



Committee and Date

Audit Committee

14 February 2013

10.00am

Item

9

Public

BIENNIAL REPORT ON COMPLIANCE WITH FINANCIAL RULES 2012/13

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1. 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 biennial 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.

2. Recommendations

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

REPORT

3. Risk Assessment and Opportunities Appraisal

- 3.1 To conduct its business efficiently whilst demonstrating the highest probity and stewardship of public funds, the Council needs to ensure that it has sound financial management policies and procedures in place and that they are strictly adhered to. Financial Rules is a key element of the Council's Constitution and must be observed at all times to ensure good financial management.
- 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 or climate change consequences arising from this report.

4. Financial Implications

- 4.1 The presence and use of Financial Rules demonstrates to the public that proper safeguards and controls exist in relation to managing public money and assets.

5. Background

- 5.1 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.
- 5.2 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 are the responsibility of the Council's Section 151 Officer; they form part of the Constitution and set out the financial policies and procedures of the Council. They apply to every member and officer of the Council and anyone acting on behalf of the Council.
- 5.3 There are five areas covered by the Financial Rules:
1. Financial management and control.
 2. Financial planning.
 3. Risk management and control of resources.
 4. Systems and procedures.
 5. External arrangements.
- 5.4 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 biennial 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 Financial Rules and make recommendations to address weaknesses or problems identified for individual systems.

Internal Audit Compliance with Financial Rules Report – Executive Summary

- 5.5 Audit findings are evaluated to provide a level of assurance on the effectiveness of the system of internal control. These evaluations are defined as 'Good', 'Reasonable', 'Limited' and 'Unsatisfactory'. On the basis of the audit work undertaken the overall control environment for the compliance with Financial Rules has been assessed as "Good".
- 5.6 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 Finance Officers to identify how they ensure compliance with Financial Rules across their areas. Documentary evidence was obtained to confirm the results of the audit findings.

5.7 A detailed report has been issued to the Section 151 Officer which makes **five** recommendations for improvement. An Action Plan is in being developed to address the recommendations made. The following provides a summary of the key findings and recommendations.

Control Objective Conclusion and Summary of Findings

5.8 The following table shows the audit opinion on each of the five areas covered by Financial Rules; full or substantial compliance has been achieved:

	FINANCIAL RULES – APPENDICES.	CONCLUSION AND SUMMARY OF FINDINGS
1.	Financial Management and Control.	<p>This control objective is substantially achieved.</p> <p>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.</p> <p>One previous recommendation relating to the updating of the Finance Manual has not been implemented and has been restated.</p>
2.	Financial Planning.	<p>This control objective is achieved.</p> <p>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.</p> <p>A recommendation has been made that Financial Rules be reviewed as they do not provide sufficient detail on the controls required to facilitate this approach and the proposed relationship with ip&e and other delivery vehicles.</p>
3.	Risk Management and Control of Resources.	<p>This control objective is achieved.</p> <p>Compliance was found to be good in respect existing internal controls; audit requirements; resources; asset disposal; risk management and insurance; treasury management and banking; investments and borrowing and staffing. With regard to the future, a recommendation has been made to review Financial Rules to ensure they facilitate the Council's transition into a Commissioning organisation.</p>
4.	Systems and Procedures	<p>This control objective is substantially achieved.</p> <p>Compliance was found to be good in respect of the</p>

	FINANCIAL RULES – APPENDICES.	CONCLUSION AND SUMMARY OF FINDINGS
		arrangements in place for ordering and payment for goods and services, taxation, trading accounts and business units. Two previous recommendations made, relating to updating income systems guidance and Payment Industry Standards (PCI), have not been implemented and these have been restated. A new recommendation has been made regarding the authorisation of write offs of cumulative debt.
5.	External Arrangements.	This control objective is achieved. No recommendations arose from the review of this section which covered partnerships and external arrangements.

5.9 As part of the review, Finance Officers 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.

5.10 Five recommendations have been made, two concern updating Financial Rules to ensure they are current and fit for the new commissioning model, two regarding income guidance and PCI compliance and one on authorisation of write offs of cumulative debt, all have been accepted by management.

6. Conclusions

6.1 There is an excellent level of compliance with Financial Rules and no material breaches have been identified. There is a need to continually review Financial Rules, to ensure that they reflect the Council's current strategy to become a commissioning authority in order to maintain sound financial management.

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

Financial Rules

Cabinet Member (Portfolio Holder)

Keith Barrow, Leader of the Council, Brian Williams, Chairman of Audit Committee

Local Member: N/A

Appendices: N/A