

Appendix A

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 and has sought further explanation and appropriate assurance from management to address the issues identified by Internal Audit. 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.

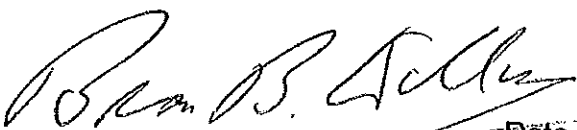
Annual Statement of Assurance

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 28 June 2013
On behalf of the Audit Committee
Brian Williams