yet expired and so, potentially, the claim could be resurrected by the Claimant.</p> |



# Going Concern

## Matters in relation to going concern

ISA (UK) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

Going concern considerations have been set out below and management has provided its response.

## Going concern considerations

| Question  | Management response   |
|---|---|
| <p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Telford and Wrekin Council? What was the outcome of that assessment?</p>  | <p>Under the current local government structure and statutory provisions, authorities cannot be created or dissolved without statutory prescription, therefore the going concern basis of accounting will apply. In addition to this, the Council has a robust service and financial planning strategy, adequate reserves and contingencies, access to Public Works Loans Board borrowing, and a strong track record of delivering savings and a balanced budget for over 10 years, which will ensure that it does continue to operate into the foreseeable future.</p> |
| <p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Telford and Wrekin Council's Business Plan and the financial information provided to Telford and Wrekin Council throughout the year?</p> | <p>Yes –financial assumptions in the Statement of Accounts, revenue budget, capital programme, capital and investment strategies, treasury management strategy and Council plan are all consistent.</p>   |

## Going concern considerations

| Question  | Management response   |
|---|---|
| 3. Are the implications of statutory or policy changes appropriately reflected in the Business Plan, financial forecasts and report on going concern?   | Yes   |
| 4. Have there been any significant issues raised with the Audit Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control). | Following a query raised during the 18/19 audit relating to control accounts, the Council has agreed to review debtor and creditor balances during 2019/20. |
| 5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?                                   | No  |

## Going concern considerations

| Question  | Management response   |
|---|---|
| <p>6. Does Telford and Wrekin Council have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of the Council's objectives?<br/>If not, what action is being taken to obtain those skills?</p> | <p>Yes although given staffing reductions to meet savings targets, there are some single points of failure which are addressed through workforce planning processes as far as possible.</p> <p>The recruitment process, including job descriptions and person specifications are designed to ensure the appropriate skills and experience are sought. Restructuring/service transformation have a focus on ensuring skills and experience to deliver services are in place.</p> <p>The Council is active in terms of workforce planning, which aligns with service planning and delivery of service objectives.</p> <p>There is a comprehensive corporate learning programme in place for managers and other employees as well as specific training relevant to specific roles. There is a strong focus on organisational development, including a Leadership programme.</p> <p>The Council will engage external professionals where specific skills are required that are not available in-house, or agency workers will be engaged when necessary to fill essential roles on a short-term basis. A Use of Consultants Business Case has to be approved to ensure appropriate governance in place.</p> |

## Going concern considerations

| Question   | Management response   |
|--|---|
| 7. Does the Council have procedures in place to assess their ability to continue as a going concern?   | <p>There is a robust Service &amp; Financial Planning process and Strategy in place. Regular financial monitoring takes place with regular updates being presented to Senior Management Team and Cabinet; cost improvement plans are in place for areas of significant pressure.</p> <p>Overall spend is within budget and the Council has a long track record of strong financial management being under budget for the past 11 years and will have delivered ongoing savings totalling £123m by the end of 2019/20 in accordance with the budgets approved for each year.</p> |
| 8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern? | None known  |
| 8. Is management aware of the existence of events or conditions that may cast doubt on the Council's ability to continue as a going concern? | None known  |

## Going concern considerations

| Question   | Management response  |
|--|--|
| <p>9. Are arrangements in place to report the going concern assessment to the Audit Committee ?</p> <p>How has the Audit Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p> | <p>Yes -through the Statement of Accounts</p> <p>The Audit Committee receives both the draft and final Statement of Accounts and has opportunity to raise queries. Prior to approval of the final SOA officers provide an overview/training session highlighting key matters in the accounts and again providing opportunity for queries.</p> <p>Members have access to all Council reports, including the budget and regular financial management reports which provide assurance on the current and projected financial position of the authority. The Council has a long track record of sound financial management having slightly underspent its budget for more than 10 consecutive years despite having to deliver £123m of ongoing budget savings.</p> |

# Related Parties

## Matters in relation to Related Parties

Telford & Wrekin are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by Telford and Wrekin Council;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over the Council;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Council's perspective but material from a related party viewpoint then the Council must disclose it.

ISA (UK) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

## Relating Parties

| Question  | Management response   |
|---|---|
| 1. What controls does Telford and Wrekin Council have in place to identify, account for and disclose related party transactions and relationships ? | Register of Interests for Members and Officers.<br><br>Completion of annual declaration by Senior Officers and Members as part of Statement of Accounts process.<br><br>Governance Statement. |



# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Telford and Wrekin Council apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Audit Committee to satisfy itself that the arrangements for accounting estimates are adequate.

## Accounting Estimates

| Question  | Management response  |
|---|--|
| 1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A) | No   |
| 2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?  | Yes –see Appendix A below.   |
| 3. How is the Audit Committee provided with assurance that the arrangements for accounting estimates are adequate ?   | The accounting policies and notes included in the Statement of Accounts provide information. External Audit provide assurance. |

## Appendix A Accounting Estimates

| Estimate                               | Method / model used to make the estimate  | Controls used to identify estimates | Whether Management have used an expert  | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year?                       |
|--|---|-------------------------------------|---|---|---|
| Property, plant & equipment valuations | <p>Full valuation involving an inspection is carried out every 3 years on a rolling programme for operational properties, where at least 70% of the value of all properties will be completed on an annual basis. An impairment and valuation review is carried out as a desk value for properties not valued in year.</p> <p>Valuations of vehicles, plant, furniture and equipment are based on current prices where there is an active second-hand market or latest list price adjusted for asset condition. Historical cost is used for infrastructure assets and community assets.</p> <p>All assets are valued at 01.04.2019.</p> | Internal Valuer used                | Use Estates & Investments Service (RICS Registered Valuers) for the property element of PPE valuations. | Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result. | No (although revaluation cycle for PPE has reduced from 5 years to 3 years) |

## Appendix A Accounting Estimates (Continued)

| Estimate                                | Method / model used to make the estimate   | Controls used to identify estimates  | Whether Management have used an expert   | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|---|--|--|--|---|---|
| Estimated remaining useful lives of PPE | <p>The following useful lives have been used in the calculation of depreciation:</p> <ul style="list-style-type: none"> <li><input type="checkbox"/> Other Land and Buildings –5 to 60 years</li> <li><input type="checkbox"/> Vehicles, Plant, Furniture &amp; Equipment –3 to 25 years</li> <li><input type="checkbox"/> Infrastructure –25 to 40 years</li> </ul> | <p>Specific asset lives applied to buildings. Consistent asset lives applied to each asset category.</p> | <p>Use Estates &amp; Investment Service (RICS Registered valuer) for buildings valuations. Other assets considered by Estates &amp; Investment Service Delivery Manager and Group Accountant Corporate and Health &amp; Well-Being Finance</p> | <p>The length of the life is determined at the point of acquisition or revaluation. Major components are depreciated separately when they meet the componentisation policy.</p> | No  |

## Appendix A Accounting Estimates (Continued)

| Estimate                       | Method / model used to make the estimate  | Controls used to identify estimates                              | Whether Management have used an expert  | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|--------------------------------|---|--|---|---|---|
| Depreciation and Amortisation  | Depreciation is provided for all fixed assets with a finite useful life on a straight-line basis.   | Consistent application of depreciation method across all assets. | No  | The asset is not depreciated until it is available for use and each significant part of PPE is depreciated separately.<br><br>Asset lives are determined at acquisition/revaluation. Depreciation is calculated on a straight line basis. The asset lives are recorded in the asset register. | No  |
| Investment Property valuations | Investment properties are valued annually at Fair Value. An impairment and valuation review is carried out as a desk value for properties not valued in year. All assets are valued at 01.04.2019 | Internal Valuer used   | Use Estates & Investments Service (RICS Registered Valuers) for the property element of Investment Property valuations. | Valuations are based on recommendations by CIPFA and made in line with RICS guidance. Assumptions are set out in the valuer's report including comments on market uncertainty and alternative valuation methods that may return a different result.   | <u>No</u>   |

## Appendix A Accounting Estimates (Continued)

| Estimate    | Method / model used to make the estimate  | Controls used to identify estimates                             | Whether Management have used an expert  | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|-------------|---|---|---|--|---|
| Impairments | <p>Assets are assessed at the year-end for any indication that an asset may be impaired. An impairment and valuation review is carried out as a desk exercise for properties not valued in the year. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.</p> <p>Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. This assessment is made by the internal valuer for land and buildings and by Property Services Manager and capital accountant (and other relevant officers for the asset type) for other assets.</p> | <p>Impairment reviews at year end.<br/>Internal Valuer used</p> | <p>Use Property Services (RICS Registered valuer) for buildings valuations.</p> | <p>Valuations are made in-line with RICS guidance.</p>   | No.   |

## Appendix A Accounting Estimates (Continued)

| Estimate                             | Method / model used to make the estimate  | Controls used to identify estimates   | Whether Management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--------------------------------------|---|---|--|--|---|
| Overhead allocation                  | Central support costs are apportioned to services based on an agreed criteria as detailed in the CEC Allocation spreadsheet.                      | All support service costs centres are allocated according to the agreed CEC Allocation spreadsheet. | No                                     | Apportionment bases are reviewed annually.   | No  |
| Measurement of Financial Instruments | The Council values financial instruments at amortised cost. (The fair value of financial instruments are disclosed in the notes to the accounts). | Take advice from finance professionals  | External Treasury advisors & PWLB      | Take advice from finance professionals and external Treasury advisors.                                       | No  |

## Appendix A Accounting Estimates (Continued)

| Estimate                   | Method / model used to make the estimate  | Controls used to identify estimates                              | Whether Management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|----------------------------|---|--|--|---|---|
| Provisions for liabilities | Provisions are made where an event has taken place that gives the Council a legal or constructive obligation that probably requires settlement by a transfer of economic benefits, but where the timing of the transfer is uncertain. Provisions are charged as an expense to the appropriate service line in the CI&ES in the year that the Council becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties. | Charged in the year the Council becomes aware of the obligation. | No.                                    | Estimated settlements are reviewed at the end of each financial year. Where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service. Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received by the Council. | No.   |



## Appendix A Accounting Estimates (Continued)

| Estimate           | Method / model used to make the estimate  | Controls used to identify estimates   | Whether Management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates                            | Has there been a change in accounting method in year? |
|--------------------|---|---|--|---|---|
| Bad Debt Provision | A provision is estimated using a proportion basis of an aged debt listing.  | Revenues provide the aged debt listing and Finance calculate the provision.   | No.                                    | Consistent proportion used across aged debt as per the Code.  | No.   |
| Accruals           | Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received. | Review financial systems and question service managers to identify where goods have been received but not paid for. | No                                     | Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used. | No.   |

## Appendix A Accounting Estimates (Continued)

| Estimate   | Method / model used to make the estimate  | Controls used to identify estimates                       | Whether Management have used an expert                | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates | Has there been a change in accounting method in year? |
|--|---|---|---|--|---|
| Non Adjusting events – events after the balance sheet date | Section 151 Officer makes the assessment. If the event is indicative of conditions that arose after the balance sheet date this is an un-adjusting event. A note to the accounts is included, identifying the nature of the event and where possible estimates of the financial | The Section 151 Officer is notified by relevant managers. | This would be considered on individual circumstances. | This would be considered on individual circumstance.   | No.   |

## Appendix A Accounting Estimates (Continued)

| Estimate          | Method / model used to make the estimate  | Controls used to identify estimates  | Whether Management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|-------------------|---|--|--|---|---|
| Pension Liability | The Council is an admitted body to the Shropshire County Local Government Pension Scheme. The administering authority (Shropshire Council) engage the Actuary who provides the estimate of the pension liability. | Payroll data is provided to the Actuary. Management reconcile this estimate of contributions to the actuals paid out in the year. Additional information will be submitted to the Actuary should the need arise e.g. McCloud judgements etc. | Consulting actuary                     | As disclosed in the actuary's report. Complex judgements including the discount rate used, rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. | No.   |

## Appendix A Accounting Estimates (Continued)

| Estimate                    | Method / model used to make the estimate   | Controls used to identify estimates   | Whether Management have used an expert | Underlying assumptions:<br>- Assessment of degree of uncertainty<br>- Consideration of alternative estimates  | Has there been a change in accounting method in year? |
|-----------------------------|--|---|--|---|---|
| PFI Finance Lease Liability | The operator's financial model is used as the basis for calculating the liability. | The operator's financial model is used as the basis for calculating entries and this is reviewed by Finance on an annual basis. | No.                                    | The construction elements of the annual unitary charge is accounted for as a finance lease. Minimum lease payments are made under these leases and assets recognised under these leases are accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life. | No.   |



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## TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE - 14 July 2020

### JOINT REPORT ON THE INTERNAL AUDIT ANNUAL REPORT 2019/2020 & THE AUDIT COMMITTEE ANNUAL REPORT 2019/2020 & THE 2020/21 ANNUAL AUDIT PLAN

### JOINT REPORT OF THE AUDIT & GOVERNANCE TEAM LEADER AND THE PRINCIPAL AUDITOR

#### 1 PURPOSE

- 1.1 To present the 2019/2020 Internal Audit Annual Report and the 2019/2020 operations of the Audit Committee.

#### 2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Internal Audit Annual Report for 2019/2020
- 2.2 That members of the Audit Committee note the operations of the Audit Committee for 2019/2020
- 2.3 That members of the Audit Committee approve the Internal Audit Plan 2020/21 attached as Appendix A

#### 3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:

1. *“The approval (but not direction) of and monitoring of progress against, the Internal Audit Charter and Plan”.*
9. *Consider the effectiveness of the Council’s governance processes and their compliance with legislation and best practice...”*

This report presents information to meet the requirements of these sections of the terms of reference and to continue to demonstrate good governance and support the Annual Governance Statement (AGS).

The Public Sector Internal Audit Standards are deemed as proper practice under the Accounts and Audit Regulations 2015 for Local Government in England. The standards state:

#### **2450 Overall Opinions**

When an overall opinion is issued, it must take into account the expectations of senior management, the board and other stakeholders and must be supported by sufficient, reliable, relevant and useful information.

#### **Public sector requirement**

The chief audit executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement.

The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

The annual report must incorporate:

- the opinion;
- a summary of the work that supports the opinion; and
- a statement on conformance with the Public Sector Internal Audit Standards and the results of the quality assurance and improvement programme.

This report meets these requirements.

3.2 The Audit Committee is part of the Council's governance and assurance arrangements. The key benefits of the Audit Committee are:

- ✓ Raising awareness on the need for and benefits arising from good governance (including risk management) and internal control including the implementation of both internal and external audit recommendations.
- ✓ Demonstrating the objectivity and fairness of financial and other reporting.
- ✓ Reinforcing the importance and independence of internal and external audit.
- ✓ Providing additional assurance through a process of independent and objective review by a cross party group of elected Members who can, and do, challenge Cabinet Members and Senior Officers.

As the key assurance Committee of the Council it is best practice that an Annual Report is presented to Full Council on the operations of the Committee during 2019-20. The structure of the report is based on the terms of reference and includes a summary of the business conducted by the Committee during this period (attached as Appendix 2).

