



Committee and Date

Audit Committee

21 June 2013

10.00am

Item

**15**

Public

## **ANNUAL ASSURANCE REPORT TO COUNCIL 2012/13**

**Responsible Officer** James Walton

e-mail: James.walton@shropshire.gov.uk

Tel: 01743 255011

### **1. Summary**

Attached to this report is the draft Audit Committee's Annual Assurance Report to Council for 2012/13. This provides Council with an independent assurance report 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.

### **2. Recommendations**

Audit Committee is asked to consider and comment on the contents of the draft Annual Assurance report for 2012/13 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**

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 21 June 2013 has also been taken into account.
- 5.3 Attached to this report is the draft Audit Committee Annual Assurance report to Council for 2012/13 for members to consider and comment on (**Appendix A**).

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

Draft Internal Annual Audit Plan 2012/13 - Audit Committee 22 March 2012

Internal Audit Plan 2012/13 - Half year report - Audit Committee 7 December 2012

Internal Audit Plan 2012/13 – Third quarter report- Audit Committee 14 February 2013

Internal Audit Annual Report 2012/13 – Audit Committee 21 June 2013

### **Cabinet Member (Portfolio Holder)**

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

### **Local Member**

N/A

### **Appendices**

Appendix A - Draft Audit Committee Annual Assurance Report 2012/13

**DRAFT AUDIT COMMITTEE ANNUAL ASSURANCE REPORT 2012/13**

**STATEMENT FROM THE CHAIRMAN OF THE AUDIT COMMITTEE**

1. The governance of the public sector continues to increase in profile 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 examine and assess ourselves against 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 good 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. The benefits to the Council of operating an effective Audit Committee are:
  - 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 schedule has been put in place to

ensure that all members of the Audit Committee are provided with the skills and knowledge to enable them 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 21 June 2013. 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 her 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 are completely satisfied that we are in a positive 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 for 2012/13 was made up of the following Councillors:
  - Mr 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
    - 19 September 2012
    - 7 December 2012
    - 14 February 2013
    - 27 March 2013
    - 21 June 2013

## 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.
11. Given the Audit Service Manager's qualified opinion on the Council's internal control environment, the Audit Committee confirms that it has been made aware of the negative direction of travel in an increased number of internal audit assurance reports on the principle financial systems. Given the significance of the systems attracting limited and unsatisfactory assurances: i.e. payroll, income, sales and purchase ledgers, their impact on the general ledger system in 2012/13 and the explanation received from the Audit Service Manager, the Audit Committee agrees that these issues are sufficient to warrant qualifying the annual audit opinion to the extent that management must prioritise implementing their responses to address the issues identified. As the Audit Service Manager has reviewed these control weaknesses and highlighted them to management, the Audit Committee is satisfied that there has been no evidence of significant errors that could result in a material misstatement in the Authority's accounts and reliance can be placed upon them for that purpose.

### **Additional Responsibilities**

12. Members of the Audit Committee and the Audit Service Manager and her staff are well aware of the changing nature of local government in relation to the greater responsibilities for innovative practice allowed by the Government's Powers of Competence Act. In particular we are aware that the Audit function will have an essential role to play in monitoring the risks involved in the arrangements for strategic commissioning and the creation of a Council owned trading company for service delivery. Members are already receiving training in this extended aspect of their responsibilities, and the Audit Service Manager is ensuring that adequate resources are available in order to minimise any possibility of the risk of financial malpractice. Members of the Committee and Audit staff are fully seized with the need to be "ahead of the game", as the role of local government changes and evolves to meet the challenges of reductions in many of the traditional sources of income.

### **Audit Service Staff**

13. I have written above about the impressive manner in which Audit staff prepare the wide range of reports which are necessary for the consideration of Committee members. The key staff are James Walton, the Section 151 Officer, Ceri Pilawski, the Audit Service Manager and Chris Kalinowski, her Deputy, who also carries the additional delegated authority of ensuring the effectiveness of the Council's Counter Fraud and Anti-Corruption policy and the "Whistle-blowing" policy.

Without the enthusiastic support of all Audit staff and, in particular, of the three officers mentioned above, it would not be possible for the Audit Committee to be as highly effective as peer comparisons show us to be.

## Annual Statement of Assurance

14. 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.

15. The Audit Committee's opinion, based on the reports, explanations and assurances received, is that the Council has become liable to increased risks in the principle financial systems that are currently operating. Whilst there is no evidence of significant material errors reported that could result in a material misstatement in the Authority's accounts; a number of internal control improvements have been agreed by management and require implementation in order to improve internal control systems.

