



<u>Committee and Date</u>	<u>Item</u>
Audit Committee 26 June 2014	18
Council 17 July 2014	<u>Public</u>

ANNUAL ASSURANCE REPORT OF AUDIT COMMITTEE TO COUNCIL 2013/14

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 2013/14. 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

Council is asked to consider and comment on the contents of the Annual Assurance report for 2013/14 before recommending accepting 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 determine the extent to which 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 26 June 2014 has also been taken into account.
- 5.3 In addition, following the release of CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition; this report has been considered to ensure its compliance with the guidance. Section 6.34 requires the Audit Committee to be held to account on a regular basis by the Council specifically in relation to:

Whether the

- committee has fulfilled its agreed terms of reference;
- committee has adopted recommended practice;
- development needs of committee members have been assessed and whether committee members are accessing briefing and training opportunities;
- committee has assessed its own effectiveness, or been the subject of a review, and the conclusions and actions from that review and,

What impact the committee has on the improvement of governance, risk and control within the Council.

- 5.4 The annual assurance report to Council for 2013/14, attached to this report, is a helpful way to address the key areas where the committee should be held to account. **(Appendix A).**

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

CIPFA's Audit Committees, Practical Guidance for Local Authorities and Police, 2013 edition

Draft Internal Annual Audit Plan 2013/14 - Audit Committee 27 March 2013

Internal Audit Plan 2013/14 – Performance report to 31 October 2013 - Audit Committee 5 December 2013

Internal Audit Plan 2012/13 – Third quarter report- Audit Committee 13 February 2014

Internal Audit Annual Report 2013/14 – Audit Committee 26 June 2014

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 2013/14

DRAFT AUDIT COMMITTEE ANNUAL ASSURANCE REPORT 2013/14

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 governance, 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 and development 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 effectively. The Committee continues to undertake a full and extensive programme of training and this year has been no exception. In addition, the committee has conducted a self-assessment of its activities against CIPFA's practical guidance released in 2013 to ensure that it adopts recommended

practice. An action plan for improvement has been agreed which includes reviewing the development needs of members' against the revised guidance. This will build upon the training schedule in place to ensure that all members of the Audit Committee continue to have access to appropriate training and are provided with the skills and knowledge to enable them to fulfil their roles effectively and efficiently. Members also have access to CIPFA's Better Governance Forum network which provides specific information in the form of regular briefings, an informative web site, and attendance at training events.

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, risk 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 26 June 2014. 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 2013/14 was made up of the following Councillors:
 - Mr B Williams (Chairman)
 - Mr M Wood (Vice Chairman)
 - Mr J Cadwallader
 - Mr M Williams
 - Mr C Mellings

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

- Mr D Carroll
 - Mr R Macey
 - Mrs Pamela Ann Moseley
 - Mr R Evans
9. Meetings of the Committee have been held on
 - 19 September 2013

- 12 December 2013
- 13 February 2014
- 27 March 2014
- 26 June 2014

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 had been made aware of the increase in terms of numbers and direction of travel of the internal audit assurances provided on the IT infrastructure 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, e.g. physical and environmental controls, project management and hardware replacement, with the Audit Service Manager's explanations; it is understood that Council application systems reviewed in 2013-14 were in the main given a reasonable or higher level of assurance, supportive that material application systems are generally well embedded, well administered and controlled. However, the IT infrastructure on which they operate presents a clear risk to service continuity 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 IT business failure or material 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 have an essential and on-going 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 keep "ahead of the game", as the role of local government changes and evolves to meet the challenges of severe 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 the recently retired, Chris Kalinowski, her Deputy, who also carried the additional delegated authority of ensuring the effectiveness of the Council's Counter Fraud and Anti-Corruption policy and the "Whistle-blowing" policy. The work which Chris did will be carried out in the future by Katie Williams (No relative of mine!) who is newly promoted to the position of Audit Engagement Officer and who has already impressed me by her knowledge and enthusiasm which gives assurance that the void left by Chris will be well and capably filled.

14. Without the enthusiastic and committed 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. My thanks and that of my fellow committee members are given to all our Audit Service officers who are coping with an increasing workload with much reduced numbers."

Annual Statement of Assurance

15. 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.

16. 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 IT systems that are currently operating. Whilst there is no evidence of significant IT business failure or 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 2013, the following reports were received and considered:

Secret Hills Discovery Centre internal controls update

Report of the Southern Area Facilities Team Leader provided an update, subsequent to the last report to the Committee in December 2012, on the progress being made in response to audit reviews carried out at the Shropshire Hills Discovery Centre (SHDC) between May and August 2011 and in April 2012. Continued positive progress was being made by the Shropshire Hills Discovery Centre management and staff in response to the results of the two audit reports.