## **4 PREVIOUS MINUTES**

Audit Committee – 30 May 2019, 29 May 2018, 27 June 2017

## **5 2019/20 INTERNAL AUDIT ANNUAL REPORT**

### **5.1 Assurance and Opinion**

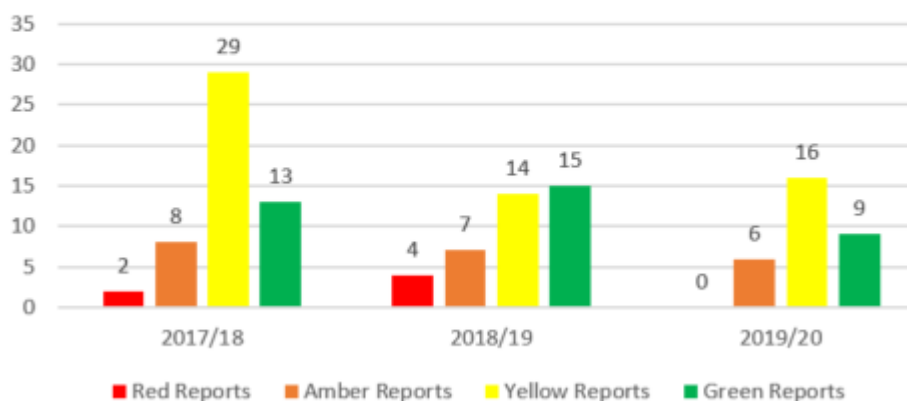
5.1.1 The Council's section 151 officer's statutory obligation under the Accounts and Audit Regulations 2015 to review the effectiveness of the system of internal control is informed by the work of Internal Audit. The assurance derived from this work forms part of the Council's assurance framework.

5.1.2 The system of internal control helps the Council to manage and control the risks which could affect the achievement of its priorities and objectives rather than eliminate them completely. Internal Audit and the other assurance processes therefore provide reasonable and not absolute assurance of the adequacy and effectiveness of the Council's framework of governance, risk management and internal control which is included within the Annual Governance Statement.



- 5.1.3 The planned Internal Audit resources for 2019/2020 was 875 days which included 53 days specialist ICT audit provision provided by the Staffordshire framework contract. The team achieved 70% of the planned work, see 5.1.8, with some items being rescheduled into the 2020/21 plan. In 19/20 there have also been a number of unplanned audit assignments. Based on the work undertaken during the year (areas attached as Appendix 1) and the implementation by management of the agreed recommendations, Internal Audit's annual opinion provides reasonable assurance in respect to the adequacy and effectiveness of the Council's framework of governance, risk management and internal control within the areas of the Council reviewed during the year.
- 5.1.4 As in previous years Senior Management have provided information or updates to the Audit Committee where requested to provide explanations as to why progress on the implementation of recommendations was not as agreed.
- 5.1.5 As in previous years this Annual Report includes information in respect to the number of reports issued and their grading. This information is shown below for 2019/20 with comparisons with 2018/19 and 2017/18 shown in brackets.

### Number of Reports Issued by Financial Year and Grading

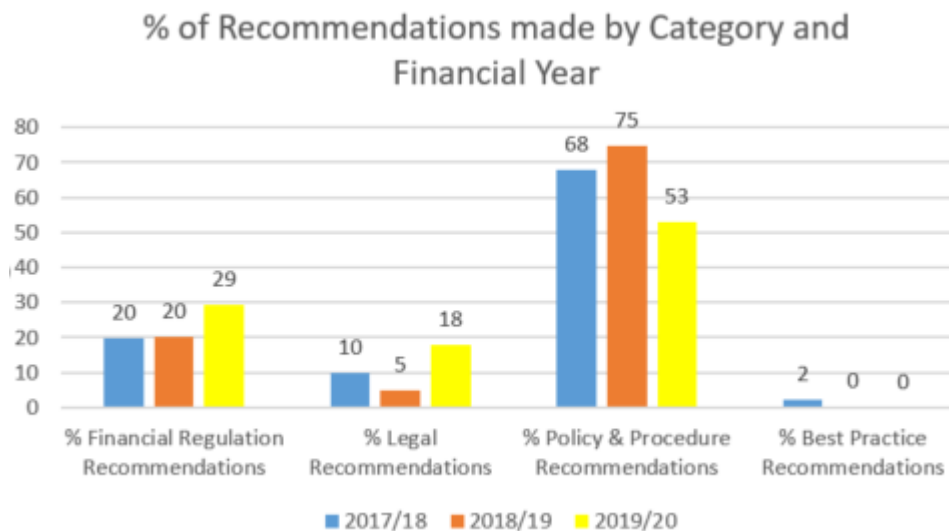


(Grading's - Green = good; Yellow = reasonable; Amber = limited; Red = poor)

31 audit reports were issued during 2019/20, 9 less than 2018/19 and 21 less than 2017/18, See 5.1.8 for an explanation as to the reason for this.

The above graph also shows that the number of green, amber & red reports have decreased from 18/19 but yellow reports have increased.

5.1.6 Further analysis shows the types and percentage of recommendations made in audit reports, and this is detailed in the graph below:



In 2019/20 47% of the recommendations were Legal/Financial Regulation and this is an increase from 25% during 2018/19 and 30% in 2017/18. 53% of the recommendations were policy and procedure compared to 75% in 2018/19 and 68% in 2017/18. This demonstrates a switch between Policy and Procedure recommendations to the more serious Legal/Financial recommendations.

5.1.7 Internal Audit have moved away from best practice recommendations and are now showing these as management advisory points, rather than recommendations. This is the reason there are no best practice figures shown for 19/20 and only 1 in 2018/19.

5.1.8 There are a number of reasons why less audit reports were produced in 2019/20, these include:

- The scope of the individual audits reviewed during each audit year are more focused and complex to address the Council’s changing risks and priorities.
- Increased number of days allocated to individual audits therefore reducing the actual number of audit reports issued.
- Internal Audit undertook a very detailed review of the new Social Care finance system called Controc. As this was a new system that processed large value payments it was felt that management assurance was of particular importance. Therefore a significant number of audit days were spent reviewing the system. An update on the outcome of this audit is expected to be reported to Audit Committee in October.
- No audit work has been carried out during March 2020 due to the Covid-19 pandemic as resources throughout the Authority were diverted to help in other areas.

## 5.2 Public Sector Internal Audit Standards (PSIAS) and External Assessment

- 5.2.1 The Public Sector Internal Audit Standards (defined proper practice under the Accounts and Audit Regulations 2015) were effective from 1<sup>st</sup> April 2013 and in January 2017 there was an external assessment undertaken against the standards. This is a requirement that must occur every 5 years.
- 5.2.2 The Quality Assurance & Improvement Programme (QA&IP) was followed during the year and any actions have been fed back to the team, individuals or been used to update the teams processes.
- 5.2.3 Improvements to audit processes and procedures are continually being reviewed and updated to ensure compliance with the standards.

## 5.3 Performance reviewed by External Audit

- 5.3.1 Grant Thornton (UK) LLP were appointed as External Auditor for the Council from 2018/19 and continue with their own external reviews.

## 5.4 Improvement Activity

- 5.4.1 During the year to improve the team's efficiency, effectiveness and productivity we have held team meetings and development sessions. We have looked to make changes to improve our adherence to the Standards and we have investigated and implemented new/alternative ways of service delivery. We share best practice with other local authorities and regularly attend local network groups.
- 5.4.2 The Audit & Governance Team Leader and Principal Auditor regularly attend the Local Authority Chief Auditors Network (LACAN). Other members of the team also attend regional Fraud, Contract and Unitary/Met Authority groups (when relevant) which assist in identifying best practice and different approaches to audit work and information exchange.

## 5.5 Customer Feedback

- 5.5.1 Internal Audit receives customer feedback in several ways:-

- a) Informal feedback from auditees during the audit
- b) Seeking feedback from auditees at draft report discussion meetings
- c) Completion of a post audit questionnaire

- 5.5.2 The analysis of post audit questionnaires average feedback is shown in the table below for 2017/18 & 2018/19

| Question                | 2017/18<br>From top<br>score of 5 | 2018/19<br>From top<br>score of 5 | Difference<br>from 17/18<br>to 18/19 |
|-------------------------|-----------------------------------|-----------------------------------|--------------------------------------|
| Pre- Audit Arrangements | 4.7                               | 5                                 | +0.3                                 |
| Audit Visit             | 4.9                               | 5                                 | +0.1                                 |

|                                   |      |      |           |
|-----------------------------------|------|------|-----------|
|                                   |      |      |           |
| Communication                     | 4.6  | 4.8  | +0.2      |
| Report                            | 4.6  | 4.9  | +0.3      |
| Is audit a positive support – Yes | 100% | 100% | No change |

From 2019/20 Customer Surveys have been issued electronically through Microsoft Forms and the results are collated automatically. For this reason we have changed the way we are reporting and believe it is easier to read. Future years reporting will show comparisons with previous years, in graphical format.



The customer feedback form is broken down into different sections and have a number of questions in each section. These sections asks for comments in the following areas: Pre-audit arrangements, audit visit, communication, the reporting process and whether the auditee thinks Audit adds value to their service area.

The above graph demonstrates that the team’s customer performance has remained extremely high within all areas included in the customer feedback form during 2019/2020. 100% of our customers think we are a positive support and add value to their service area.

Our customer feedback has been positive, the maintenance of these scores is a credit to the team and how they have approached their work, we will however aim to improve the ‘Good’ communication to ‘very good’.

## 6 **CONCLUSIONS FOR 2019/20**

- 6.1 Despite limited resources and changes to services during the year and therefore the rescheduling and re- defining of scopes Internal Audit have performed well and made a positive contribution to the governance arrangements within the Council.
- 6.2 The statutory responsibilities of the Council’s Chief Financial Officer (section 151 officer) in respect to internal audit and internal control have been met and Internal Audit has

provided reasonable assurance to the Council on the Council's internal controls, governance and risk management processes for the areas reviewed in 2019/2020

- 6.3 The Internal Audit team have also continued to provide advice and guidance on governance, procedures, controls, information security and risk management.
- 6.4 However, there are numerous major changes occurring both within and outside the Council during 2020/21 and beyond which could affect the team's future activities e.g. :-
- a) The continued pressure on the Council's budget strategy
  - b) Further service restructures and re-engineering across the Council, revised governance arrangements and reduced supervisory levels;
  - c) The continued development of relationships with revised service delivery areas to ensure the team continues to support the authority in achieving its objectives.
  - d) Compliance with any changes to Statutory and Legislative requirements.
  - e) Impact of Covid-19 pandemic

## **7 AUDIT COMMITTEE ANNUAL REPORT**

### **7.1 Internal Audit**

- 7.1.1 The Internal Audit team has continued to provide the Committee with reports on work undertaken as outlined in the Public Sector Internal Audit Standards (PSIAS - effective from April 2013) and Constitution, highlighting any areas requiring attention by Members.
- 7.1.2 The Internal Audit Plan for 2019/2020 was approved by the Committee at the May 2019 meeting and the Internal Audit Charter for 2019/2020 was approved by the Committee at the January 2020 meeting.
- 7.1.3 The Audit Annual Update report was provided to the Committee in May 2019

### **7.2 External Audit**

- 7.2.1 The External Auditors, Grant Thornton have produced/presented their reports to the Committee as required by legislation, accounting standards and the external audit code of practice.

### **7.3 Governance**

- 7.3.1 The Annual Governance Statement 2018/2019 was approved at the May 2019 meeting after consideration of the supporting information. An update on the action plan derived from 2018/2019 plan was presented to the Committee in January 2020
- 7.3.2 The July 2019 meeting reviewed the Council's Strategic Risk Register.
- 7.3.3 The 2018/2019 Information Governance annual report was presented to the Committee in May 2020.
- 7.3.4 An Information Governance update report is provided to the Committee at all meetings, with the May 2019 meeting including an update from the Caldicott Guardian.

### **7.4 Treasury Management**

7.4.1 The Committee received the 2018/2019 outturn and in year updates for 2019/2020 The Treasury Management Strategy 2020/21 was reviewed prior to approval by Cabinet.

## **7.5 Statement of Accounts 2018/2019**

7.5.1 The Statement of Accounts was approved by the Committee following external audit at the July 2019 meeting. As in previous years the approval meeting was preceded by a training session with key Finance staff who explained the statements and the changes that had occurred

## **7.6 Anti-Fraud & Corruption**

7.6.1 The 2018/19 Anti-Fraud & Corruption Annual Report and 2019/20 updated policy was received in May 2019.

## **7.7 General**

7.7.1 The Committee reviewed its Terms of Reference at its first meeting of the municipal year as set out in the Constitution

## **7.8 Conclusions for 2019/20 and the future 2020/21**

7.8.1 The Committee has considered comprehensive agendas in order to provide assurance for Members and the community on the audit, governance (including information governance), risk management, financial statements, treasury management, complaints and anti-fraud and corruption arrangements of the Council. Many challenging questions have been asked by Members who have required Senior Officers to attend and give account for decisions taken and progress in implementing both internal and external audit recommendations.

7.8.2 The Committee recognises that the Council is continuing to experience some significant challenges and that it must continue to seek and provide appropriate assurance during 2019/2020. Most notable are the organisational changes, continued significant reductions in resources and the more commercial approach being adopted by the Council.

## **8 Internal Audit Plan 2020/21**

8.1 Internal Audit has a statutory obligation under legislation to provide assurance to the Council as part of the Council's corporate governance framework and the effective management of risks. It also strives to provide a quality, added value and up to date service for the Council.

8.2 Internal Audit work, in addition to obtaining assurance on key areas, risk management and controls for the Council, aims to challenge where controls are not required, question value for money and make suggestions for adjustments to existing controls to make processes more efficient. This will assist managers and their teams to achieve their objectives, identify further savings and contribute to the achievement of the Council's priorities.

- 8.3 Internal Audit resources are limited. To ensure Internal Audit can provide reasonable assurance to managers, Members and the Council an annual Audit Plan is developed. Professional Internal Audit standards<sup>1</sup> and good practice set out that Internal Audit planning should be directly linked to the Council's objectives and priorities and be directed by the Audit Charter agreed by the Audit Committee in January 2020. The plan is informed and influenced by previous Internal Audit work, areas highlighted during previous audits, areas identified by management teams, External Audit requirements, the strategic and ICT risk registers, external assessments and local, regional and national networking intelligence.
- 8.4 The plan is attached as Appendix A with details of the ICT audit work shown on a separate worksheet, this has been informed by discussion with ICT. The plan has been drawn up based on the internal and external resources available for 2020-21 (see 8.5 below), the factors in paragraph 8.3 above and discussions with the SMT and management. The resultant plan should provide a reasonable level of assurance for 2020/21 but limited to the areas reviewed.
- 8.5 The planned resources for 2020/21 are 878 days which includes 47 days specialist ICT audit work. This is a 12 month plan but due to the Covid 19 pandemic audit work did not start on 1/4/20. The audit plan is dynamic/scaleable as it's based on risk and can change where new risks are identified. Audit therefore intend to review the plan in September (6 months from the start of the financial year) and meet with Managers to discuss the audits required to be completed in order to provide a reasonable level of assurance at the end of 2020/21. Audit Committee members will be updated throughout the year with any changes to the 2020/21 plan.
- 8.6 The plan includes approximate 5% contingency to meet any unexpected work requirements, any changes identified during the year or changes to resources during the year. Due to the nature of the plan and its link to risks, during delivery there will be regular dialogue with the Chief Exec, SMT and Managers to ensure that the appropriate risks and controls are being reviewed by the resources available. Any significant changes will be agreed with the Chief Exec and the appropriate Director and will be reported for information to SMT and this Committee.
- 8.7 The External Auditor undertakes their own planning process and presents their plan to the Audit Committee. Internal Audit and Senior Management liaise with them to ensure that duplication is avoided, that the key risks are reviewed and that the external audit fee is minimised. Similar liaison takes place with Scrutiny to avoid duplication or to ensure work is complementary.

