



Committee and date

Audit Committee

23 March 2011

10.00am

Item No

11

Public

COMPLIANCE WITH FINANCIAL RULES

Responsible Officer Ceri Pilawski, Head of Audit

Email: Ceri.pilawski@shropshire.gov.uk

Telephone: (01743) 252027

Summary

Shropshire Council remains committed to high standards of financial management and control. Financial Rules form part of the Council's Constitution and provide the framework for managing its financial affairs. The Audit Committee have a responsibility under their Terms of Reference for the consideration, review and approval of a bi-annual report on the continued adequacy and effectiveness of, and management compliance with, the Council's Financial Rules. Internal Audit has undertaken a review of compliance with Financial Rules, the findings from which are summarised in this report. Overall, compliance was found to be excellent with no material breaches identified.

Recommendations

- A. Members are asked to consider, comment upon and approve the attached report.

Report

1. Shropshire Council's Constitution sets out how the Council operates, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Some of these processes are required by law, while others are matters for the Council to determine.
2. The Constitution is maintained by Legal and Democratic Services and is available in hard copy and electronically through the Council's web site. Financial Rules form part of the Constitution and set out the financial policies of the Council. They apply to every member and officer of the Council and anyone acting on behalf of the Council.
3. There are five areas covered by the Financial Rules:
 - i. Financial management and control.

- ii. Financial planning.
 - iii. Risk management and control of resources.
 - iv. Systems and procedures.
 - v. External arrangements.
4. A comprehensive set of Financial Rules which are adhered to are an essential part of good financial management. Part of the Audit Committee's work plan is to ensure a bi-annual review is undertaken of the adequacy and effectiveness of, and management compliance with, the Council's Financial Rules. This is in addition to the work that Internal Audit performs throughout the year, where we assess compliance and adherence to the Financial Rules and make recommendations to address weaknesses or problems identified for individual systems.
5. Information for this review to establish compliance has been obtained from:
- The Statement of Accounts.
 - The Budget Book.
 - Information from the Intranet, Internet and other appropriate sources.
 - Interviews with staff and Finance Managers.
 - Reference to the Finance Manual which is available to all on the Intranet.
- In addition, a questionnaire was sent to all Directorate Finance Officers to identify how they ensure compliance with Financial Rules across their Directorates. Documentary evidence was obtained to confirm the results of the audit findings.
6. Financial rules were reviewed and some changes approved in February 2011. This review has been undertaken on the previous set of rules which are applicable throughout the current financial year.
7. A detailed report has been issued to the Section 151 Officer and the Interim Head of Finance, which makes five recommendations for improvement. An Action Plan is being developed to address the recommendations made. The following provides a summary of the key findings and recommendations.

Detailed Findings

Financial Rules – part 4b of the Constitution.

8. During the audit, a management review took place affecting reporting lines and accountable officers. Financial Rules have been updated to reflect the changes in terms of officer delegations and in the details of specific rules to support the new operating model at the Council, member approval was sought for these at Council in February 2011. The Finance Manual, available on the Intranet will need to be updated to reflect these changes and a recommendation is made to this effect.

Financial Rules – Appendix A: Financial Management.

9. No recommendations arose from the review of this section. Compliance was found to be good in respect of the arrangements in place for financial management

standards; managing and controlling expenditure through revenue budgets; the scheme of virement and the treatment of year end balances; accounting policies; accounting records and returns and the format of the accounts.

Financial Rules – Appendix B: Financial Planning.

10. No recommendations arose from the review of this section. Compliance was found to be good in respect of budget preparation, monitoring and control; resource allocation; capital programmes; preparing revenue budgets and medium term financial planning and the use of reserves.

Financial Rules – Appendix C: Risk Management and Control of Resources.

11. A recommendation was made following the review of this section in relation to voluntary funds. The Council presently does not hold an accurate listing of these funds administered by it and there is a small risk therefore, that they will not be administered in accordance with the appropriate legislation or specific requirements of the funds.
12. In respect of all other areas, internal controls; audit requirements; resources; asset disposal; risk management and insurance; treasury management and banking; investments and borrowing and staffing; no recommendations were made and compliance was found to be good.

Financial Rules – Appendix D: Systems and Procedures.

13. Compliance was found to be good in respect of the arrangements in place for ordering and payment for goods and services, taxation, trading accounts and business units. Following the review of this section two significant recommendations were made as follows:
- The Income Manager was to coordinate a review of procedures, systems and documentation for income due to the Council and ensure its roll out amongst staff.
 - The Payment Card Industry Security Standards project continues to be delivered as a matter of urgency; significant.

Work is underway to remove payments by cheque to recipients of pensions, if this is not achieved, it is recommended that future cheques purchased should be crossed 'account payee only' for added security.

Financial Rules – Appendix E: External Arrangements.

14. No recommendations arose from the review of this section which covered partnerships and external arrangements.

Findings from responses to a questionnaire circulated to Directorate Finance Managers

15. As part of the review, Finance Managers and Heads of Finance were asked to complete a questionnaire on operational procedures to ensure compliance with selected requirements of the rules. This identified that staff are aware of their responsibilities under Financial Rules, that appropriate training is provided and that Financial Rules are accessible. The provision of financial information to budget holders and training available to them was satisfactory, together with the

mechanisms deployed to identify potential problems with budgets. The methodology employed in the treatment of virements and write-offs and the securing of appropriate approval for these are well established. Officers are fully aware of the course of action required in the event of a breach of Financial Rules.

Findings of Internal Audit reviews 2009/10

16. In June 2010, the Audit Committee received a report from the Internal Audit Manager summarising the main findings identified from internal audit work undertaken during 2009/10, concluding that no material weaknesses or issues had been identified. A report will be issued later this summer on the findings from audits performed during 2010/11. At the time of compiling this report no significant material weaknesses have been identified for the current year.

Conclusion

17. There is an excellent level of compliance with Financial Rules and no material breaches have been identified. There is a need to improve compliance with the Financial Rules in respect of the recommendations made.

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

Financial Rules, Corporate Finance Manual

Human Rights Act Appraisal

The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

Environmental Appraisal

N/A

Risk Management Appraisal

A failure to ensure compliance across the Council with Financial Rules could lead to a lack of financial management and control and the possibility of loss of funds and assets by theft or misappropriation.

Community / Consultations Appraisal

N/A

Cabinet Member

Keith Barrow, Leader of the Council. (Brian Williams, Chair of the Audit Committee).

Local Member

N/A

Appendices

N/A