Quarterly update on the Transformation Programme management controls and risks

The Head of Programme Management Systems and Transition provided assurance on the robustness of the governance arrangements for all change related activities which were all aligned to identify Council priorities. The committee were informed of the transfer of the media and PR team to ip&e which had led to some future refinement but overall had been well managed and successful.

Council tax and national non domestic rate performance monitoring report

Report of the Head of Customer Support and Assets 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 2013. The Revenues Manager advised members that in the financial year 2012/13 48.6% of Council Tax and 46% of NNDR had been collected. He went on to say that between 31 March 2013 and 26 August the Revenues Team had collected 48.1% of Council Tax and 51% of NNDR debt against the Council's target, compared to 48.6% and 46% respectively for the same period last year. Members were advised that the Council was joint 8th highest unitary collecting authority for the collection of Council tax and joint 13th highest collecting unitary authority for business rates.

Benefit overpayment performance monitoring report

Report of the Head of Customer Support and Assets which provided members with performance monitoring information on the collection of income in respect of benefit overpayments for the year 2012/13 and for 2013/14 up to the 31 July 2013.

Update on current and aged debtors

Report of the Head of Financial Management and Reporting which provided details of the levels of aged debt held within the Council's accounts and action taken for recovery of the debts. Members were informed that additional staffing resources had been secured and the Sales Ledger team was taking positive action to address the recovery of outstanding debt on the Council's accounts.

Annual Treasury report 2012/13

Report of the Section 151 Officer providing information on treasury activities for Shropshire Council for 2012/13, including the investment performance of the Internal Treasury team to 31 March 2013.

Risk management annual report to Audit Committee 2013

Report from the Risk Management Team Leader which set out the work undertaken by the Risk Management Team during the last year. Members of the Committee were informed that the strategic risks were a key area for the Risk Management Team and a review had been undertaken and completed. In addition, all relevant strategic risks had been linked to the Annual Governance Statement Action Plan ensuring action points were managed strategically.

External Audit (Grant Thornton): The audit findings for Shropshire Council

Report of the External Auditor which summarised for members the key matters arising from the audit of Shropshire Council's financial statements for the year ending 31 March 2013 which was substantially complete. It included the key messages arising from the audit of the Council's financial statements and the results of work undertaken to assess the Council's arrangements to secure value for money and use of resources. The External Auditor confirmed that he proposed to issue an unqualified opinion on the financial statements and the VFM conclusion.

External Audit (Grant Thornton): Pension Fund Annual Governance Report

Report of the External Auditor which summarised for members the findings from the 2012/13 audit of the Pension Fund financial statements, providing an unqualified audit opinion.

Internal Audit - External Audit Protocol for Shropshire Council

Report of the External Auditors which set out the protocol and procedures underpinning the working relationship between the Audit Services Team and the Council's external auditors. The External Auditor reported that the protocol had been agreed with the Audit Services Manager and would be reviewed annually

Audited Annual Statement of Accounts 2012/13

Report of the Section 151 Officer which presented members with the final audited outturn position for the financial year 2012/13, which the External Auditor indicated, would receive an unqualified opinion. The Head of Finance, Governance and Assurance informed members that there had been one significant change to the accounts since the earlier version reported in June, which related to the Waste PFI scheme. The change followed the reworking of the original contract model and showed a change of £6.512m to the Council's balance sheet. The changes were classified as a 'change in accounting estimate and policy'. There were no other material changes to the main accounting statement reported.

Public Sector Internal Audit Standards (PSIAS)

Report of the Audit Services Manager which provided members with the results on the self-assessment of the Internal Audit Service against the requirements of the Public Sector Internal Audit Standards (PSIAS)

Internal Audit annual plan 2013/14

Report of the Audit Services Manager which set out proposed revisions to the Internal Audit Plan arising from changes in the Council's structure and available resources. She confirmed that the audit team continued to experience higher than expected special investigation and unplanned work which also contributed to the planned revisions. The Audit Service Manager summarised the results of the self-assessment and confirmed

that the majority of the standards were complied with totally. She stated that there were three areas of non-compliance identified and these were outlined to members but did not significantly impact on the service delivered.