## 9 OTHER CONSIDERATIONS

| AREA                 | COMMENTS  |
|----------------------|---|
| Equal Opportunities  | All members of the Internal Audit and Information Governance Teams have attended equal opportunities/ diversity training. If any such issues arose during any work the appropriate manager would be notified.   |
| Environmental Impact | All members of the Audit and Information Governance Teams are environmentally aware and if any issues were identified they would be notified to the appropriate manager.  |
| Legal Implications   | <p>The Accounts and Audit Regulations 2015 sets out the detailed requirements for local authorities in relation to keeping adequate accounting records and control systems, preparing, approving and publishing a statement of accounts, and making various documents available for public inspection (note The Local Audit (Public Access to Documents) Act 2017 extends public inspection rights to journalists) and objection and questioning by local electors. The authority “must ensure” that it has (and reviews) a “sound system of internal control”: Regulation 3. It “must undertake an effective internal audit”: Regulation 5. There is a new requirement to prepare and publish a “narrative statement”, commenting on the authority’s financial performance and economy, efficiency and effectiveness in the use of resources over the year.</p> <p>The information set out in this report illustrates the work that has been undertaken to meet the appropriate statutory requirements.</p> <p>The Public Sector Internal Audit Standards (PSIAS) is mandatory across the whole of the public sector. The purpose of the PSIAS is defined as follows:</p> <ul style="list-style-type: none"> <li>• define the nature of internal auditing within the UK Public Sector;</li> <li>• set basic principles for carrying out Internal Audit in the UK Public Sector;</li> <li>• establish a framework for providing internal audit services in respect of organisational processes and operations;</li> <li>• facilitate the development of an effective Quality Assurance and Improvement Programme and;</li> <li>• define a mandatory Code of Ethics.</li> </ul> <p>Undertaking the audits as set out in the report, and providing updates and an Annual Report to this Committee contributes towards meeting these requirements.</p> <p>Further reference to legal requirements and the implementation of those legal requirements in accordance with CIPFA guidance are contained within the main body of the report. In the event that an audit reveals an issue which requires a recommendation concerning a legal matter this can also be referred</p> |



|                                 |  |
|---------------------------------|--|
|                                 | to the Council's Legal Services Team for further advice and assistance. AL 3/7/2020  |
| Links with Corporate Priorities | All aspects of the Audit teams work support good governance which underpins the achievement of the Council's objectives and priorities.  |
| Risks and Opportunities         | All aspects of the Audit teams work supports managers and the Council to identify and manage their risks and opportunities.  |
| Financial Implications          | Internal Audit have operated within base budget for 2019/20. Implications, if any, arising from any impact of the pandemic on the service will be reflected in the Council's financial monitoring reports during 2020/21.<br><br>There are no direct financial implications anticipated from adopting the recommendation of this report. |
| Ward Implications               | The work of the Audit team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.   |

## 10 **BACKGROUND PAPERS**

Annual Audit Plan 2020/21 and Charter  
Public Sector Internal Audit Standards – Applying the IIA International Standards to the UK Public Sector 2013 and External Assessment January 2017  
Accounts and Audit Regulations 2015

Report by  
Tracey Drummond, Principal Auditor, 383105

## Work undertaken during 2019/2020

| <b>AUDIT AREAS</b>                             | <b>DAYS</b> |
|--|-------------|
| Advice & Consultancy including org change      | 20          |
| AGS and certification                          | 9           |
| Benefits (2018-19)                             | 9           |
| Benefits (2019-20)                             | 5           |
| Building Capacity - Voluntary Sector           | 3           |
| Bus Subsidy Grant                              | 2           |
| CPD Trading Service                            | 10          |
| Children in Care Health Assessments            | 19          |
| Controcc                                       | 127         |
| Donnington Wood Junior                         | 8           |
| Fleet Management process                       | 7           |
| Follow ups                                     | 5           |
| General Ledger (2019-20)                       | 1           |
| HR / Payroll (2019-20)                         | 6           |
| Holy Trinity Academy                           | 12          |
| Holy Trinity Follow Up                         | 0           |
| Horsehay Golf Course                           | 12          |
| Ice Rink                                       | 0           |
| Ladygrove Primary school - Follow up           | 2           |
| Life Ready Work Ready                          | 4           |
| Local transport grant                          | 2           |
| Madeley Town Council                           | 7           |
| Muxton Primary                                 | 10          |
| Muxton Primary School - Follow up              | 0           |
| My View System Testing                         | 1           |
| Newport Junior School                          | 1           |
| Newport Pool                                   | 12          |
| Oakengates Town Council                        | 14          |
| PSIAS Assessment                               | 6           |
| Powher Contract review                         | 8           |
| Procurement - Contract review process          | 10          |
| Purchase Ledger (2019-20)                      | 18          |
| Randlay Primary                                | 6           |
| Randlay Primary School - Follow up             | 0           |
| Red & Amber Follow up - Direct Payments        | 5           |
| Red & Amber Follow up - My Options Operational | 2           |
| SEND EHCP                                      | 15          |
| Sales Ledger (2018-19)                         | 5           |
| Sales Ledger (2019-20)                         | 15          |
| School Fund - Apley wood Extended Day Fund     | 6           |
| School Fund - Dothill (All Saints)             | 2           |
| School Fund Audit - Hollinswood Primary        | 1           |
| School Fund Audit - Lawley Primary             | 1           |
| School Fund Audit - Muxton Primary             | 3           |
| School Fund Audit - Randlay Primary            | 1           |

|   |    |
|---|----|
| School Fund Audit - Sir Alexander Fleming | 1  |
| School Fund Audit - St Matthews           | 1  |
| School Fund Audit - Wrekin View           | 0  |
| School Fund Training - Woodlands Primary  | 0  |
| School Funds                              | 4  |
| Schools Buy Back                          | 6  |
| Section 17                                | 14 |
| Single Status                             | 3  |
| Sponsorship of Council Assets             | 15 |
| St Georges Primary School                 | 1  |
| St Peters Bratton                         | 4  |
| Strengthening Families Grant              | 5  |
| Syrian Refugee                            | 7  |
| Telford 50                                | 10 |
| Telford Ice Rink                          | 5  |
| Telford Land Deal                         | 2  |
| The Place                                 | 16 |
| Wrockwardine Wood Junior School           | 6  |
| apT Planning                              | 4  |

| <b>Area</b>                   | <b>Activity</b>   |
|-------------------------------|---|
| <b>Internal Audit</b>         | Internal Audit Annual Report 2018/19<br>Internal update reports of work undertaken throughout the year.<br>Internal Audit Plan 2019/20<br>Internal Audit Charter for 2020/21<br>Update on Public Sector Internal Audit Standards Self-Assessment  |
| <b>External Audit</b>         | External Audit Fee Letter 2019/20<br>External Audit Interim Report 2018/19<br>External Audit Plan 2019/20 & 2020/21<br>Grant Report 2018/19<br>External Audit annual audit letter   |
| <b>Governance</b>             | Annual Governance Statement (AGS) 2018/19<br>Half yearly progress on the 2018/19 AGS Action Plan<br><br>Review of the Strategic Risk Register<br><br>Information Governance Annual Report 2018/19<br>Caldicott Guardian Annual Report 2018/19<br>Information Governance Update Report of work undertaken throughout the year.<br>Information Governance Work programme 2019/20<br><br>Publication of Information on Councillors who Traded with the Council during 2018/19<br><br>Audit Committee Annual Report 2018/19 |
| <b>Treasury Management</b>    | Treasury Management Outturn report 2018/19 & 2019/20 update report<br>Draft 2020/21 Treasury Management Strategy and update 2019/20<br>Verbal presentation from Councils Treasury Advisors  |
| <b>Statement of Accounts</b>  | Draft Statement of Accounts 2018/19<br>Audited Annual Statement of Accounts 2018/19<br>Capital receipts update  |
| <b>Fraud &amp; Corruption</b> | 2018/19 Annual Report on Corporate Anti-Fraud & Corruption Policy and Policy update 2019/20   |
| <b>General</b>                | Audit Committee terms of Reference reviewed<br>Audit Committee Annual Report 2018/19  |

**APPENDIX A - DRAFT INTERNAL AUDIT PLAN 2019/20**

| <b>Audit Area</b>  | <b>Service Area</b>                        | <b>Days</b> | <b>Priority</b> | <b>Risk rating</b> |
|--|--|-------------|-----------------|--------------------|
| General ledger, assets & capital accounting - fixed asset module | Finance & Human Resources                  | 20          | ALL             | <b>H</b>           |
| Treasury Management  | Finance & Human Resources                  | 12          | ALL             | <b>H</b>           |
| Pension  | Finance & Human Resources                  | 15          | ALL             | <b>H</b>           |
| Payroll/HR   | Finance & Human Resources                  | 25          | ALL             | <b>H</b>           |
| Council Tax/NNDR   | Finance & Human Resources                  | 30          | ALL             | <b>H</b>           |
| Liquid Logic Finance Module /(Controc)                           | Finance & Human Resources                  | 35          | 1,2,4,6         | <b>H</b>           |
| Making Tax digital   | Finance & Human Resources                  | 12          | 2               | M                  |
| Local transport grant  | Finance & Human Resources                  | 3           | 5 & 6           | M                  |
| Covid-19   | Finance & Human Resources                  | 25          | All             | <b>H</b>           |
| Transition - leaving care  | Children's Safeguarding and Family Support | 12          | 1,3,4           | <b>M</b>           |
| Special Guardian ship  | Children's Safeguarding and Family Support | 12          | 1,3,4           | <b>M</b>           |
| Direct Payments  | Children's Safeguarding and Family Support | 20          | 1,3,4,6         | <b>H</b>           |
| Setting up home grant  | Children's Safeguarding and Family Support | 12          | 1,3,4,7         | <b>H</b>           |
| Controc  | Children's Safeguarding and Family Support | as above    | 1,2,4,6         | <b>H</b>           |
| Together4children  | Children's Safeguarding and Family Support | 20          | 1,4,6           | <b>L</b>           |
| Safeguarding & The Care Act                                      | Adult social care                          | 20          | 3,4,6           | <b>H</b>           |
| Deputyship   | Adult social care                          | 12          | 3,4,6           | <b>M</b>           |
| Quality assurance framework                                      | Adult social care                          | 10          | 3,4,6           | <b>M</b>           |
| Direct payments  | Adult social care                          | as above    | 3,4,6           | <b>H</b>           |
| Ensure legal Implementation of the Charging Policy               | Adult social care                          | 7           | 3,4,6           | M                  |
| Controc  | Adult social care                          | as above    | 1,2,4,6         | <b>H</b>           |
| Shared lives   | Adult social care                          | 15          | 2,3,4,6         | M                  |
| Staff retention  | Adult social care                          | 8           | 2               | M                  |
| Deferred payments  | Adult social care                          | 15          | 4               | H                  |
| Depreivation of assets   | Adult social care                          | 12          | 4, 6            | M                  |
| Preparing for adulthood  | Adult social care                          | 12          | 1.3.4.6.,7      | M                  |
| Money Laundering   | Policy & Governance                        | 10          | 2               | <b>H</b>           |
| Single status  | Policy & Governance                        | 5           | 2               | <b>L</b>           |
| Controc  | Policy & Governance                        | as above    | 1,2,4,6         | <b>H</b>           |
| CSE Enquiry  | Policy & Governance                        | 12          | 1,4             | <b>H</b>           |
| Risk Management  | Policy & Governance                        | 8           | all             | M                  |
| Troubled Familes Grant   | Policy & Governance                        | 12          | all             | M                  |
| Workforce strategy   | Policy & Governance                        | 25          | all             | M                  |



| <b>Audit</b>      | <b>no of days</b> |
|-------------------|-------------------|
| Agresso           | 8                 |
| Data Privacy      | 8                 |
| Office 365        | 7                 |
| database security | 7                 |
| patch management  | 6                 |
| network security  | 8                 |
| Cyber Security    | 3                 |

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## TELFORD & WREKIN COUNCIL

AUDIT COMMITTEE 14 JULY 2020

INFORMATION GOVERNANCE & CALDICOTT GUARDIAN ANNUAL REPORT 2019/20

REPORT OF THE AUDIT & GOVERNANCE TEAM LEADER (DESIGNATED DATA PROTECTION OFFICER)

### 1 PURPOSE

- 1.1 To present the 2019/20 Information Governance (IG) Annual Report to the members of the Audit Committee.

### 2 RECOMMENDATIONS

- 2.1 That members of the Audit Committee note the Information Governance & Caldicott Guardian Annual Report for 2019/20
- 2.2 That members of the Audit Committee agree the IG Work Programme for 2020/21

### 3 SUMMARY

- 3.1 The terms of reference of the Audit Committee include:
- *The Committee has the responsibility on behalf of the Council for the overseeing of the Council's audit, governance (including risk management) and financial processes*
  - *To be able to call senior officers and appropriate members to account for relevant issues within the remit of the Committee – governance (including information governance)*
  - *Consider the effectiveness of the Council's governance processes including The Council's information security framework*

### 4 PREVIOUS MINUTES

Audit Committee 29<sup>th</sup> May 2018 – Annual Internal Audit, IG and Caldicott Guardian Annual Report 2017/18

Audit Committee 28<sup>th</sup> May 2019 - Annual Internal Audit, IG and Caldicott Guardian Annual Report 2018/19

### 5 2019/20 INFORMATION GOVERNANCE ANNUAL REPORT

- 5.1 There are a number of pieces of legislation and good practice standards that govern the IG arrangements of the Council and these are listed in the background information at the end of this report. The Information Commissioner's Office (ICO) is the regulatory body responsible for ensuring Councils meet legislative requirements relating to information governance.
- 5.2 The Local Authority Data Handling Guidelines recommend that each local authority should appoint a Senior Information Risk Owner (SIRO). The SIRO should be a

representative at senior management level and has responsibility for ensuring that management of information risks are weighed alongside the management of other risks facing the Council such as financial, legal and operational risk. At Telford & Wrekin Council, the nominated SIRO for the period covered by this report was the (then) Assistant Director: Governance, Procurement & Commissioning.

## Information Rights

5.3 Information rights is a collective name for 3 main pieces of legislation in respect to public sector information, these are:

- **Freedom of Information Act 2000** – encompasses any information held by the Council
- **Environmental Information Regulations 2004** – information with an environmental impact
- **Data Protection Act 2018** – looks at personal information relating to individuals

5.4 The IG Team has continued to play a key role in providing assurance that the Council complies with information rights legislation during the year. The IG Team has responsibility for the administration of all information rights requests on behalf of the Council including the application of relevant exemptions in respect to requests received. It also co-ordinates and guides service areas when the Council receives a subject access request (someone requesting their personal information) or a request to access social care records, e.g. a parent asking to view the contents of their child's records.

5.5 The ICO has set a benchmark of 90% for responding to FOI requests within the 20 working day statutory deadline for responding to requests.

5.6 See table below for figures relating to FOI performance for the year 1 April 2019 to end of March 2020 compared with the same period for the previous year:

|  | 18/19 | 19/20 | % Increase / Decrease |
|--|-------|-------|-----------------------|
| Number of FOI requests received                          | 1155  | 1181  | +2%                   |
| Average number of FOI requests received per month        | 96    | 98    | +2%                   |
| % of FOI requests responded to within statutory deadline | 81    | 88    | +9%<br>IMPROVED       |
| Average time taken (days) to respond to each request     | 14    | 10    | +29%<br>IMPROVED      |

As can be seen from the figures in the table above, the Council's performance in responding to FOI requests within statutory deadlines has improved (by 7%) from 2018/19.

In addition to the above, the Council received 57 requests (34 in 18/19) that were processed under the Environmental Information Regulations (EIR) 2004. 89% (79% in 18/19) of these requests were responded to within the 20 day deadline.

5.7 In this period IG have received and responded to 9 appeals from requestors who were not satisfied with the response they received to their FOI request. This compares to 16 appeals in 2018/19.

- 5.8 During this period IG received 1 complaint/referral from the Information Commissioner (ICO) in respect to complaints made to them by FOI/EIR requestors. The complainant did not think that the Council had provided all information it held relevant to their request. The IG Team liaised with the ICO on this. The ICO understood the Council's position, and the matter was resolved amicably between the Council and the requester with the ICO not taking any action.
- 5.9 The Council received 96 Subject Access Requests (SAR's) (85 received in 18/19). The Council responded to 88 SAR's (91%) within either 1 calendar month and/or the extension of a further 2 months for complex requests.

This performance is much improved from the previous year and complies with the ICO good practice benchmark of 90%.

