



Committee and Date

Audit Committee

16 June 2011

10.00am

Item

**13**

Public

## **ANNUAL ASSURANCE REPORT TO COUNCIL 2010/11**

**Responsible Officer** James Walton

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### **1. Summary**

- 1.1 Attached to this report is the draft Audit Committee's Annual Assurance Report to Council for 2010/11. This provides Council with an independent scrutiny report of its financial performance to the extent that it affects the Council's exposure to risk.

### **2. Recommendations**

- 2.1 Audit Committee is asked to consider and comment on the contents of the draft Annual Assurance report for 2010/11 before forwarding to Council with the recommendation that they accept this report.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 The Audit Committee's Annual Assurance Report is part of the overall internal control arrangements and risk management process. The Committee objectively examines and evaluates the adequacy of the control environment through the reports it receives and in turn can provide assurances to Council on its internal control systems that inform the Annual Governance Statement.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998. There are no direct environmental, equalities, consultation or climate change requirements or consequences of this proposal.

### **4. Financial Implications**

- 4.1 There are no direct financial implications from this report

## 5. Background

- 5.1 A key part of the Audit Committee's role is to provide independent assurance of the adequacy of the risk management framework and the associated internal control environment. The Committee oversees the financial reporting process and it also provides independent scrutiny of the authority's financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
- 5.2 The Audit Committee has a well established role within the Council and it is important that an Annual Assurance report based on the work of the Committee is produced and recommended to Council. In compiling this assurance report, information provided at the Audit Committee meeting on 16 June 2011 has also been taken into account.
- 5.3 Attached to this report is the draft Audit Committee Annual Assurance report to Council for 2010/11 for members to consider and comment on (**Appendix A**).

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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Audit Committee agendas and reports from September 2010 to June 2011
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<b>Cabinet Member (Portfolio Holder)</b>
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Keith Barrow, Leader of the Council and Brian Williams, Chairman of Audit Committee
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<b>Local Member</b>
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N/A
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<b>Appendices</b>
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Appendix A - Draft Audit Committee Annual Assurance Report 2010/11
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**DRAFT AUDIT COMMITTEE ANNUAL ASSURANCE REPORT 2010/11**

**INTRODUCTION FROM THE CHAIRMAN OF THE AUDIT COMMITTEE**

1. The governance of the public sector has increased in profile in recent years with the Chartered Institute of Public Finance and Accountancy (CIPFA) urging local government to improve practice. In Shropshire we have kept pace with good practice having adopted a Code of Corporate Governance which we revise and update annually in line with the best practice issued by CIPFA and SOLACE; we have also produced an Annual Governance Statement again keeping the Council in line with best practice and legislative requirements. Being well managed and well governed are important attributes in helping to improve performance and in reducing the risk of failing to achieve our objectives and providing service to our community.
2. In seeking continually to improve our governance procedures and keep pace with best practice, Shropshire has a well established Audit Committee. The Committee is a key component of the Council's corporate governance arrangements and is a major source of assurance about the Council's arrangements for managing risk, maintaining an effective control environment and reporting on financial and non-financial performance.
3. Members see the benefits of operating an effective Audit Committee as:
  - Increasing public confidence in the objectivity and fairness of financial and other reporting.
  - Reinforcing the importance and independence of internal and external audit and any other similar review process; for example, reviewing the Annual Statement of Accounts and the Annual Governance Statement.
  - Providing additional assurance through a process of independent and objective review.
  - Raising awareness within the Council of the need for internal control and the implementation of audit recommendations.
  - Providing assurance on the adequacy of the Council's risk management arrangements and reducing the risk of illegal or improper acts.
4. We have a substantial range of activities that we have to undertake as a Committee and work closely with both our Internal and External Auditors and the Chief Finance Officer in achieving our aims and objectives. We have put together a work plan for the year to enable key tasks to be considered and completed.

5. As Chairman of the Audit Committee, I have always seen training as a key priority for myself and the other members in order to undertake our roles on the Audit Committee effectively. Since the formation of the Audit Committee, we have undertaken a full and extensive programme of training and this year has been no exception. A full training programme has been put in place to ensure that all members of the Audit Committee are provided with the skills and knowledge for them to be able to fulfil their roles effectively and efficiently.
6. I am pleased to pay tribute to the work of all my four colleagues and their substitutes who are enthusiastic in their interest in the purpose and objectives of the Committee and whose regular attendance at training sessions has been impressive. As Chairman of the Audit Committee, I believe we have helped contribute to improvements and developments in the Council's corporate governance and internal control arrangements and I intend that we will continue with the high standards and contributions established by this Committee over a number of years.
7. This year we have held five meetings including the meeting held on 16 June 2011. We have received and considered a substantial number of reports across key areas of the Council's activity (see **Annex A**). The care and attention of the Section 151 Officer, Audit Service Manager and all their Audit staff to ensuring that Members receive all reports in time for adequate consideration has been impressive. The dedication of Audit staff to the preparation of our training sessions in order to ensure that Members can understand and give critical appraisal to all documents has been appreciated. We have asked questions and received answers to our questions. In line with best practice, we now feel we are in a position to provide our annual assurance statement based on the reports received and considered and on the information provided by our officers and our External Auditors.