### **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 19 September 2012, the following reports were received and considered:**

➤ **Review of Audit Committee development requirements 2012/13**

Report of the Audit Service Manager which set out a proposed Audit Committee work plan and asked Members to agree a training topic for January 2013. Members had previously agreed their work programme and associated training programme for the year with the exception of the January topic. The Council's finances were agreed as the topic for January.

➤ **Information Risk Policy**

The Audit Service Manager gave details of the responsibilities of the Audit Committee outlined in the new approved Information Risk Policy. The Information Risk Policy covered the Council's governance of the information it uses for service delivery, and set out a framework which would enable the council to meet its compliance obligations. The policy supports the Council's Data Protection, Information Security and Records Management policies in accordance with the Local Government Association's data handling guidelines.

➤ **Council tax and national non domestic rate performance monitoring report**

Report of the Head of Customer Care and Involvement 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 2012. The Revenues Manager advised members that between 31 March 2012 and 1 August total council tax arrears had been reduced by £1.5 million and arrears for business rates had been reduced by £500,000.

➤ **Benefit overpayment performance monitoring report**

Report of the Head of Customer Care and Involvement which provided Members with performance monitoring information on the collection of income in respect of benefit overpayments for the year 2011/12 and for 2012/13 up to the 31 July 2012.

➤ **Housing rent arrears annual update 2011/12**

Report of the Financial Advice Manager which provided details of the rent collection rate for 2011/12 and the first quarter of the current financial year. The Financial Advice Manager advised Members that the final quarter collection target of 99% had been achieved and that the collection rate for the first quarter of this financial year was above the rate for the same comparable period for the previous three years.

➤ **Annual treasury report 2011/12**

Report of the Section 151 Officer providing information on treasury activities for Shropshire Council for 2011/12, including the investment performance of the Internal Treasury team to 31 March 2012.

➤ **Risk management annual report to Audit Committee 2012**

Report from the Risk Management Team Leader which set out the work undertaken by the Risk Management Team during the last year. The Risk Management Team Leader advised members that the Risk Management Team had taken part in the CIPFA/ALARM benchmarking exercise and that the team had been assessed as operating at the top level in all seven sections, being in first or joint first position in five sections.

➤ **External Audit: Annual governance report**

Report of the District Auditor which presented Members with the results of the Audit Commission's audit work for 2011/12, providing an unqualified audit opinion.

➤ **External Audit: Pension Fund annual governance report**

Report of the District Auditor which summarised for Members the findings from the 2011/12 audit of the Pension Fund financial statements, providing an unqualified audit opinion.

➤ **Audited annual Statement of Accounts 2011/12**

Report of the Section 151 Officer which presented Members with the final audited outturn position for the financial year 2011/12 on which the District Auditor had indicated would receive an unqualified opinion. The Corporate Head of Finance and Commerce informed members that there had been no material changes to the main accounting statement since the version reported to the committee in June.

➤ **National Fraud Initiative 2010/11 update**

Report of the Audit Services Manager which provided members with an update of the outcomes arising from the National Fraud Initiative (NFI) 2010/11 exercise and the outcomes to date on the results of the Council Tax Single Person discount investigations whose matches were released in 2011/12. The largest part of estimated financial savings related to housing benefit matches. The exercise remains a positive and integral part of this Authority's commitment to the detection and prevention of fraud.

➤ **Internal Audit annual plan 2012/13**

Report of the Audit Services Manager which set out proposed revisions to the Internal Audit Plan arising from staffing changes, income fluctuations, recruitment difficulties and uncertainty around the audit needs of the Council moving forward.

➤ **Counter fraud plan 2012/13**

Report of the Audit Services Manager which set out the counter fraud work plan.



This plan ensures that the Council has considered and identified its fraud risks as part of an organisation wide risk assessment programme assessing its overall vulnerability to fraud and continuing to identify areas that are most likely to be affected to target counter fraud resources accordingly.

➤ **The National Fraud Initiative checklist for Members**

Report of the Audit Services Manager which laid out a checklist for members to understand how the National Fraud Initiative (NFI) is being used within the Council to identify if the benefits of participation are being maximised and to target any areas for improvement. Participation in the NFI exercise continues to be an integral part of the Council's counter fraud arrangements and was an essential component of an effective Counter Fraud, Bribery and Anti-Corruption strategy. The Chairman of Audit Committee was identified as the lead member for counter fraud activity.