It should be noted that the size and complexity of subject access requests increases year on year. For 88 requests responded to in 2019/20, the IG Team had to read and redact over 25,000 pages of mainly sensitive personal social care information. The largest individual request required 5,583 pages to be read and redacted as appropriate by IG officers. IG continually review its procedures for processing subject access requests and feel that these are streamlined and fit for purpose. However further reviews will take place to ensure processes improve where possible.

### **Data Security Incidents**

- 5.10 It is unrealistic to consider, given the amount of personal data Council services handle on a daily basis, that human errors will not occur which may result in a data breach. IG supports the investigation (with service areas) of all instances of alleged data breaches that are identified and referred to them. A data breach can cover a number of different incidents from a member/employee reporting a lost mobile phone to personal data being communicated to an unauthorised and/or incorrect recipient.

For each data breach identified in 2019/20 a thorough investigation has been undertaken into how the breach occurred, confirmation of any individuals that have been informed in compliance with the Data Protection Act 2018 and lessons learnt identified and implemented to reduce the likelihood of similar data breaches occurring in the future.

The IG Team continues to work with service areas to improve the secure processing of personal data to prevent data security incidents.

- 5.11 The Council self-reported 1 data breach in 2019/20 as it met the criteria under the Data Protection Act 2018 for reporting to the Information Commissioners Office (ICO). The ICO were satisfied that the breach occurred due to human error and were happy that the Council had taken timely and robust action to manage the breach. The ICO stated no further action was required.

### **Information Governance Related Audits & Work Programme**

- 5.12 The 2019/20 IG work programme was agreed at the May 2019 Audit Committee. Progress to date in respect to this programme is shown attached as Appendix 1.
- 5.13 Appendix 2 details the proposed IG work programme for 2020/21 for approval. This programme mainly incorporates key actions required to facilitate the legal requirements of the GDPR.

## **7 2019/20 CALDICOTT GUARDIAN ANNUAL REPORT**

- 7.1 A requirement for the Audit Committee is to consider the Caldicott Guardian's (CG) annual report.
- 7.2 In February 2017 Sarah Dillon was appointed Director: Adult Social Care and has since undertaken the Caldicott Guardian training. A further refresher training was undertaken last year by the Caldicott Guardian and Data Protection Officer.
- 7.3 In terms of CG activity in 2019/20 please see below:

### GDPR

- The General Data Protection Regulations (GDPR) are now well established within our services with all processes reflecting the requirements.
- All staff complete mandatory online annual training which is monitored.
- Each service area continues to have a service IG lead and receives regular updates.

### Electronic Adult Social Care case management and financial management system

- The new Adult Social Care database and financial management tool LAS and Controc is now well established with regular audits being undertaken in line with the Adult Social Care Quality Assurance Framework.
- We continue to monitor and implement improvements to the system to ensure robust financial management processes are in place and adhered to.
- An Internal Audit of the financial management aspect of the system has been completed and a draft report issued which is currently being considered.
- The Data Protection Officer is consulted around any changes specifically advising on the GDPR requirements. Impact Assessment was completed.

### Adult Social Care data breaches

- The Caldicott Guardian is informed regarding any data breaches and monitors actions taken.
- There have been no significant data breaches in social care during the period of this report.

### Integrated working with key partners

- Support from the Data Protection Officer continues with the further development and updating of Information Sharing Protocols with key partners. This will continue to be an important aspect as we further integrate our service delivery with partners as per the requirements of the NHS Plan.
- The further development of the Shropshire Telford and Wrekin Sustainability and Transformation Plan (STW STP) has continued with the further development of the Telford and Wrekin Integrated Place Partnership involving all key partners. This ensures that locally based Telford and Wrekin issues are highlighted to the STP. Work streams at STP level include the Digital Information Governance Group which the Data Protection Officer contributes to ensure that all information governance requirements are met as we move towards further integrated pathways and partnerships.
- We are undertaking preparatory work in order to develop the integrated care record for Shropshire Telford and Wrekin health and social care with all partners in the STP.

- There has been further development of collaborative digital platforms under the banner of STP Together. This has led to more efficient collaborative working across the health and social care system partners.

### Quality Assurance

- There are regular review meetings with the SIRO, Data Protection Officer and the Caldicott Guardian to ensure that further development and assurance of our data protection systems continue in relation to our support of those with care and support needs.

## **8 CONCLUSIONS FOR 2019/20**

- 8.1 Despite some resource challenges the Information Governance Team have performed well and made a positive contribution to the governance arrangements within the Council in 2019/20.

## **9 OTHER CONSIDERATIONS**

| <b>AREA</b>          | <b>COMMENTS</b>   |
|----------------------|---|
| Equal Opportunities  | All members of the Audit & Governance Team have completed equal opportunities/ diversity training. If any such issues arose during any work, the appropriate manager would be notified.   |
| Environmental Impact | All members of the Audit & Governance Team are environmentally aware and if any issues were identified, they would be notified to the appropriate manager.  |
| Legal Implications   | <p>Compliance with the Information Rights legislation mentioned in this report is mandatory. When assessing compliance, the ICO will consider approved policies and procedures of the authority.</p> <p>Caldicott Guardians were introduced into social care with effect from 1 April 2002, under Local Authority Circular LAC (2002)2 dated 31 January 2002. Caldicott Guardians play a key role in ensuring that the NHS, Councils with Social Services Responsibilities and partner organisations satisfy the highest practical standards for handling patient identifiable information under a framework which complies with the requirements of the Data Protection Act 2018; they actively support work to enable information sharing where it is appropriate to share; and advise on options for lawful and ethical processing of information.</p> <p>NHS and Social Care Caldicott Guardians are required to be registered on the publicly available National Register of Caldicott Guardians. The UK Council of Caldicott Guardians, an elected body made up of Caldicott Guardians from health and social care, meets four times per year and publishes a manual for Caldicott Guardians (currently 2017) which sets out the roles and responsibilities of the Caldicott Guardian. The Health &amp; Social Care Information Centre [HSCIC] publishes guidance and resources for Caldicott Guardians.</p> <p>AL 03/07/2020</p> |

|                                 |  |
|---------------------------------|--|
| Links with Corporate Priorities | All aspects of the IG teams work support good governance that underpins the achievement of the Council's objectives and priorities.  |
| Risks and Opportunities         | All aspects of the IG teams work supports managers and the Council to identify and manage their information risks and opportunities.   |
| Financial Implications          | Financial monitoring is currently showing that Audit & Governance are operating within budget for 2019/20. There are therefore no financial implications arising from adopting the recommendations of this report. |
| Ward Implications               | The work of the IG team encompasses all the Council's activities across the Borough and therefore it operates within all Council Wards.  |

## 10 **BACKGROUND PAPERS**

Corporate Information Security Policy  
 Corporate Information Security Breach Procedure  
 Local Authority Data Handling guidelines  
 ISO27001 (standard for information security)  
 Data Protection Act 2018  
 Freedom of Information Act 2000 (fully introduced 2005)  
 Environmental Information Regulations 2004.  
 Caldicott Review - <https://www.gov.uk/government/publications/the-information-governance-review>  
 Information: To Share or not to Share – Government Response to the Caldicott Review.  
[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/192572/2900774\\_InfoGovernance\\_accv2.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/192572/2900774_InfoGovernance_accv2.pdf)

Report by Rob Montgomery Audit & Governance Team Leader. Telephone 383103 and Sarah Dillon, Director Adult Social Care and Caldicott Guardian

## Update on Information Governance (IG) Work/Compliance Programme 2019/20

| No | Task   | Completion date       | Status at year end   |
|----|--|-----------------------|--|
| 1  | Administer FOI/EIR/DPA requests, appeals and associated correspondence from the ICO.   | Ongoing               | Improved in year performance.  |
| 2  | Continue the provision and promotion of additional services to schools within and outside the area to generate agreed income.  | Ongoing               | 2 new customers in year and continued support for continuing customers                   |
| 3  | Investigate instances of possible data breaches and ensure appropriate improvements within services and processes are made. This would include acting as a point of contact for the ICO. | Ongoing               | Ongoing support to services and liaison where necessary with ICO.                        |
| 4  | Support service areas to address any information security risks that arise. This would include acting as a point of contact for the ICO.   | Ongoing               | As above   |
| 5  | Monitor compliance with GDPR/DPA 2018 and associated Council policies. This includes the assignment of responsibilities, awareness raising, training of staff and associated audits.     | Ongoing               | Compliance work completed in year contributing to accountability principle.              |
| 6  | To provide advice where requested on Data Protection Impact Assessments (DPIA) and monitor performance in this area.   | Ongoing               | DPIA's completed on a number of projects in year that are reviewed and signed off by IG. |
| 7  | To co-operate with the Information Commissioners Office (ICO) in any relevant engagement.  | Ongoing               | IG continue to be the key contact with ICO.  |
| 8  | Inform and advise the Council and its employees who carry out personal information processing of their obligations under GDPR/DPA 2018.  | End of June 2019      | Completed by June including online training provision and articles in staff briefings.   |
| 9  | Implementation of the GDPR audit recommendations.  | End of July 2019      | Complete   |
| 10 | Review and update the Corporate Information Security Policy (CISP).  | End of September 2019 | Complete   |
| 11 | Complete Data Security & Protection (DSP) toolkit assessment for central government  | End of March 2020     | Complete   |

## IG Work Programme for 2020/21

| No | Task   |
|----|--|
| 1  | Administer FOI/EIR/DPA requests, appeals and associated correspondence from the ICO.   |
| 2  | Continue the provision and promotion of additional services to schools within and outside the area to generate agreed income.  |
| 3  | Investigate instances of possible data breaches and ensure appropriate improvements within services and processes are made. This would include acting as a point of contact for the ICO. |
| 4  | Support service areas to address any information security risks that arise. This would include acting as a point of contact for the ICO.   |
| 5  | Monitor compliance with GDPR/DPA 2018 and associated Council policies. This includes the assignment of responsibilities, awareness raising, training of staff and associated audits.     |
| 6  | To provide advice where requested on Data Protection Impact Assessments (DPIA) and monitor performance in this area.   |
| 7  | To co-operate with the Information Commissioners Office (ICO) in any relevant engagement.  |
| 8  | Inform and advise the Council and its employees who carry out personal information processing of their obligations under GDPR/DPA 2018.  |
| 9  | Implementation of the GDPR audit recommendations.  |
| 10 | Review and update the Corporate Information Security Policy (CISP).  |
| 11 | Complete Data Security & Protection (DSP) toolkit assessment for central government.   |



## TELFORD & WREKIN COUNCIL

### AUDIT COMMITTEE – 14 JULY 2020

#### CORPORATE ANTI-FRAUD & CORRUPTION - 2019/20 ANNUAL REPORT AND POLICY UPDATE

#### REPORT OF THE CHIEF FINANCIAL OFFICER

### 1. PURPOSE

- 1.1 For the Audit Committee to:
- Consider the 2019/20 Annual Report on Corporate Anti-Fraud and Corruption activity; and
  - Agree the updated policy and to recommend its adoption by the Council.

### 2. RECOMMENDATIONS

- 2.1 That the Audit Committee notes the 2019/20 Annual Report on Corporate Anti-Fraud and Corruption activity.
- 2.2 That the Committee recommends the adoption by full Council of the updated policy attached as Appendix 1.

### 3. SUMMARY

- 3.1 The Council is committed to high standards of Corporate Governance and has a set of effective procedures in place to support this. This includes the Anti-Fraud & Corruption Policy.
- 3.2 The terms of reference of the Audit Committee include:  
*“13. To approve the Anti-Fraud and Corruption Policy and to recommend its adoption by the Council and to monitor its operation. The policy will be reviewed at least once every two years.”*
- 3.3 This report includes Appendix 1 which is an updated policy for members to agree and recommend on for adoption by the Council.

### 4. PREVIOUS MINUTES

- 4.1 Audit Committee 27<sup>th</sup> June 2017 - Annual Report 2016/17 and Policy update  
Audit Committee 29<sup>th</sup> May 2018 - Annual Report 2017/18 and Policy update  
Audit Committee 30<sup>th</sup> May 2019 - Annual Report 2018/19 and policy update

### 5. INFORMATION – ANNUAL REPORT 2019/20

- 5.1 The Anti-Fraud and Corruption Policy supports one of the key dimensions of good corporate governance – Standards of Conduct. The Council aims to ensure that all those associated with it maintain high standards of ethics and conduct in public life.
- 5.2 Nationally there are indications that fraud continues to rise and criminals are finding new ways to obtain criminal proceeds through fraud and local authorities are often targets of their criminal activity. Therefore it is important that the Council continues to be vigilant at all times.
- 5.3 This report contains information for 2019/20 on counter fraud and investigation activities within the Investigation Team, Internal Audit and Public Protection. The committee should note that

the Council's procedures and controls are designed to minimise the opportunity for fraud and to highlight areas where there may be a greater risk of possible fraudulent activity occurring.

5.4 Members and officers regularly receive information on their responsibilities in respect to the use of public money and the prevention and detection of fraud. They provide information for review and investigation by appropriately trained and experienced officers within the Council (and by the Police or other external party when required).

## 6. TRANSPARANCY CODE REQUIREMENTS

6.1 The Local Government Transparency Code requires the Council to publish data regarding its fraud arrangements as shown in the table below.

|   | Requirement Description   | T&W Arrangements   |
|---|---|--|
| 1 | Number of occasions the Council have used the powers under the Prevention of Social Housing Fraud Regulations 2014 or similar powers. | We do not have social housing and therefore these powers have not been used in the last 12 months.   |
| 2 | Number (absolute and FTE) of employees undertaking investigations and prosecutions of fraud   | <p>Currently there is 1 Senior Investigation Officer and 1 Assistant Investigation Officer working in the Investigation Team. This equates to 2 FTE officers undertaking investigations.</p> <p>Other Council services undertake investigations into fraud, for example Public Protection. These tasks form an ancillary part of an officer's job role and therefore it would be difficult to identify what proportion of their role would be taken up undertaking fraud investigations.</p> |
| 3 | Number (absolute and FTE) of professionally accredited counter fraud specialists  | Currently 2 Accredited Counter Fraud Specialists work in the Investigation Team.   |
| 4 | Total amount spent by the authority on the investigation and prosecution of fraud   | <p>The cost of the Investigation Team for 2019/20 was £93,717.40. Costs include staff, postage, printing, telephones, mileage, computer software and all other investigation related costs.</p> <p>As stated on point 2 above other areas do undertake investigations but it is difficult to attribute a cost to this as costs are consumed in overall budgets for each service.</p>   |
| 5 | Total number of fraud cases investigated  | See case investigation data in this report.  |

## 7. HOUSING BENEFIT AND COUNCIL TAX SUPPORT

7.1 The Housing Benefit and Council Tax Support caseload has decreased again over the last 12 months, from 16,876 (live cases) at 31 March 2019 to 16,144 at 31 March 2020. The

government's Welfare Reforms and the introduction of Full Service Universal Credit in the area on 14 November 2018 are the main factors. Universal Credit replaces six working age benefits including Housing Benefit. Full Service covers people with a wide variety of circumstances including families, those with a disability and those with housing costs with the exception of pensioners and those in supported or temporary accommodation or those with a severe disablement premium. Those entitled to Universal Credit are no longer eligible for Housing Benefit resulting in their claims being cancelled.