### **Audit Committee Membership and Dates of Meetings**

8. Membership of the Audit Committee is made up of the following Councillors:
  - Mr B B Williams (Chairman)
  - Mr M Whiteman (Vice Chairman)
  - Mr P Adams
  - Mr M Wood
  - Mr C Mellings

And substitutes who are invited to attend and contribute at all meetings and training are:

- Mr B Gillow
- Mr R Tindall
- Mr K Roberts
- Mr R Evans

9. Meetings of the Committee have been held on:

- 16 September 2010
- 25 November 2010
- 8 February 2011
- 23 March 2011
- 16 June 2011

#### **Details of Reports/Information Received**

10. **Annex A** provides a summary of the key reports and information received by the Audit Committee at its meetings. A detailed audit work plan has been agreed for the forthcoming year.

#### **Annual Statement of Assurance**

11. On the basis of:

- The work carried out by the Internal and External Auditors and their reports presented to this Committee and
- The work carried out by the Section 151 Officer, Audit Service Manager and their reports presented to this Committee.

The Audit Committee's opinion, based on the reports, explanations and assurances received from both officers and the Council's External Auditor, is that the Council has in place adequate and effective risk management and internal control systems that can be relied upon and which contribute to the high corporate governance standards that this Council expects and has consistently maintained.

#### **RECOMMENDATION – Council is invited to accept this report**

Signed ..... Date.....  
On behalf of the Audit Committee  
Brian Williams

**SUMMARY OF REPORTS RECEIVED BY AUDIT COMMITTEE**

**At the meeting on 16 September 2010, the following reports were received and considered:**

➤ **Payroll Data Analysis**

Report of the Exchequer Services Manager which set out the results of the payroll data analysis undertaken by Deloitte's. He confirmed that no areas of concern had been identified and that assurance had been provided on the robustness of the payroll controls together with the adequacy of the work of Internal Audit to identify incorrect payments.

➤ **Annual Insurance Report 2009/10**

Report from the Risk and Insurance Manager summarising the claims activity for 2009/10 policy year relating to Shropshire Council.

➤ **Income collection**

Report of the Head of Finance (Treasury and Pensions) which provided Members with information on the payment channels available to residents of Shropshire for the wide range of services provided by the Council.

➤ **Housing Rent Arrears and Update on New Housing IT System**

Report of the Head of Landlord Services which provided details of the outturn position for rent arrears for the 2009/10 financial year and the position for the first quarter of 2010/11. An update in respect of the implementation of the new integrated housing IT system was also provided.

➤ **Audited Annual Statement of Accounts 2009/10**

Report of the Section 151 Officer which presented Members with the final audited outturn position for the financial year 2009/10 on which the District Auditor had indicated would receive an unqualified opinion, subject to some outstanding queries.

➤ **Annual Governance Report**

Report of the District Auditor which presented Members with the results of the Audit Commission's audit work for 2009/10.

➤ **Audit Committee Training Plan 2010/11**

Report of the Head of Audit which set out a proposed training plan for Audit Committee Members and Substitutes which would ensure that

they were well informed to fulfil their role.

➤ **CIPFA Audit Committee Update – Helping Audit Committees to be Effective**

Report of the Head of Audit which informed Members of the CIPFA Audit Committee update briefing papers to be supplied through CIPFA's Better Governance Forum three times a year. The Head of Audit felt that these would be a useful resource to share with the Committee.

➤ **Council Tax, National Non Domestic Rate and Housing Benefit Overpayment Performance Monitoring Report**

Report of the Head of Finance (Exchequer Services) which provided Members with performance monitoring information on the collection of income in respect of Council Tax and National Non Domestic Rates (NNDR) for the year to 31 August 2010.

**At the meeting on 25 November 2010, the following reports were received and considered:**

➤ **International Financial Reporting Standards (IFRS) Update**

Presentation from the Finance Manager (Corporate Finance) which updated Members on progress with the International Financial Reporting Standards (IFRS), and covered the following areas:

- Timeline for restating the 2009/10 Accounts for IFRS
- Work undertaken on IFRS Restated Accounts
- Skeleton Accounts and Accounting Policies

➤ **Follow up Report Reviewing the Audit Commission's Annual Governance Report 2009/10, Recommendation five**

Report of the Head of Audit Services which set out details of the review of procedures for raising sales invoices as recommended by the Audit Commission in its Annual Governance Report 2010/11.