**At the meeting on 7 December 2012, the following reports were received and considered:**

➤ **External Audit: Quantum Leap report 2011/12**

Report of the District Auditor resulting from a local elector raising concerns about the costs and value for money of the Quantum Leap Sculpture. The District Auditor concluded that improved documentation would have assisted in improving the transparency of the decision making process and that there were lessons to be learnt with recommendations made in relation to transparency and governance issues which had been accepted by the Council.

➤ **Annual insurance report 2011/12**

Report from the Risk Management Team Leader summarising the claims history for 2011/12 policy year relating to Shropshire Council. The Risk Management Team Leader reported that there had been a reduction in the number of total claims received, in part due to the work of the Highways team whose good risk management processes allowed the Council to successfully defend claims.

➤ **Update on the actions to be taken following the audits of the Shropshire Hills Discovery Centre, 2011-12**

Report of the Southern Area Facilities Team Leader which described the progress being made in response to audit reviews carried out at the Shropshire Hills Visitor Centre between May and August 2011 and in April 2012. The Southern Area Facilities Team Leader reported that progress in addressing the recommendations had been slower than expected due to the level of change to the management of the Shropshire Hills Discovery Centre.

➤ **Treasury Strategy 2011/12 mid-year review**

Report of the Section 151 Officer reporting the Treasury Strategy as prepared in compliance with CIPFA's Code of Practice on Treasury Management which highlighted the key points and reported that all activities had been in accordance with approved limits for the first six months of the financial year.

➤ **ip&e, programme management governance report**

The Programme Manager introduced his report which set out the internal programme management structure and governance controls being applied to the programme to establish ip&e, and the transfer of Council services to ip&e. The report also provided assurance on the progress of the programme to date.

➤ **External Audit: annual audit letter 2011/12**

Report of the District Auditor which summarised the findings from the 2011/12 audit, and which comprised the audit of the authority's financial statements and confirmation that the Council has proper arrangements in place to secure value for money. The accounts were certified and officially closed.

➤ **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 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.

➤ **Internal Audit strategy**

Report of the Audit Service Manager which proposed some minor changes to the Internal Audit Strategy.

➤ **Annual review of Internal Audit terms of reference**

Report of the Audit Service Manager which proposed no changes to the Internal Audit terms of reference.

➤ **Annual review of Counter Fraud, Bribery and Anti-Corruption Strategy and an update on the Government's strategic plan entitled 'Fighting Fraud Together'**

Report of the Audit Service Manager which proposed some changes to the Counter Fraud, Bribery and Anti-Corruption Strategy in line with best practice. The strategy was refreshed in line with best practice and continued to set out the Council's commitment to stand against all forms of fraud, bribery and corruption whether it was attempted on or from within the Council. A number of changes were adopted to reflect the Government's latest strategy and to reflect further management structure changes.

➤ **Internal Audit plan 2012/13 - half year report**

Report of the Audit Service Manager which summarised progress against the

Internal Audit Plan up to the end of September 2012.

**At the meeting on 14 February 2013, the following reports were received and considered.**

➤ **ip&e, programme management governance report**

Report of the Programme Support Officer which set out the continuing governance controls being applied to the programme to establish ip&e, and the transfer of Council services to ip&e, as requested by the Committee at the meeting held on 7 December 2012.

➤ **Treasury Strategy 2013/14**

Report of the Section 151 Officer which proposed the Treasury Strategy for 2013/14 and recommended Prudential Indicators for 2013/14 to 2015/16.

➤ **Benefit fraud investigations – performance monitoring report**

Report of the Team Manager - Investigations which provided Members with performance monitoring information on benefit fraud investigations undertaken by officers for the financial year 2012/13 up to 28 January 2013.

➤ **External Audit: planned audit fee for 2012/13**

Report of Grant Thornton UK LLP which sets out details of the external audit fee for the Council along with the scope and timing of their work and details of their team.

➤ **External Audit: Certification work report 2011/12**

Report of Grant Thornton UK LLP which summarised the overall assessment of the Council's management arrangements in respect of the certification process and drew attention to significant matters in relation to individual claims. The District Audit Manager reported that all claims had been submitted on time and were certified within the required deadlines. Only one qualification letter was issued in relation to the Housing and Council Tax Benefits scheme.

➤ **Biennial report of compliance with Financial Rules 2012/13**

Report of the Senior Group Auditor which summarised the findings of Internal Audit's review of compliance with Financial Rules. Overall, compliance was found to be excellent with no material breaches identified.