- 7.2 The review of claims in 2019/20 mainly concentrated on changes in earnings or occupation pensions received from the Department for Work and Pensions via their Verification of Earnings and Pensions (VEP) alerts. We have also reviewed cases where earnings appeared to show a very low or very high hourly rate based on hours worked when compared to earnings. The Benefits Team have also reviewed cases as part of the government's National Fraud Initiative.
- 7.3 The Council has followed the Department for Work & Pensions (DWP) lead in "securing the gateway". The DWP aim at "getting it right, and keeping it right" i.e. ensuring only those properly entitled are granted and paid benefit.
- 7.4 The Benefits Team continues to get a wealth of information from the DWP and we obtain the vast majority of such changes in this way. This has allowed the proactive work to be concentrated on getting the earning and Occupational Pension details of customers up to date.

|  |          |
|--|----------|
| Number of Verification of Earnings and Pensions Undertaken | 4,530    |
| Number of additional Proactive Reviews Undertaken          | 261      |
| Weekly CTS Saving  | £3,900   |
| Annual CTS Saving  | £207,593 |
| Overpaid HB  | £460,952 |

## 8. THE INVESTIGATION TEAM

- 8.1 The Investigation Team within Audit and Governance has responsibility for investigating fraud error and irregularity across the authority. Their work also includes the screening of reports of money laundering.
- 8.2 A high proportion of the Investigation Team's work comes from investigating matters affecting the Revenues service. This includes Council Tax Support (CTS), Single Person Discount (SPD), council tax liability issues and National Non-Domestic Rates (NNDR). The table at 8.7 details all the recorded savings made by the Investigation Team for 2019/20.
- 8.3 A small number of internal investigations that have been undertaken during the year. This includes one case that is currently in the court system and another case that is currently with Legal Services.
- 8.4 There is no way of accurately measuring the consequent effect and indirect savings that occur due to the team's work. If potential fraudsters are aware that the authority have an Investigation Team that undertakes work into all aspects of fraud against the authority, then they will be less likely to attempt to act fraudulently than would be the case if there was no team.
- 8.5 The team has a close working relationship with West Mercia Police Intelligence Team. A Service Level Agreement (SLA) exists which facilitates the sharing of data for the prevention and detection of crime. The team assists the Police on a daily basis in a variety of matters

under this agreement. Although this work can be time consuming, it is an extremely important facility in helping the fight against crime in the local community and helps keep local residents safer and at less risk of being the victims of crime. On occasions, information received from the Police may lead to investigations being conducted by the team which otherwise may not have been.

8.6 During 2019/20 a number of policies were updated or rewritten by the team in order to help with the expansion of the Investigation function along with two new training programs.

- Ant-Fraud and Corruption Policy
- Speak Up (Whistleblowing Policy)
- The Anti-Money Laundering Policy and the training course that accompanies it.
- A new 'Ollie' based Fraud Induction for all new starters.

### 8.7 Investigation Team Savings 2019/20

| Fraud Area                     | Savings           |
|--------------------------------|-------------------|
| Council Tax/Revenues Matters   | £83,493           |
| Corporate Fraud Investigations | £6,044            |
| Housing Benefit                | £86,415           |
| <b>Total</b>                   | <b>£175,953</b>   |
| <b>Additional saving NFI</b>   | <b>£50,487.33</b> |

### 8.8 National Fraud Initiative (NFI)

8.8.1 The Cabinet Office's NFI exercise is part of Central Government's national recognition that taxpayers have a right to expect public bodies to put in place every possible measure to protect their money from fraud. The Council has a statutory responsibility to provide data to the Cabinet Office for the prevention and detection of fraud as part of the NFI.

8.8.2 The team manage the National Fraud Initiative (NFI) and have facilitated the 2018/19 exercise. This is a lengthy and demanding piece of work which requires a considerable amount of officer time.

8.8.3 The National Fraud Initiative (NFI) 2018/19 matches are still being worked on in some areas as there are further up to date matches that come through. However, by 1<sup>st</sup> April 2020 the NFI had produced savings amounting to **£50,487.33**.

## 9. INTERNAL AUDIT

9.1 Internal Audit has a preventative role in ensuring that systems and procedures are in place to prevent and deter fraud, bribery and corruption. They assist Managers in ensuring they have appropriate systems and controls in place that are designed to prevent or reduce the opportunity for fraud. Their annual audit plan can include spot checks and unannounced visits to assist in the detection and prevention of fraud.

9.2 There is no specific time allocated to audit for proactive fraud work as this is consumed within the days allocated for general audit assignments. Proactive fraud days are now allocated to the Investigation Team.

9.3 Internal Audit also provides continuous advice and guidance to Managers to assist them in the prevention of fraudulent activity.

## **10. PUBLIC PROTECTION**

10.1 The Public Protection Service which includes Trading Standards, Environmental Health and Licensing play a significant role in delivering the Council's response to business related fraud in the borough. The majority of the responses are based around statutory responsibilities refined to provide effective detection and countermeasures in respect to fraud. These services are not restricted as to whom its officers may investigate, and are constrained only by the limitations of the statute under which an investigation is being conducted.

### **10.2 Anti-Fraud responsibilities**

10.2.1 All teams through the course of their routine work may come across irregularities. Where these irregularities are outside Public Protection's remit these are referred to agencies such as UK Border Force, Driving & Vehicle Licensing Agency, HM Revenues & Customs, Insurance Fraud Bureau, Police and internal service areas such as the Investigation Team and Revenues and Benefits Service.

### **10.3 Environmental Health**

10.3.1 Fraud can occur in a number of areas that the Environmental Health service covers. The prevention and detection of unfit and debased food through inspection, sampling and intelligence is part of the team's role. Members of the public can now use the Everyday Telford App to report Food Crime.

10.3.2 Fraudulent use of health and identification marks is another area that the team investigate. All Approved Premises within the borough are checked to ensure they are applying the health mark appropriately when they are inspected. Inspectors will routinely check for health marks on animal products in retail establishments.

### **10.4 Licensing Service**

10.4.1 Within the Licensing Service there are a number of areas of fraud that are investigated in addition to their other duties. These are listed below:

- Street trader consents - Prevention and detection of the illegal and highly lucrative transfer of street trader consents.
- Taxi licensing - Ensuring the correct vehicle is correctly insured and driven by the licensed driver.
- Scrap metal dealers licensing - Joint working with police to detect illegal trading in stolen vehicles and other stolen metal items such as copper cabling through scrap metal dealers.
- Street Collections, Charity collections - Identification, detection and enforcement of fraudulent collections

### **10.5 Trading Standards Service**

10.5.1 The Trading Standard Service use specific legislation to help tackle fraud across the Borough. This includes:

- Intellectual Property crime – covering Copyright, Trademarks

- Consumer Protection from Unfair Trading legislation -. This legislation covers a wide range of goods and services including house purchases, animals, vehicles, food & drink and all personal and professional services.
- Cattle identification legislation - To prevent fraudulent transfer to limit disease spread.
- Weights and Measures - Misrepresentation of quantity or measure of goods supplied.
- Fraud Act

10.5.2 Trading Standards receives intelligence about rogue trader activities in Telford and Wrekin and deals with complaints about fraudsters that specifically target vulnerable and older people, carrying out unnecessary or misrepresented home improvement work and as a result defraud them out of thousands of pounds.

10.5.3 The team also works closely with the national scams team, visiting victims of fraud to offer advice and support. The service continues to educate and inform our residents of the many forms of financial abuse and helps to reduce and protect vulnerable adults through media campaigns and attending events.

10.5.4 Trading Standards have prioritised work around illicit tobacco and works closely with HMRC, West Mercia Police and other Local Authorities sharing intelligence, carrying out joint operations focussed on the supply of illicit products.

## **11. PUBLICITY**

11.1 As per the policy, publicity of cases is important as a deterrent. The Investigation Team and Public Protection use Corporate Communications to issue press releases and social media to alert the public and inform businesses about relevant campaigns, interventions and prosecutions. The press releases are also published on the Council's website.

11.2 When any significant intervention or prosecution occurs then the relevant Director and Cabinet member are briefed accordingly. Any lessons learnt are shared within the relevant team meetings.

11.3 Where allegations of internal frauds have been investigated and procedures and controls are changed the lessons learnt are shared across the Council through the staff news, bulletins and in management meetings.

## **12. TRAINING AND AWARENESS**

12.1 The Council ensures that both Members and Officers are aware of their responsibilities in respect to the Council's Anti-Fraud and Corruption Policy.

12.2 An online fraud training package is provided to all new starters within the authority. This covers all aspects of fraud and irregularity that can affect Telford and Wrekin Council and how officers can help prevent it and report any concerns.

12.3 Staff within Revenues & Benefits receive fraud awareness training as part of periodic refresher training. The Department for Work and Pensions also provide Benefit Officers with training in relation to Housing Benefit fraud.

12.4 For officers there is the Code of Conduct for Employees which is included as part of induction and is available on the intranet. The Code of Conduct has aspects built in to help with fraud prevention.

### 13. CHALLENGES FOR 2020/21

- 13.1 One of the main challenges for 2020/21 is to understand how the Covid-19 pandemic has impacted on the fraud risks to the authority. Unfortunately, situations such as these can open the door to those who seek to exploit organisations where they believe money is available and controls may not be as strong as normal due to the exceptional circumstances. This could be most notable in the awarding of business grants where extensive post award checking will be required due to the level of perceived fraud in this area.
- 13.2 Closer joint working with outside organisations such as the Police and possibly the Department for Work and Pensions as well as internally, with the various enforcement teams will help to combat fraud. However, the expansion of the team’s function will need to be commensurate with the level of resource currently available within the team.

### 14. ANTI-FRAUD & CORRUPTION POLICY UPDATE

- 14.1 The current Anti-Fraud and Corruption Policy was reviewed, updated and agreed by the Audit Committee on 30 May 2019. The Anti-Fraud & Corruption Policy is reviewed annually to coincide with the annual report (unless urgent changes are required in between).
- 14.2 The updated Policy is attached as Appendix A. There are very few changes to this year’s policy.

### 15. OTHER CONSIDERATIONS

| AREA                 | COMMENTS  |
|----------------------|---|
| Equal Opportunities  | The Anti-Fraud & Corruption policy operates within Equalities legislation and the Council’s associated policies. Any investigations follow legal requirements and proper procedures to ensure that equality and diversity requirements are met.   |
| Environmental Impact | None  |
| Legal Implications   | <p>The Accounts and Audit Regulations 2011 require the Council to ensure ‘that the financial management of the body is adequate and effective and that the body has a sound system of internal control’. The anti-fraud documents help to fulfil this requirement.</p> <p>The Council will have full regard to relevant legislative requirements, including without limitation:</p> <ul style="list-style-type: none"> <li>• The Fraud Act 2006</li> <li>• Bribery Act 2010</li> <li>• Section 151 Local Government Act 1972</li> <li>• Section 5 Local Government &amp; Housing Act 1989</li> <li>• Contracts Regulations 2015</li> <li>• Accounts and Audit Regulations 2011</li> <li>• The Council Tax Reduction Schemes (Detection and Enforcement) (England) Regulations 2013</li> <li>• Local Government Finance Act 1988</li> <li>• Regulation of Investigatory Powers Act 2000</li> <li>• Terrorism Act 2006</li> <li>• Proceeds of Crime Act 2002</li> <li>• Police and Criminal Evidence Act 1984</li> <li>• Companies Act 2006</li> <li>• Localism Act 2011</li> </ul> |

|                                 |  |
|---------------------------------|--|
|                                 | <ul style="list-style-type: none"> <li>The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017</li> </ul>  |
| Links with Corporate Priorities | The policy supports all Corporate priorities and good corporate governance demonstrating the Council's desire to ensure sound conduct and ethical procedures for all those associated with the Council and its service delivery. Monitoring the policy provides the opportunity to identify if there are any changes required or additional areas of activity. |
| Financial Implications          | Costs associated with the anti-fraud and corruption work outlined in this report are met from the Council's base budget. This includes staffing costs, training, marketing and promotion costs, stationery and any postage.  |
| Opportunities and Risks         | Having a policy which sets out the Council's anti-fraud and corruption culture and associated procedures assists in the management of the risk of fraud and corruption against the Council.  |
| Ward Implications               | Borough wide implications.   |

## 16. BACKGROUND PAPERS

Corporate Anti-Fraud and Corruption Policy 2019  
Speak Up (Whistleblowing) Policy 2020  
Benefits Counter Fraud and Sanctions Policy 2016  
Cabinet Office requirements for the National Fraud Initiative  
Trading Standards & Licensing Legislation

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## ANTI-FRAUD AND CORRUPTION POLICY 2020

### 1. INTRODUCTION

- 1.1 The Council, through this policy demonstrates its zero tolerance of fraud, theft, bribery and corruption and its determination to deal equally with perpetrators from inside (members<sup>1</sup> and employees<sup>2</sup>) and outside the Council.
- 1.2 The policy outlines measures designed to frustrate attempted fraud, theft, bribes or corruption (defined in Appendix A) and the steps that will be taken if such action occurs. It is separated into four areas:-
1. Culture
  2. Prevention/Deterrence
  3. Reporting, Detection and Investigation
  4. Training
- 1.3 The Council also welcomes the high degree of external scrutiny of its affairs by a variety of external bodies. These bodies are important as they provide independent external challenge and highlight any areas where improvements to anti-fraud, anti-bribery and anti-corruption activities can be made.

### 2. CULTURE

- 2.1 The Council's co-operative values include openness and honesty which supports the Council's commitment to zero tolerance in respect to fraud, theft, bribery and corruption.
- 2.2 The prevention and detection of fraud, theft, bribery or corruption and the protection of the public purse are responsibilities of everyone, both internal and external to the organisation. The anti-fraud, bribery and corruption culture and associated procedures assist the Council in its management of the risk of fraud, theft, bribery and corruption against the Council and are an integral part of its governance framework.
- 2.3 The Council's members, employees, partners, volunteers and governors play an important role in creating and maintaining this culture. They are positively encouraged to raise concerns regarding fraud, theft, bribery and corruption, regardless of seniority, rank or status, confident in the knowledge that such concerns will be investigated and wherever possible be treated in confidence<sup>3</sup>. Suppliers/contractors to the Council and the public also have roles to play in this process and should inform the Council if they feel that fraud, bribery or corruption may have occurred. Examples of types of concerns are listed in Annex 1.
- 2.4 The Council will take appropriate action against those who defraud the Council or who are corrupt. There is, of course, a need to ensure that any investigation process is not misused and, therefore, any abuse (such as employees/members raising malicious allegations) will also be dealt with appropriately.
- 2.5 When fraud, theft, bribery or corruption has occurred due to a breakdown in the Council's systems or procedures, senior managers will ensure that appropriate improvements in systems of control are implemented within a reasonable timeframe to prevent a re-occurrence.

<sup>1</sup> The term "members" is used in the policy to include elected, co-opted and independent members.

<sup>2</sup> The term employees is used in the policy to include employees, temporary staff, volunteers, partners

<sup>3</sup> The Council's Whistleblowing policy sets out how concerns can be raised (including anonymous information) and how they will be dealt with, including allegations in respect to fraud and corruption.

### **3. PREVENTION & DETERRENCE**

#### **3.1 MEMBERS**

3.1.1 All members of the Council have a duty to the citizens of the Borough to protect the Council and public money from any acts of fraud, bribery or corruption. This is achieved through the Anti-Fraud and Corruption Policy, compliance with the Code of Conduct for Members, the Council's Constitution<sup>4</sup>, relevant legislation and any other protocols and procedures adopted by the Council.

#### **3.2 EMPLOYEES**

3.2.1 The Role of the Chief Financial Officer – one of the Directors<sup>5</sup> has been designated the statutory responsibilities of the Chief Financial Officer as defined by s151 of the Local Government Act 1972. These responsibilities are set out in Annex 2.

3.2.2 Employees and their managers are responsible for controls and ensuring that adequate systems of internal control exist within their areas of responsibility, that these controls operate effectively and that they test them regularly to confirm this. They should also operate so as to prevent and detect fraud and implement appropriate controls into new/developed systems and new controls into existing systems to reduce the risk of fraud occurring or recurring.

3.2.3 Managers at all levels are responsible for managing the risk of fraud, theft, bribery and corruption through:

- a) Recruitment – following the Council's recruitment policies and procedures
- b) Appropriate induction and training in order for their staff to do their job
- c) Their adherence to and promotion of the Council's Values and the Employee Code of Conduct
- d) Providing awareness of the Council's constitution, appropriate policies and procedures (key documents associated with this policy are listed in Annex 2)
- e) Regular reminders, updates and vigilance in respect to fraud, bribery & corruption
- f) Encouraging staff to raise concerns with them or through the Speak Up (Whistleblowing) policy
- g) Encouraging staff to report suspected cases of fraud to the Investigation Team in Audit and Governance.