Following the review it was concluded that the controls already in place gave sufficient assurance and that the cost of introducing a control which could confirm the completeness of recording of income would outweigh the benefits and was unlikely to result in any savings.

➤ **Information Commissioner's Office Data Protection Audit**

Report of the Head of Audit Services which set out the results of the Data Protection Audit and the further improvements proposed by the Information Commissioner's Office (ICO) which formed part of an agreed Action Plan for the Council.

The Head of Audit Services reported that the ICO considered that the Council's current arrangements for data protection governance and

security provided a reasonable level of assurance. The Head of Audit Services confirmed that the Council were delivering on the agreed Action Plan.

➤ **Benefit Service Inspection Report**

Report of the Head of Finance (Exchequer Services) which provided Members with the results of the recent Audit Commission inspection. It also provided details of the Action Plan which had been produced to address the weaknesses identified in the report.

The Head of Finance (Exchequer Services) felt it was a comforting report and gave some assurance about the work being undertaken to overcome the issues that caused delays last year.

➤ **Benefits Fraud Team Performance Monitoring Report**

Report of the Head of Finance (Exchequer Services) which provided Members with performance monitoring information on the activities of the team for the year to 30 September 2010.

➤ **Treasury Strategy 2010/11 – Mid Year Review**

Report of the Head of Finance (Treasury & Pensions) which provided information on the Council's Treasury Management activities for the first six months of the year.

The Head of Finance (Treasury & Pensions) highlighted the key points and reported that all activities had been in accordance with approved limits.

➤ **Annual Review of Internal Audit Strategy**

Report of the Head of Audit Services which proposed some minor changes to the Internal Audit Strategy 2009/10 to 2012/13.

➤ **Annual Review of Internal Audit Terms of Reference**

Report of the Head of Audit Services which proposed some minor changes to the Internal Audit Terms of Reference which reflected the structural changes taking place within the Council.

➤ **Internal Audit Plan 2010/11 – Half Year Report**

Report of the Head of Audit Services which summarised progress against the Internal Audit Plan up to the end of September 2010.

➤ **Annual Review of Audit Committee Terms of Reference**

Report of the Section 151 Officer which identified a number of minor



proposed changes to the Audit Committee's Terms of Reference.

➤ **Audit Committee Self Assessment Checklist**

Report of the Section 151 Chief Finance Officer which set out the draft self assessment questionnaire which would allow Members to demonstrate the effectiveness of the Audit Committee and to identify whether there were any further improvements that could be made to improve the Committee's overall effectiveness.

The Chairman requested that a blank self assessment checklist be circulated to all Committee Members and Substitutes and that the item be deferred for completion at the next meeting.

➤ **Annual Review of Counter Fraud and Anti-Corruption Strategy**

Report of the Head of Audit Services which set out the Counter Fraud and Anti-Corruption Strategy which had been totally refreshed in line with best practice and continues to clearly outline the Council's commitment to stand against all forms of Fraud and Corruption whether it is attempted on or from within the Council.

**At the meeting on 8 February 2011, the following reports were received and considered.**

➤ **Council Tax and National Non Domestic Rate Performance Monitoring Report**

Report of the Head of Finance (Exchequer Services) which provided Members with performance monitoring information on the collection of Council Tax and National Non Domestic Rates (NNDR) for the year to 26 January 2011.

➤ **Treasury Strategy 2011/12**

Report of the Head of Finance (Treasury and Pensions) which proposed the Treasury Strategy for 2011/12 and recommended Prudential Indicators for 2011/12 to 2013/14.

➤ **External Audit: Annual Audit Letter, Audit 2009/10**

Report of the District Auditor which summarised the findings from the 2009/10 audit, and which comprised the audit of the authority's financial statements, an assessment of the authority's arrangements to achieve value for money in its use of resources and an inspection of the Benefits Service.

➤ **External Audit: Audit Strategy, Audit 2010/11**

Report of the District Auditor which set out the audit work proposed to

be undertaken for the audit of financial statements 2010/11 and the Value for Money conclusion and which reflects the audit work specified by the Audit Commission for 2010/11 together with current national risks relevant to the authority's local circumstances and risks.

➤ **External Audit: Statement of Audit Progress, Audit 2010/11**

Report of the District Auditor which updated Members on progress made by the Audit Commission in delivering its responsibilities as the authority's external auditor. It also highlighted key emerging national issues and developments which may be of interest to the Committee.