➤ **Internal Audit plan 2012/13 - third quarter report**

Report of the Audit Service Manager which summarised good progress to the end of January 2013 against the Internal Audit Plan.

**At the meeting on 27 March 2013, the following reports were received and considered.**

➤ **Update on actions following review of Shared Services - Finance**

Report of the Section 151 Officer which updated Members on the progress being made following the management review carried out within Shared Services Finance in October 2012. The Section 151 Officer felt much more comfortable and able to provide assurance that the issues were being dealt with and were adequately resourced.

➤ **External Audit: Annual audit plan for 2012/13**

Report of Grant Thornton UK LLP which set out the Annual Audit Plan for 2012/13.

➤ **External Audit: Informing the audit risk assessment**

Report of Grant Thornton UK LLP which contributed towards the effective two-way communication between auditors and the Council's Audit Committee. It also covered some important areas of the auditor risk assessment where external audit were required to make inquiries of the Audit Committee under auditing standards.

➤ **Internal Audit report of the review of Risk Management**

Report of the Senior Group Auditor which summarised the detailed findings identified in the Internal Audit review of Risk Management. The Senior Group Auditor 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.

➤ **Public Sector Internal Audit Standards (PSIAS)**

Report of the Audit Service Manager which provided a summary briefing on the new PSIAS which the Chartered Institute of Public Finance and Accountancy (CIPFA) had developed in collaboration with the Chartered Institute of Internal Auditors (CIIA) and which came into force on 1 April 2013.

➤ **Internal Audit plan 2013/14**

Report of the Audit Service Manager which provided Members with the outcome of the audit needs exercise which had recently been completed to inform the Internal Audit plan for 2013/14.

➤ **Review of the Audit Committee's annual work plan and future learning and development requirements 2012/13**

Report of the Audit Service Manager which set out a proposed Audit Committee work plan and sought discussion and agreement around a learning and development plan for Members to ensure that they are well informed and appropriately skilled to fulfil their role.

**At the meeting on the 21 June 2013, the following reports were received and considered:**

➤ **Payroll – update on progress following the 2012/13 audit**

Report of the Transaction Manager on improvements to be delivered to address the internal control issues identified with the service.

➤ **Duplicate payments progress update**

Report of the Transaction Manager on the outcomes of the exercise to reduce and follow up on duplicate payments.

➤ **2012/13 Review of Whistleblowing - ‘Speaking up about Wrongdoing’ report**

Report on the number of cases raised regarding Council employees over the last two years (excluding school based employees) through the whistleblowing process.

➤ **Revenue outturn report 2012/13**

Report from the Section 151 Officer providing details of the revenue outturn position for the Council.

➤ **Capital outturn report 2012/13**

Report from the Section 151 Officer informing members of the full year capital expenditure and financing of the Council’s capital programme.

➤ **Annual Statement of Accounts 2012/13**

Report of the Section 151 Officer on the draft Annual Statement of Accounts.

➤ **Review of Shropshire Council’s Code of Corporate Governance report**

Report of 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 system of internal control 2012/13**

Report of the Section 151 Officer on the effectiveness of the system of internal controls and the production of the Annual Governance Statement.

➤ **Internal Audit Annual report 2012/13**

Report of the Audit Service Manager on achievements against the revised internal audit plan for 2012/13 and the annual internal audit assurance.

➤ **Annual review of the effectiveness of the system of Internal Audit 2012/13**

Report of the Section 151 Officer on the effectiveness of the system of Internal Audit

in 2012/13.

➤ **Internal Audit Charter**

Report of the Audit Service Manager on the requirement for and request to agree an Internal Audit Charter in compliance with the Public Sector Internal Audit Standards applied in the UK, based on the international standards, which were adopted on the 1st April 2013.

➤ **Annual Assurance report of Audit Committee to Council 2012/13**

Report of the Section 151 Officer in respect of the Audit Committee's Annual Assurance report to Council.

➤ **External Audit: Annual Fee Letter 2013/14**

Report of Grant Thornton UK LLP on the proposed work programme and scale of fees for 2013/14, along with the scope, resources and timing of the associated work.

➤ **External Audit: Plan update**

Report of Grant Thornton UK LLP which provides a summary of emerging national issues and developments that may be relevant to the Council. The paper also includes an update on progress in delivering their responsibilities as the authority's external auditor and a number of challenge questions in respect of these emerging issues that the Audit Committee may wish to consider.