#### **3.3 MEMBERS & EMPLOYEES**

3.3.1 Both members and employees must ensure that they avoid situations where there is a potential for a conflict of interest<sup>6</sup>. Such situations can arise particularly with planning and land issues, procurement (especially tendering) and recruitment. Effective role separation is essential to ensure decisions made are based upon impartial advice to maintain public confidence in the Council's decision-making processes and avoid questions about improper disclosure of confidential information.

3.3.2 All members and officers are expected to fully co-operate with whoever is conducting fraud, theft, bribery and corruption investigations, proactive checks or data matching exercises.

#### **3.4 INVESTIATION TEAM AND INTERNAL AUDIT**

<sup>4</sup> Including Financial Regulations and Standing Orders

<sup>5</sup> Assistant Director Finance, & HR

<sup>6</sup> Conflicts could also arise where employees have additional employment outside the Council but this is managed through the Private Works procedure.

3.4.1 The Investigation Team within Audit and Governance investigates cases of suspected financial irregularity, fraud, theft, bribery or corruption, in accordance with agreed procedures. This includes any Speak Up (Whistleblowing) referrals. Depending on the nature of the allegation, the matter could be pursued by the team or referred on to the Police, if it is felt that it requires Police involvement. The team works closely with outside organisations, such as West Mercia Police and the Department for Works and Pensions to help tackle fraud.

3.4.2 Internal Audit plays a vital preventative role in ensuring that systems and procedures are in place to prevent and deter fraud, theft, bribery and corruption and has specific rights within the constitution (see Annex 2). Internal Audit liaises with management to recommend changes in procedures to improve controls, reduce risks and prevent losses to the Authority.

### **3.5 BENEFITS AND COUNCIL TAX DISCOUNTS/EXEMPTIONS WITHIN TELFORD AND WREKIN COUNCIL**

3.5.1 Benefits administration is recognised nationally as being complex to administer. This results in the scheme being prone to error and abuse. The Authority is committed to tackling poverty but it must also ensure that the administration of Housing Benefit and Council Tax Support is secure, fair and provides prompt help to those who are entitled. Equally, it must also be vigilant in tackling fraud and error to ensure value for taxpayers' money. This is also appropriate to the Revenues Service when awarding any discount or exemption on a council tax or business rate account. Both the Revenues Service and the Benefits Service operate within legislation, government guidance and local procedures with the aim of improving the quality and accuracy of benefit determinations and to prevent and reduce the incidence of fraud.

3.5.2 Housing Benefit fraud is investigated by the Department for Work and Pensions, while fraud within Council Tax Support is investigated by the Investigation Team within Audit and Governance.

### **3.6 DATA MATCHING**

3.6.1 The Council participates in all mandatory data matching exercises most notably the National Fraud Initiative (NFI). In respect to both Revenues and Benefits there are also regular external exercises and the introduction of real time information to enable data matches from HRMC. In addition internal data matching exercises are undertaken at various times, for example matching council tax single person discount records with Electoral Role data. All exercises adhere to data protection requirements under the Data Protection Act 2018

### **3.7 EXTERNAL AUDIT**

3.7.1 External Audit is an essential safeguard of the stewardship of public money. External Auditors will continue to operate through a Code of Practice that is designed to test (amongst other things) the adequacy of the Council's financial systems, the arrangements for preventing/limiting the opportunity for fraud and the arrangements for the detection of fraud, bribery and corruption. It is not the External Auditors' function to prevent fraud and irregularities, but the integrity of public funds is at all times a matter of general concern. External Auditors are always alert to the possibility of fraud and irregularity, and will act without undue delay if grounds for suspicion come to their notice. Where External Audit is required to undertake an investigation they will operate within legislation and their codes of conduct.

### **3.8 OTHER AGENCIES**

3.8.1 Appropriate Council services have arranged (in compliance with the Data Protection Act 2018) the exchange of information on national and local fraud, theft, bribery and corruption activity with appropriate external agencies.

### **3.9 CONTRACTORS/SUPPLIERS AND THE PUBLIC**

3.9.1 This policy, although primarily aimed at those within or associated with the Council, encourages contractors/suppliers and the public to assist in the Councils zero tolerance of fraud, bribery and corruption.

### **3.10 PROSECUTION AND RECOMPENSE**

3.10.1 To support this policy the Council has a Corporate Prosecution Policy which is complemented by the Revenues and Benefits Sanction and Penalty Policy. The corporate policy is designed to clarify and ensure consistency in the Council's action in specific cases and to deter others from committing offences against the Authority. The Revenues and Benefits Sanction Policy ensures that Revenues and Benefits prosecutions are undertaken within the requirements of the relevant legislation.

3.10.2 Any sanction against Housing Benefit will be taken by the Department for Work and Pensions. Although, authorisation for administration penalties (fine as an alternative to prosecution) will still have to be provided by the appropriate person within Telford and Wrekin Council.

3.10.3 In addition to prosecution, the Council will seek to recover any money or assets fraudulently/corruptly obtained from the Council.

### **3.11 DISCIPLINARY OR OTHER ACTION**

3.11.1 Theft, fraud, bribery and corruption are serious offences against the Authority and employees will face disciplinary action if there is evidence that they have been involved in these activities, including any deception to obtain a council tax discount and/or exemption. Disciplinary action will be taken in addition to, or instead of, criminal proceedings depending on the circumstances of each individual case but in a consistent manner.

3.11.2 Members will face appropriate action under this policy if there is evidence that they have been involved in theft, fraud, bribery and corruption against the Authority. Action will be taken in addition to, or instead of criminal proceedings, depending on the circumstances of each individual case but in a consistent manner. If the matter is a potential breach of the Code of Conduct for Members then it will also be referred to the Monitoring Officer.

### **3.12 PUBLICITY**

3.12.1 The Council's Corporate Communications Team will optimise the publicity opportunities associated with anti-fraud, anti-bribery and anti-corruption activity within the Council. Information will be publicised in respect of prosecutions and other appropriate cases as a deterrent.

3.12.2 Fraud reporting can be made using internal and external reporting channels, both online and telephone to the Investigation Team. This is complemented by the Speak Up (Whistleblowing) Policy.

3.12.3 Internally, where the Council can learn from incidents the relevant points will be communicated to members and employees.

- 3.12.4 Any notifications received by the Council of possible regional/national frauds, scams or alerts will be communicated to employees and members, as appropriate.
- 3.13.5 All anti-fraud, anti-bribery and anti-corruption activities, including the update of this policy<sup>7</sup>, will be publicised in order to make employees, members and the public aware of the Council's commitment to taking action on fraud, bribery and corruption, when it occurs.

#### **4. REPORTING DETECTION AND INVESTIGATION**

- 4.1 All suspected fraud, theft, bribery and corruption irregularities (except Housing Benefit fraud) are required to be reported to the Investigation Team within Audit and Governance. This can be done through the online reporting form, via telephone, in writing and in person. The telephone number is 01952 383839. Any Speak Up (Whistleblowing) referral can be made through the same channels or by following the guidance in the Speak Up (Whistleblowing) Policy.
- 4.2 Any referral for suspected Housing Benefit fraud can be made directly to the Department for Work and Pensions by using the national fraud hotline 0800 854440 or online reporting mechanism. Any internal referral for Housing Benefit fraud that has occurred from processing an application by Benefit staff can be made using the recognised reporting form which can be passed to the Investigation Team to refer to the Department for Work and Pensions through established channels.
- 4.3 Internal Audit plays an important role in the detection of fraud. Included in their audit plan are specific fraud tests, spot checks and unannounced visits. However it is often the vigilance of employees, partners, volunteers, members, governors, suppliers/contractors and the public that aids detection

#### **5. AWARENESS AND TRAINING**

- 5.1 The Council recognises that the continuing success of this policy and its general credibility will depend in part on the effectiveness of training and awareness for Members, employees and affected external parties. The principles of this policy are integrated into the officer and member's induction programme and incorporated in the Member Development programme.
- 5.2 An online fraud training course is undertaken by all new employees of the Authority and is available to all relevant staff who wish to undertake it.
- 5.3 Specialist training for certain employees is provided by their service area due to their specific roles.
- 5.4 Regular awareness through corporate communication, staff news and Ollie will support the successful application of this policy. Full copies of the Anti-Fraud and Corruption Policy, the Fraud Response Plan the Whistleblowing policy and any other relevant policy are available on the intranet.

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<sup>7</sup> This policy will be reviewed annually and updated where necessary

## ANNEX 1 DEFINITIONS OF FRAUD, THEFT, BRIBERY & CORRUPTION

**Fraud** is defined by the Audit Commission as:-

Fraud – “*the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to conceal the misappropriation of assets or otherwise for gain*”.

In addition, fraud can also be defined as “*the intentional distortion of financial statements or other records by persons internal or external to the authority which is carried out to mislead or misrepresent*”.

The Fraud Act 2006 outlines three main offences of fraud:

- Fraud by false representation
- Fraud by failing to disclose information
- Fraud by abuse of position

### **Basic Definition of Theft**

A person is guilty of theft if they dishonestly appropriates property belonging to another with the intention of permanently depriving the other of it.

**Corruption** is defined by the Audit Commission as:-

Corruption – “*the offering, giving, soliciting or acceptance of an inducement or reward which may influence the action of any person*”.

In addition, this policy also covers “*the failure to disclose an interest in order to gain financial or other pecuniary benefit.*”

**Bribery** is defined under the Act as:–

A bribe is a financial or other advantage that is offered or requested with the intention of inducing or rewarding the improper performance of a relevant function or activity, or with the knowledge or belief that the acceptance of such an advantage would constitute the improper performance of such a function or activity.

**EXAMPLES OF THE TYPES CONCERNS that should be raised:**

- \* A criminal offence
- \* A failure to comply with a statutory or legal obligation
- \* Improper or unauthorised use of public or other official funds
- \* A miscarriage of justice
- \* Maladministration, misconduct or malpractice
- \* Discriminatory behaviour
- \* Endangering an individual's health and/or safety
- \* Damage to the environment
- \* Benefit Fraud
- \* That offers or requests have been made in respect to a promise, gift, financial or other advantage to or from a person that results in improper performance of a decision or action
- \* Deliberate concealment of any of the above

## ANNEX 2

### **Roles and Responsibilities of the Chief Financial Officer (CFO) in respect to Financial Affairs including Fraud & Corruption**

Section 151 of the Local Government Act (1972) sets out that in every local authority in England & Wales should:

“make arrangements for the proper administration of their financial affairs and shall secure that one of their officers has the responsibility for the administration of those affairs”.

Section 114 of the Local Government Finance Act (LGFA) 1988 requires the Chief Financial Officer to report to the Council if the authority, one of its committees, the Leader and Cabinet Executive or one of its officers:

- Has made – or is about to make – a decision which has or would result in unlawful expenditure;
- Has taken, or is about to take, an unlawful action which has or would result in a loss or deficiency to the authority; or
- Is about to make an unlawful entry in the Council’s accounts.

Section 114 of the LGFA 1988 also requires the Chief Financial Officer to nominate a properly qualified member of staff to deputise, should the Chief Financial Officer be unable to perform the duties under Section 114 personally.

Under the Constitution the CFO responsibilities of proper administration encompasses all aspects of local authority financial management including:

- provision of financial advice for service delivery, strategic planning and policy making across the authority;
- provision of advice on the optimum use of available resources on the management of capital and revenue budgets;
- provision of financial management information;
- preparation of statutory and other accounts, associated grant claims and supporting records;
- provision of an effective internal audit function and assistance to management in providing safe and efficient financial arrangements;
- the proper exercise of a wide range of delegated powers both formal and informal;
- provision of effective financial management systems and procedures;
- provision of effective income collection and payments systems;
- advising on treasury, investment and cash-flow management;
- advising on the safe custody of assets and insurance; and
- The recognition of the fiduciary responsibility owed to local tax payers.



## KEY COUNCIL DOCUMENTS THAT SUPPORT THIS POLICY

(This list contains examples but is not exhaustive)

- Constitution
- Financial Regulations and Standing Orders and associated detailed procedures
- Fraud Response Plan
- Employee Code of Conduct
- Health and Safety Policies
- Corporate Information Security Policy (which includes the E-mail and Internet Usage Policies and IT Strategy).
- Gifts and Hospitality Guidance
- Equalities policies
- Private Works Procedure

## CONSTITUTION POWERS FOR REPRESENTATIVES OF INTERNAL AUDIT

(Part 4 – Rules of Procedure: Section 6 – Financial Regulations paragraph 9.7)

9.7 The Chief Finance Officer's authorised Internal Audit representatives shall be empowered to:

- enter at all reasonable times any Council premises or land
- have access to all Council and partner records (includes business e-mails and internet records), documentation and correspondence relating to any financial and/or other transactions or other business of the Council, its employees or members, as considered necessary by the CFO, Monitoring Officer or Audit & Information Governance Manager.
- have access to records belonging to third parties such as contractors or partners when required
- require and receive such explanations as are regarded necessary concerning any matter under examination from any employee, member, partner or third party.
- require any employee or member of the Council or any partner/third party to account for cash, stores or any other Council property which is under his/her control or possession on behalf of the Council.



| Version | Date       | Author   | Sent To        | Comments        |
|---------|------------|----------|----------------|-----------------|
| 1.0     | 13/03/2020 | A.Hollis | Rob Montgomery | New 2020 policy |
| 1.0     | 6/05/20    | A.Hollis | Anthea Lowe    | Review          |
| 1.1     | 6/07/2020  | A.Hollis | Andrew Hollis  | Final           |
|         |            |          |                |                 |
|         |            |          |                |                 |

**1 SUMMARY OF MAIN PROPOSALS**

- 1.1 For the Audit Committee to review and approve the 2019/20 Annual Governance Statement to accompany the annual accounts.