➤ **Annual Audit Committee Self Assessment**

Report of the Section 151 Chief Finance Officer which asked Members to review and comment on the self assessment questionnaire attached to the report which would allow them to demonstrate the effectiveness of the Audit Committee, and to identify whether there were any further improvements that could be made to improve the Committee's overall effectiveness.

➤ **Internal Audit Plan 2010/11 – Third Quarter Report**

Report of the Head of Audit Services which summarised progress for 2010/11 against the Internal Audit Plan covering delivery up to the end of December.

➤ **Internal Audit Risk Management Report 2010/11**

Report of the Audit Manager which summarised the detailed findings identified in the Internal Audit review of Risk Management.

The Audit Manager concluded that the overall control environment for the system of Risk Management had been assessed as good and this would be fed into the Annual Audit Report to be presented to the Committee at its meeting in June.

**At the meeting on 23 March 2011, the following reports were received and considered.**

➤ **Housing Rent Arrears**

Report of the Housing Finance Manager which gave an update on the rent collection rate to 6 March 2011 and identified actions that had been taken during the year to reduce the level of arrears since 31 March 2010.

➤ **Report on the Process undertaken to date for the Highway and Environment Term Service Contract**

Report of the Procurement Manager which reviewed the tendering process so far undertaken to award the Highway and Environment Term

Service Contract which Shropshire Council was procuring jointly with Cheshire West and Chester Council.

➤ **External Audit Progress Report**

Report of the Council's Audit Commission Manager which provided an update on progress made by the Audit Commission in delivering its responsibilities as the authority's external auditor. It also highlighted key emerging national issues and developments which may be of interest to the Committee.

➤ **External Audit: Audit Strategy, Shropshire County Pension Fund 2010/11**

Report of the Council's Audit Commission Manager which set out the audit work proposed to be undertaken for the audit of the Pension Fund financial statements for 2010/11.

➤ **External Audit 2009/10 Certification of claims and returns report**

Report of the Council's Audit Commission Manager which summarised the findings from the certification of 2009/10 claims.

➤ **Draft Internal Audit Plan 2011/12**

Report of the Head of Audit Services which provided Members with a detailed audit plan for 2011/12.

➤ **Audit Committee Annual Work Plan 2011/12**

The Committee received the draft work plan which covered the period up to the 22 March 2012 for approval.

➤ **Compliance with Financial Rules**

- Report of the Head of Audit Services which summarised the findings identified in the Internal Audit review of compliance with Financial Rules.

**At the meeting on the 16 June 2011, the following reports were received and considered:**

➤ **Internal Audit Annual Report 2010/11**

Report of the Audit Service Manager on achievements against the revised internal audit plan for 2010/11 and the annual internal audit assurance.

➤ **Annual Review of the Effectiveness of Internal Audit 2010/11**

Report of the Section 151 Officer on the effectiveness of Internal Audit in 2011/12

- **Review of Shropshire Council's Code of Corporate Governance Report**  
Report from the Senior Group Auditor providing an update on the review of the Council's compliance with the Code of Corporate Governance.
- **Annual Governance Statement and a Review of the Effectiveness of the Council's System of Internal Controls 2010/11**  
Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement
- **Revenue Outturn Report 2010/11**  
Report from the Section 151 Officer providing details of the revenue outturn position for the Council.
- **Capital Outturn Report 2010/11**  
Report from the Section 151 Officer informing members of the full year capital expenditure, slippage and financing of the Council's capital programme.
- **Annual Statement of Accounts 2010/11**  
Report of the Section 151 Officer on the draft Annual Statement of Accounts.
- **Annual Assurance Report to Council 2010/11**  
Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance Report to Council.
- **Risk Management Annual Report to Committee**  
Report of the Risk and Insurance Manager on the outcomes and progress in respect of risk management throughout the year
- **Benefit Fraud Team Performance Monitoring Report**  
Report by the Customer Care and Involvement Manager on progress of the Benefit Fraud Team.
- **Progress Report on Benefit Service Inspection**  
Report by the Customer Care and Involvement Manager on progress to date following the Benefit Service Inspection.
- **External Audit Annual Audit Fee 2011/12 Letter**

Report by the Audit Commission Manager on the external audit annual inspection fees.

➤ **External Audit Progress Report**

Report from the Audit Commission Manager on progress against the 2010/11 External Audit Plan.

➤ **Response to Consultation on the Future of Local Public Audit 2010/11**

Report of the Section 151 Officer on the Council's proposed response to consultation on the Future of Local Public Audit 2010/11

➤ **Audit Committee Training Plan 2011/12**

Report from the Audit Services Manager providing a proposed training plan for Audit Committee Members to ensure they are well informed to fulfil their role.

➤ **Briefing Note on Council Credit Card Processes**

Report from the Audit Services Manager, on the Council's processes and internal controls for credit cards.