**2 RECOMMENDATION**

- 2.1 That members of the Audit Committee approve the Annual Governance Statement 2019/20, attached as Appendix A (including Annex 1), and note the information in the report

**3 SUMMARY IMPACT ASSESSMENT**

|   |  |  |
|---|--|--|
| <b>COMMUNITY IMPACT</b>                         | Do these proposals contribute to specific Priority Plan objective(s)?                  |  |
|   | Yes  | <i>The Governance Framework encompasses the whole Council and therefore all of the Council's priorities.</i>   |
|   | Will the proposals impact on specific groups of people?                                |  |
|   | No   |  |
| <b>TARGET COMPLETION/ DELIVERY DATE</b>         | <i>Annual Governance Statement signed and ready to accompany the 2019/20 accounts.</i> |  |
| <b>FINANCIAL/VALUE FOR MONEY IMPACT</b>         | No   | <i>The governance framework includes several financial elements, including the Council's financial regulations, the budget strategy and the Treasury Management Strategy. These provide the financial parameters, systems, processes and guidelines within which the Council must operate and, as such, assist in the delivery of good governance. Strong financial management also supports the delivery of value for money in ensuring economy, efficiency and effectiveness in the Council's decision making and processes.</i><br><br><i>The Council's external auditors give an opinion on the financial statements of the authority and a value for money conclusion in their opinion on the accounts and in their Annual Audit letter each year which provides further assurance.</i><br><i>KC 14/05/20</i> |
| <b>LEGAL ISSUES</b>                             | Yes  | <i>The Council is required to comply with the requirements of the Audit and Accounts Regulations 2015. Regulation 6 of these Regulations sets out that the authority must undertake a review of the effectiveness of its internal control systems on an annual basis and prepare an annual governance statement. The annual governance statement must be approved in advance of the annual statement of account.</i><br><i>AL – 14/5/2020</i>  |
| <b>OTHER IMPACTS, RISKS &amp; OPPORTUNITIES</b> | Yes  | <i>Good governance supports the identification and management of risks and robust control arrangements.</i>  |

|                                 |     |                            |
|---------------------------------|-----|----------------------------|
| <b>IMPACT ON SPECIFIC WARDS</b> | Yes | <i>Borough-wide impact</i> |
|---------------------------------|-----|----------------------------|

#### **4 INFORMATION**

- 4.1 Under the Accounts and Audit Regulations 2015 the Council is required to produce an Annual Governance Statement and it is best practice that the statement is signed by the Leader and Chief Executive of the Council. This statement should accompany the Annual Accounts.
- 4.2 The Annual Governance Statement for 2019/20 is attached at Appendix 1 and has been developed based on the requirements of the regulations and CIPFA/Solace guidance<sup>1</sup>. The statement includes an action plan (Annex 1) to ensure that we continue to improve our existing governance arrangements.
- 4.3 The action plan attached to the 2018/19 statement (implemented during 2019/20) has been reviewed and updated to reflect current progress. Any actions still on progress from the 18/19 plan have been incorporated into the 2019/20 action plan, see Annex 1 to this report.
- 4.4 The Annual Governance Statement and the Local Code of Good Governance outlines that the Council has a robust governance framework in place but that it is continually reviewing procedures to maintain and demonstrate good corporate governance. It is supported by risk management and sound systems of internal control which are paramount in these continuing times of financial constraint. The Council can be assured that during 2019/20, including during organisational and personnel changes, that the existing or revised governance arrangements have continued to support proper governance. Where required changes to procedures have been agreed by SMT and changes to the Constitution have been agreed by the Council, through the Council's Constitution Committee.
- 4.5 Assurance for the Annual Governance Statement is provided by all areas of the Council and externally by the following:
- a) Leader and Chief Executive – who sign the statement to acknowledge their responsibilities;
  - b) Senior management – Chief Executive, Executive Directors, Directors;
  - c) Chief Financial Officer;
  - d) The Monitoring Officer;
  - e) Members – Scrutiny arrangements, Standards Committee, Audit Committee and other Regulatory Committees;
  - f) Internal Audit;
  - g) Partners;
  - h) External Audit; and
  - i) Other external inspection agencies.
- 4.6 The 2019/20 Annual Governance Statement sets out adherence to the Council's governance arrangements that operated during the period – 1<sup>st</sup> April 2019 to 31<sup>st</sup> March 2020 and measures the effectiveness of them.
- 4.7 The Council's current Code of Good Governance was approved last June to reflect the CIPFA/SOLACE framework including revised principles and guidance but further application and good practice has been received during the year and the local code has therefore been updated further. The Code continues to reflect the Council's culture and values.

**5 IMPACT ASSESSMENT – ADDITIONAL INFORMATION**

N/A

**6 PREVIOUS MINUTES**

6.1 Cabinet 26<sup>th</sup> June 2014; 25<sup>th</sup> June 2015; 16<sup>th</sup> June 2016  
Audit Committee 30<sup>th</sup> June 2015; 28<sup>th</sup> June 2016, 27<sup>th</sup> June 2017, 29<sup>th</sup> May 2018

**7 BACKGROUND PAPERS**

Local Code of Corporate Governance May 2008  
CIPFA/SOLACE – Delivering Good Governance in Local Government: Framework (2016 Edition)  
KPMG Annual Audit Letter 2015/16  
External inspection reports 2016/17  
Annual Audit & Information Governance Report 2016/17

Report by Rob Montgomery, Audit & Governance Team Leader 383103

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## AGS ACTION PLAN FOR 2019/20 FOR IMPLEMENTATION DURING 2020/21

| No       | Findings  | Actions   | Lead Officers  | Comments |
|----------|---|---|--|----------|
| 1.       | <p>Ongoing savings proposals and continued strategic management of organisational changes to continue particularly in light of COVID19.</p> <p><i>(Part) Follow on from 2018/19 AGS action plan.</i></p>  | <p>Continued management/reduced budgets, revised structures and commercial/ business approach which links to the continued development and implementation of revised governance framework.</p> <p>Recovery, Reform and Reset Group set up to look at financial impact of COVID19</p> <p>Further consultations on future savings.</p>  | <ul style="list-style-type: none"> <li>• Chief Executive</li> <li>• SMT</li> </ul>                                       |          |
| Page 143 | <p>All internal audits consist of an ethics questionnaire that is sent to a sample of staff in the team/areas being audited to demonstrate their understanding of key corporate policies and whether staff feel supported.</p> <p>Results of these questionnaires in 2019/20 demonstrate that:</p> <ul style="list-style-type: none"> <li>• Some staff do not feel that they have had a proper induction</li> <li>• Some staff do not have regular 1:2:1 supervision or team briefs</li> <li>• Some staff feel they do not receive adequate training</li> </ul> | <p>Induction process to be reviewed and re-publicised.</p> <p>Further guidance for managers in respect to completion of regular 121's, supervision and team briefs.</p> <p>Organisational Delivery &amp; Development work on revised strategic service planning linking corporate objectives through to APPD's – the golden thread. This will include workforce development and training.</p> | <ul style="list-style-type: none"> <li>• SMT/SDM</li> <li>• Organisational Delivery &amp; Development Manager</li> </ul> |          |

| No  | Findings  | Actions  | Lead Officers   | Comments |
|---|---|--|---|----------|
|   | <p>These findings have been shared when discussing individual audit reports with relevant SDM's and Directors and taken to SMT as part of reporting corporate recommendations.</p>  |  |   |          |
| <p>3.</p> <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 144</p> | <p>Results of the Internal Audit questionnaires also indicated some lack of awareness in some areas of key corporate policies such as the Gifts &amp; Hospitality Policy and Whistleblowing Policy.</p>   | <p>POSSIBLE DRAFT ACTIONS</p> <p>Campaign to be led by Audit &amp; Governance aiming to raise the profile of key corporate policies.</p>   | <ul style="list-style-type: none"> <li>• SMT/SDM</li> <li>• Organisational Delivery &amp; Development Manager</li> </ul>  |          |
| <p>44</p>   | <p>The results of the annual governance certification process highlighted that in some service areas there were reductions in appropriate skilled staff numbers creating single points of failure.</p> <p>Service Delivery Managers are aware of these issues and where possible are putting measures in place to try and mitigate this.</p> <p><i>Follow on from 2018/19 AGS action plan</i></p> | <p>As part of strategic planning process, ODD to record resource needs from SDM and work with them to identify ways to address this eg. apprenticeship strategy, management and leadership development and similar</p> | <ul style="list-style-type: none"> <li>• Chief Executive</li> <li>• Director of Finance &amp; Human Resources</li> <li>• Organisational Delivery &amp; Development Manager</li> </ul> |          |



| No  | Findings   | Actions  | Lead Officers   | Comments |
|---|--|--|---|----------|
| <p style="writing-mode: vertical-rl; transform: rotate(180deg);">Page 145</p> | <p>5. The results of the annual governance certification process has highlighted that service areas have experienced data breaches and potential near misses in respect to personal data.</p> <p>Where data breaches have been experienced, these have been reported to the Information Governance Team and managers have changed processes and procedures, where possible, based on lessons learned to prevent similar breaches occurring.</p> <p>It should be noted that the Information Commissioners Office has not taken any action against the Council during this time.</p> | <p>Information Governance to:</p> <ul style="list-style-type: none"> <li>• Update data protection training modules in 20/21 to ensure all officers are appropriately trained.</li> <li>• To refresh and re-publicise its Information Security Breach Procedure.</li> <li>• To ensure lessons are learnt after each breach and suggested improvements communicated corporately where applicable.</li> </ul> | <ul style="list-style-type: none"> <li>• SIRO/SMT</li> <li>• SDM's</li> </ul> |          |
|   | <p>6. The annual governance certification process demonstrated that some service areas are aware that their web pages are not up to date but they are in the process of updating them.</p> <p><i>Follow on from 2018/19 AGS action plan</i></p>  | <p>Customer Relations leading on periodic testing on Council web pages and lessons learnt will be fed back.</p> <p>Web authors and SDM's to be sent reminders on importance of keeping web content up to date.</p>   | <ul style="list-style-type: none"> <li>• SMT</li> <li>• SDM's</li> </ul>      |          |

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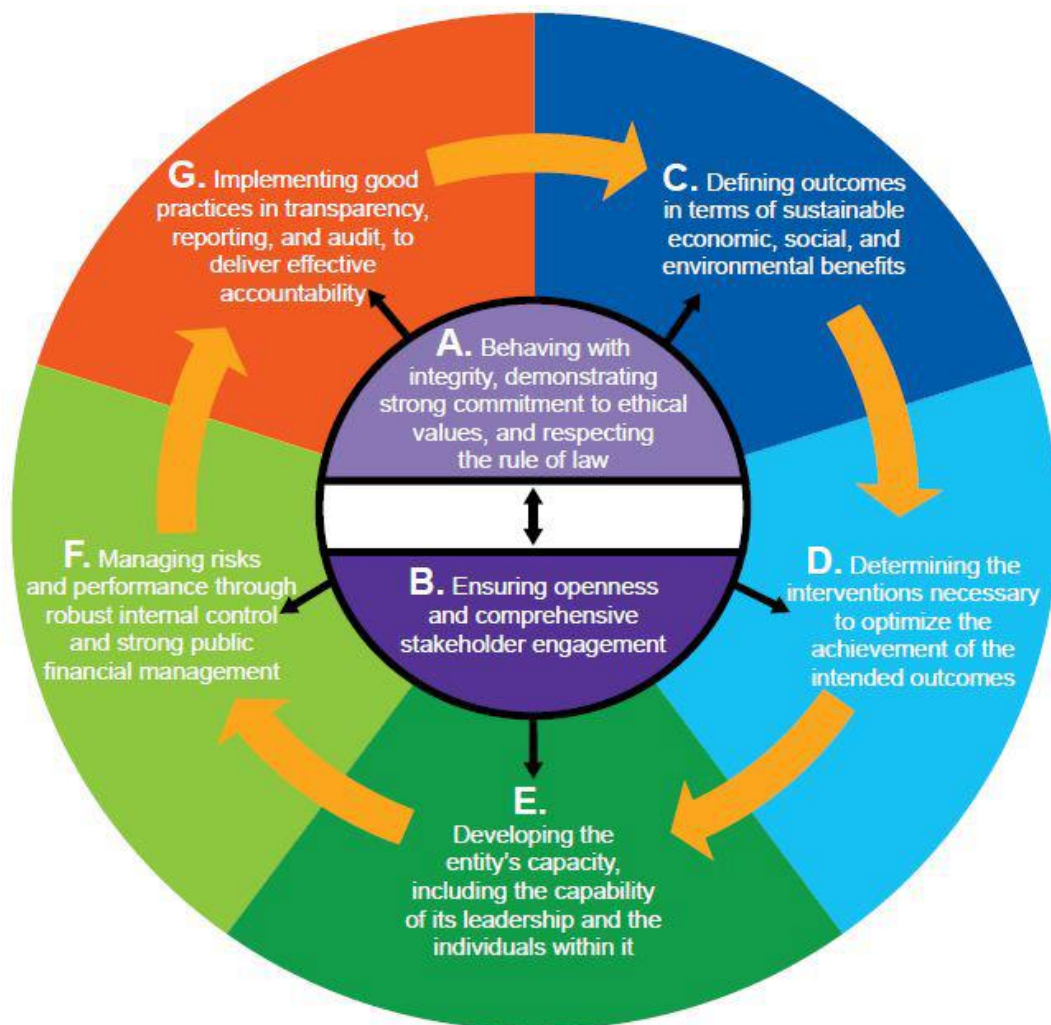
## ANNUAL GOVERNANCE STATEMENT 2019/20

### 1. Introduction

- 1.1 Under the Accounts and Audit Regulations 2015 the Council is required to produce an Annual Governance Statement to accompany the Statement of Accounts which is approved by the Audit Committee.

The Annual Governance Statement outlines that the Council has been adhering to the Local Code of Corporate Governance, continually reviewing policies and procedures to maintain and demonstrate good corporate governance and that it has in place robust systems of internal control.

The Council has adopted the Code of Corporate Governance which is consistent with the principles of the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government.



*CIPFA's Principles of Good Governance*

## 2. Standards of Governance

2.1 The Council expects all of its members, officers, partners and contractors to adhere to the highest standards of public service with particular reference to the employee and Members' Code of Conduct, Constitution, Corporate Priorities as well as applicable statutory requirements.

## 3. Scope of Responsibility

3.1 Telford & Wrekin Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. The Council needs to demonstrate that public money is safeguarded and properly accounted for and used economically, efficiently and effectively to secure continuous improvement.

3.2 To meet this responsibility, the Council puts in place proper governance arrangements for overseeing what it does including putting in place proper arrangements for the governance of its affairs including risk management, the requirements of regulations and ensuring the effective exercise of its functions. These arrangements are intended to make sure that the Council does the right things, in the right way, for the right people, in a timely, open and accountable manner. The Council takes into consideration all systems, processes, policies, cultures and values that direct and control the way in which we work and through which we account, engage and lead our communities.

## 4. The Governance Framework

4.1 The governance framework allows the Council to monitor how they are achieving their strategic aims and ambitions and how this contributes to the delivery of its vision and values:



4.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve priorities and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an on-going process designed to appropriately identify, quantify and manage the risks to the achievement of the Council's priorities, objectives and policies.

## 5. Review of Effectiveness

5.1 Telford & Wrekin Council has responsibility for conducting, at least annually, a review of the effectiveness of the governance arrangements including the system of internal control. The review of the effectiveness is informed by:-



5.2 The Council has faced considerable challenge during 2019/20 particularly in respect to the significant effects of heavy flooding in the region and the worldwide COVID-19 pandemic. Both of these challenges have meant changes to working practices which have required a greater degree of flexibility and risk based decision making at lower levels in the authority. However changes have been made within the boundaries of good governance which can be evidenced by the following examples:

- Gold/silver corporate groups set up to manage strategic and operational risk;
- Gold/silver groups including key stakeholders and regulatory roles, e.g. Section 151 Officer, Monitoring Officer, etc;
- Audit & Governance support with Business Rate Relief applications and other changes in practice across the Council;
- COVID-19 decision log kept to record decisions made using Chief Officer powers within the Council’s Constitution; and
- COVID-19 risk registers maintained both at service area level and at a corporate level

The Council continues to deliver services to its community using new and developing practices in light of COVID-19. Underpinning this is support/instruction from central government and continued risk management from the corporate Gold and Silver Groups.

5.3 The Council recognises the importance of information governance and formalised its Information Governance Framework. The main focus of the Information Governance Team in 2019/20 has been to ensure the Council’s continued compliance with the requirements of the General Data Protection Regulations (GDPR) / Data Protection Act 2018. The Information Governance Team has continued to report to the Audit Committee during the year including information on responses to information rights requests and data security breaches. During 2019/20 no enforcement action has been taken by the Information Commissioner’s Office (ICO) against the Council in respect to data breaches.

- 5.4 The Chief Executive, Executive Directors, Directors and Service Delivery Managers have signed annual assurance certificates confirming that the governance framework has been operating within their areas of responsibility, subject to the actions outlined in Annex 1.
- 5.5 The Accounts and Audit Regulations 2015 require a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit, management, other internal assurance services and the External Auditors' review. The Internal Audit Annual Report 2019/2020 will set out the Internal Audit opinion.
- 5.6 The Council has been advised on the implications of the review of the effectiveness of the governance framework by the Cabinet, Standards Committee, Audit Committee, Scrutiny, Senior Managers, Internal Audit and external review. The Chief Internal Auditor concludes that the review of the governance arrangements provides a reasonable level of assurance that the governance arrangements continue to be regarded as fit for purpose in accordance with the governance framework. Attached as Annex 1 is an agreed action plan to address any key governance issues and ensure continuous improvement.
- 5.7 Issues from the previous action plan (2018/19) that have been addressed or mainstreamed have been deleted and those that continue to be addressed are included in 2019/20 action plan.
- 5.8 The Senior Management Team has monitored implementation of the 2018/19 actions and reported back to the Audit Committee in January 2020.
- 5.9 Detailed below is a statement explaining how the Council has complied with the Code of Corporate Governance and meets the requirements of the Accounts and Audit Regulations 2015 and CIPFA Code on the Principles of Good Governance.
- 5.10 Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of the law.**
- 5.10.1 Members and officers, in the main, recognise the importance of compliance with the Constitution, specifically Financial and Contract Rules; Procurement Regulations, Scheme of Delegation, Codes of Conduct and Gifts & Hospitality Policy. However, some improvements are needed in this area and recommendations have been included in the 2019/20 AGS action plan.
- 5.10.2 There is ongoing training, both classroom based and via the on-line learning platform (OLLIE) for Codes of Conduct, Equality Awareness, Leadership & Governance and Contract Procedure Rules/Procurement.
- 5.10.3 The Council has an Anti-Fraud & Corruption Policy, supported by the Whistleblowing (Speak Up) Policy, encouraging internal referrals. The Council has a zero tolerance policy in relation to fraud and corruption and it is service management's responsibility to ensure there are adequate controls in their areas to ensure the opportunities for fraud are minimised. It is everyone's responsibility to report suspicions and the Whistleblowing (Speak Up) Policy supports this internally. Internal Audit along with the Investigations Team undertakes proactive fraud work based on a fraud risk register and/or other intelligence. Other specific anti-fraud and corruption activities are undertaken by Trading Standards. An annual report on anti-fraud and corruption activities and an update to the Anti-Fraud & Corruption Policy and Whistleblowing (Speak Up) Policy is presented to the Audit Committee.
- 5.10.4 Officers comply with their professional organisations' codes of conduct when delivering services.

5.10.5 All Internal Audit reviews consist of an ethics questionnaire that is sent to a sample of staff in specific teams to demonstrate their understanding of key corporate policies. Responses have highlighted some lack of understanding of key policies such as the Gifts & Hospitality Policy. There is also a lack of awareness with regard to the Whistleblowing (Speak Up) Policy and how they should report a suspected fraud.

Ethic questionnaire findings have been shared when discussing individual audits with relevant Service Delivery Managers and Directors and taken to SMT as part of reporting corporate recommendations.

5.10.6 There are both internal and external reviews in social care to monitor compliance with the law, e.g. the Care Act, Deprivation of Liberties, Safeguarding and the Mental Health Act.

5.10.7 Ofsted undertook an inspection of the Council's children's social care services in January 2020. The outcome of the inspection was that Ofsted graded these services as 'Outstanding'. An extract from the inspection report is detailed below:

*'Children's services in Telford and Wrekin are outstanding. Children benefit from high-quality social work and an impressive range of specialist services that improve their well-being and help to protect them from harm. Social workers and other staff who support children are very committed, and they are exceptionally well trained. Children are valued and receive child-focused services tailored to their individual needs. Children are listened to and their experiences are well understood and inform planning to improve their lives. Corporate parenting is exceptionally strong. Children are cared for, and they are cared about.'*

*Children and their families benefit from creative high-quality services which support children to live with their families wherever possible. A significant number of children have been successfully diverted from alternative care and enabled to live safely with their birth families. When this is not in their interest, children benefit from high-quality carers and timely securing of permanence. Care leavers benefit from strong and enduring relationships with personal advisers, who are responsive to their needs well into adulthood.'*

*Senior leaders have implemented a clear and ambitious vision for vulnerable children and families in Telford and Wrekin, which has resulted in outstanding services that are benefiting children. Despite this success, they continue to work to continually improve services. They aspire to a service for every child that they would welcome for their own. Workforce development, recruitment and retention are particularly strong. Staff at all levels are valued and very well supported. This has developed a positive culture where social workers can practise safely and effectively and where they are making a positive impact on the lives of children and their families'.*

The Council's Children's Services therefore have become the first in the Midlands and the first outside of London to transform services from "requires improvement to be good" to "outstanding".

This is a very positive result especially when you compare Telford & Wrekin Council's grading against the national average.

5.10.8 Human Resource and recruitment policies and processes ensure the Council is fully compliant with employment law. Annual audits are undertaken in these areas and ongoing checks take place to ensure compliance with IR35 legislation. This year saw the implementation of the new HR ICT system (Resourcelink), which will be reviewed as part of the annual HR/Payroll audit.

- 5.10.9 Senior officers meet regularly and work closely with Members to ensure that they understand and can undertake their respective roles effectively and legally.
- 5.10.10 The Cabinet monitors the effectiveness of the governance framework through the consideration of regular service and financial management information reports from senior management. Individual Cabinet Members receive regular feedback from senior officers in respect to their areas of responsibility on the progress of priorities and objectives. Issues of strategic and corporate importance are referred to Cabinet.
- 5.10.11 Statutory responsibilities across the Council are discharged openly and proactively, examples include having key statutory officers in place, i.e. Head of Paid Service, Data Protection Officer, Section 151 Officer, Monitoring Officer, Director of Children Services, Director of Adult Social Services, Director of Public Health and Scrutiny Officer.

## **5.11 Ensuring openness and comprehensive stakeholder engagement**

- 5.11.1 The Council's 'Shaping our Future – Our Journey to 2020' document is a community strategy for Telford & Wrekin. It shows how partnership working makes a positive difference to community life.
- 5.11.2 The Council actively contributes to, and collaborates with, partners to promote good governance and achieve the delivery of outcomes through increased joint working. The Council is a member of a number of sub regional partnerships and groups. Many of our services are delivered in partnership with other organisations such as West Mercia Energy, Town and Parish Councils, voluntary groups, etc.
- 5.11.3 Regular meetings take place between Children Safeguarding and key partner agencies such as the police, Telford & Wrekin CCG, Education and Health.
- 5.11.4 All Council services feed into transparent reporting processes through council committee meetings and this is further supported by the transparency agenda.
- 5.11.5 Annually the public is consulted on the budget for the forthcoming year.
- 5.11.6 There is regular engagement between Public Health, Telford & Wrekin Clinical Commissioning Group (CCG) and Social Care for the future provision of services.
- 5.11.7 The structure and provision of the Council's Scrutiny function has been reviewed in 2019/20 to ensure its operation is fit for purpose and complies with good practice. The revised Scrutiny provision will be in place operationally in 20/21 and will look at the development of policy, the decision-making process and areas of concern. The subject areas for review will be informed by community engagement, direct feedback to members from within the community, the results of review and inspection (both external and internal) and areas of policy being developed by the Council.

## **5.12 Defining outcomes in terms of sustainable economic, social and environmental benefits.**

- 5.12.1 The Council can demonstrate its longer and medium term action plans through the 'Medium Term Council Plan' and the 'Shaping Our Future – Our Journey to 2020'. The Council is working on economic growth and marketing its services towards commercial activities in order to generate income and place less reliance on government grants. Plans are being reviewed in light of the current/future impact of Covid19. All service areas also have to meet savings targets to ensure a sustainable budget for future years. These are under review in light of the impact of Covid19.



- 5.12.2 Digital transformation and changes in the way we work are intrinsic to the Council's service delivery model.
- 5.12.3 The Telford & Wrekin Local Plan sets out the Council's vision and strategy for the physical planning of the borough up to 2031 and a review of the Local Plan has commenced to ensure that it remains capable of meeting the needs of the borough.
- 5.12.4 All service areas have their own service plans which details how they intend to deliver their service for the coming year and the risks they face. These plans encompass identifying risks to service objectives being met.
- 5.12.5 The Council has a commercial strategy / investment strategy that demonstrates clear visions, objectives and outcomes. This includes financial, economic, social and environmental issues.
- 5.12.6 The Councils economic growth strategy supports and drives increased economic productivity.
- 5.12.7 The financial strategy sets out the short and long-term implications for service delivery across the Council. The Service & Financial Planning reports include various papers to Cabinet regarding the budget and sets out short/ medium and long-term implications, including the capital strategy and saving strategy.
- 5.12.8 Adult Social Services in respect to systems, financial management and implementation of the cost improvement plan have continued to provide updates during the year to Members including the Audit Committee. To support the revised target operating model there has been commissioned external support and management changes.
- 5.12.9 All Council reports to Members show relevant financial implications and risk.
- 5.12.10 Implementation of the ICT Strategy has continued, including infrastructure upgrades, the ongoing roll-out of Office 365 and further security improvements particularly in response to spam, phishing/ whaling and ransomware threats. Some implementation has been accelerated due to flooding and COVID-19.

**5.13 Determining the interventions necessary to optimise the achievement of the intended outcome.**

- 5.13.1 The Council can demonstrate its longer and medium term action plans through the 'Medium Term Council Plan' and the 'Shaping our Future – Our Journey to 2020' which are aligned to the Treasury Management Plan to ensure a joined up approach to delivering the organisation outcomes and savings plans.
- 5.13.2 Budget plans are produced for all service areas for planning purposes. Budget consultation is undertaken annually with Council Members and members of the public.

**5.14 Developing the Council's capacity, including the capability of its leadership and the individuals within it.**

- 5.14.1 To deliver the vision of 'being the change' a Workforce Development Strategy 2017-2019 is in place. This focuses on 4 key themes – Employer of Choice, Planning for the Future, Healthy Organisation and Workforce of the Future. The Organisational Delivery & Development Team are in place to bring together the corporate values and planning function and to align these with workforce development.

- 5.14.2 Officers understand their respective roles and these are set out in job descriptions. The Constitution, Scheme of Delegation and Contract Procedure Rules clearly shows roles and responsibilities, specifically with regard to delegation and authorisation.
- 5.14.3 There are various training methods available to staff such as mentoring, Ollie (On-line learning platform) and classroom based. 2019/20 saw the second cohort of future leader training taking place. However, the ethics questionnaire issued by audit highlighted that some staff did not feel supported or developed in their roles. The results also highlighted that staff did not have time to complete Ollie training and felt they had not received proper induction into their role.
- 5.14.4 Other support includes CPD sessions, team meetings and ongoing 1:2:1s, however results of the ethics questionnaires have demonstrated that some staff still do not have regular 1:2:1 supervision meetings.
- 5.14.5 Members receive an induction session and annual training with regard to the Treasury Management Strategy and other training relevant to their position. All Members and staff have had the opportunity to undertake training on General Data Protection Regulations (GDPR) / Data Protection Act (DPA) 2018 legislation. There is also online training available to all staff on GDPR/DPA 18 Requirements.
- 5.14.6 The action plan at Appendix A of this statement detail issues highlighted from the results of the annual governance certification process

**5.15 The Council continues to manage risks and performance through robust internal control and strong public financial management.**

- 5.15.1 Risk management is an integral part of good management and corporate governance and is therefore at the heart of what we do. Our approach to managing risk is explained in our Risk Management Strategy. The Strategic Risk Register is reviewed by SMT and considered by Audit Committee annually.
- 5.15.2 The Internal Audit plan is informed by the Council's service and financial planning processes, strategic risk register, external inspection reports, external networking intelligence, comments from Senior Management and their opinion of the current state of the governance risk and internal control arrangements.
- 5.15.3 During 2019/20 the Internal Audit team achieved 70% of their planned work and this has been used with the relevant output from unplanned work to form their opinion on the adequacy and effectiveness of the Council's governance, risk management and internal control framework. Internal Audit output is lower than previous years and this is due to a number of factors including long-term sickness, concentration of audit resource on particular high risks to the Council and, more recently, the need to focus staff resources on responding to the Covid-19 pandemic.

All recommendations made in audit reports show a risk category which is used to inform the overall grading of the report.

- 5.15.4 The Chief Internal Auditor has undertaken checks on the work of Internal Audit as part of the Quality Assurance Improvement Program. A small number of minor issues have been identified through these checks and have been fed back to the Internal Audit Team to assist in their continuous improvement.
- 5.15.5 Internal Audit report to the Audit Committee 4 times a year. The Audit Committee has asked for additional information during the year and requested Executive Directors/Directors and

Service Managers to attend to provide assurance on the management of risks and implementation of recommendations. The Audit Committee have also approved the Internal Audit Charter for 2019/20.

- 5.15.6 Large projects include the maintenance of a project risk register; this is an ongoing working document that is amended throughout the project. Where personal data is processed, projects also include the completion of Data Protection Impact Assessments.
- 5.15.7 The Council has adopted the CIPFA code of practice for managing the risk of fraud and corruption and this has been reflected in our updated Anti-Fraud & Corruption Policy and Whistleblowing (Speak Up) Policy.
- 5.15.8 Services report regularly to Council committees such as Audit Committee, Planning, Licensing, Cabinet etc. These reports detail any impact assessment, including risk and opportunity. Financial decisions are reported to Cabinet, full Council and Audit Committee, who often challenge to ensure appropriate financial management and to demonstrate transparency.
- 5.15.9 Financial Regulations set out our financial management framework for ensuring we make the best use of the money we have available. Financial roles and responsibilities are clearly shown in the Financial Regulations and it provides a framework for financial decision-making.
- 5.15.10 The Treasury Management Strategy and regular updates on treasury matters are provided to Audit Committee. This information clearly show investments, loans, and the financial position of the Council.
- 5.15.11 The Council's financial strategy identifies the short term budget plan and long term aspirational plan linked to the corporate plan to be a self-sustaining council.
- 5.15.12 Final accounts are produced on time and in line with best practice and our External Auditor's Report for 2018/19 included in its headlines:
- Value for Money conclusion - Based on the work we performed to address the significant risks, we are satisfied that the Council had proper arrangements for securing economy, efficiency and effectiveness in its use of resources
  - In our opinion, the financial statements:
    - give a true and fair view of the financial position of the Authority as at 31 March 2019 and of its expenditure and income for the year then ended;
    - have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
    - have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.
- 5.15.13 The Council has continued to make savings in light of ongoing financial pressures. Over £123 million savings have been made to date by the Council with further future savings of £20 million required by 2022/23 which will be subject to review in the light of the impact of Covid19.

## **5.16 Implement good practices in transparency, reporting and audit to deliver effective accountability**

- 5.16.1 As a public body we endeavour to be open and transparent in our activities and reporting. Council and committee agendas, reports and minutes are published on our corporate website to demonstrate decisions made. The Council undertake public consultation on areas such

as the budget and selective licensing. We publish expenditure over £100 on our website, as part of the transparency agenda.

- 5.16.2 The Audit Committee has responsibility for internal and external audit matters, the Council's arrangements for Corporate Governance and risk management.
- 5.16.3 The Audit Committee terms of reference also incorporate the review and monitoring of the Council's Treasury Management arrangements. Members of the Committee are kept up to date through awareness training on factors that influence/affect delivery of the strategy and during the year were provided with an update on these matters by Arlingclose the Council's Treasury Management advisors.
- 5.16.4 There are various committees, all with their own terms of reference and areas of responsibility, i.e. Licensing Committee, Planning Committee, and there are elected members who are responsible for service areas within the Council.
- 5.16.5 Arrangements are in place to ensure Internal Audit fully complies with the Public Sector Internal Audit Standards (PSIAS).
- 5.16.6 The Internal Audit plan is developed using a risk-based approach taking into consideration the Strategic Risk Register, Service Plans and other audit intelligence. Audit recommendations made are communicated to relevant Service Delivery Managers and relevant Senior Management representatives for consideration and implementation of recommendations. Internal Audit will share best practice in the duty of their work.
- 5.16.7 The Council's Communication Team works with Officers and Members to ensure key messages are in plain English and in consistent format.
- 5.16.8 The Council's performance management framework is monitored by the Senior Management Team and has procedures in place that drive continuous improvement in performance.
- 5.16.9 The Annual Governance certification process demonstrated that service areas are aware that their intranet and web pages are not up to date and are in the process of updating them.

|   | Signed | Dated |
|---|--------|-------|
| David Sidaway<br>Chief Executive                |        |       |
| Cllr Shaun Davies<br>Leader of the Council      |        |       |
| Cllr Nathan England<br>Chair of Audit Committee |        |       |
|   |        |       |



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