At the meeting on 12 December 2013, the following reports were received and considered:

Update on Shared Services, Payroll and other Key Financial Systems

Report from the Head of Programme Management Systems and Transition provided an update on the progress made to address the 'fundamental' and 'significant' recommendations that emerged from the 19 Internal Audit reports completed in 2012/13. The Deputy Section 151 Officer reported that out of the 122 significant or fundamental audit recommendations, 96 (79%) had been addressed and, in addressing the recommendations, written procedures had been refreshed which had led to the opportunity to redesign current service provision to improve the direction of travel.

Duplicate Payments Progress Update

Report of the Deputy Section 151 Officer provided the progress made in respect of the recovery of duplicate payments. She stated that despite the significant recovery of £276,085, the amount represented 0.004% of the total value of transactions reviewed and confirmed that the Council's financial system was robust enough to prevent the majority of duplicate payments being made.

Treasury Strategy 2012/13 mid-year review

Report of the Section 151 Officer on the mid-year review of 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 and that the internal treasury team's performance, with a return of 0.55% on the Council's cash balances, had outperformed the benchmark.

External Audit (Grant Thornton): Audit Committee Update for Shropshire Council

Update report of the External Auditor which summarised the several emerging national issues and developments. The update also included a number of challenge questions that the Committee may wish to consider at their future training sessions.

External Audit (Grant Thornton): The annual audit letter for Shropshire Council

Report of the External Auditor which summarised the findings from the 2012/13 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 Counter Fraud, Bribery and Anti-Corruption Strategy

Report of the Audit Service Manager which informed members that the Counter Fraud, Bribery and Anti-Corruption Strategy had been reviewed and 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 had been proposed to reflect the key changes in whistle blowing laws which took effect earlier in the year and also reflected further internal structure

changes.

Internal Audit plan 2013/14 - Performance report to 31 October 2013

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

At the meeting on 13 February 2014, the following reports were received and considered.

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 of good practice

Report of the Section 151 Officer which requested members to review and comment on the self-assessment of good practice questionnaire to assess the effectiveness of the Audit Committee and identify any further improvements.

Update on programme management controls and risks

Report of the Programme Management Officer giving assurance on the robustness of governance arrangements for all change related activity including service redesign, new delivery vehicles including IT enablement and mobile and flexible ways of working.

Treasury Strategy 2014/15 mid-year report

Report of the Section 151 Officer which proposed the Treasury Strategy for 2014/15 and recommended Prudential Indicators for 2014/15 to 2016/17.

Benefit Fraud Team performance monitoring reports

Report of the Team Manager - Investigations which provided members with performance monitoring information on benefit fraud investigations undertaken by officers for the financial year 2013/14 up to 17 January 2014.

External Audit (Grant Thornton): Audit Committee update report

Report of External Auditor which highlighted the progress made to date on work undertaken during the year, no major issues had been identified.

External Audit: Certification report 2012/13 for Shropshire Council

Report of External Auditor which summarised the overall assessment of the outcome of the grant certification work undertaken during the last financial year.

External Audit (Grant Thornton): Financial resilience benchmarking report

Report of the External Auditor detailed the review of the Council's arrangements for securing financial resilience and confirmed that the Council was in a strong position in the majority of indicators in comparison with Councils within the benchmark. He stated that the Senior Managers were aware of the areas requiring improvement and confirmed action had been taken to address this.

Internal Audit plan 2013/14 - third quarter report

Report of the Audit Service Manager which summarised good progress since the last report in December 2013.

At the meeting on 27 March 2014, the following reports were received and considered.

National Fraud Initiative 2012/13

Report of the Audit Services Manager giving members an overview of the outcomes arising from the Audit Committee's National Fraud Initiative. She reported that £101,929.43 worth of estimated financial savings had been identified following the Initiative with the largest part relating to housing benefit fraud and confirmed that investigations were ongoing.

Current and aged debtors update

Report of the Head of Financial Management and Reporting gave details of the levels of aged debt held within the Council's accounts and the action being taken for recovery of these debts.

Council tax and non-domestic rates performance monitoring report

Report of the Revenues Manager setting out performance monitoring information on the collection of Council Tax and National Non Domestic Rates (NNDR) for the year to 28 February 2014. He explained that due to the legislative changes, more people had elected to pay their Council tax over twelve months rather than the statutory ten months which left more debt to be collected in February and March but was confident the Council target would be met by the end of the financial year.

External Audit: 2013/14 audit plan

Report of the External Auditor updating members on the progress of the Audit of the 2013/14 Statement of Accounts and emerging issues and developments

External Audit: 2013/14 communicating with the Audit Committee

Report of the External Auditor seeking to contribute towards the communication between the Council's Audit Committee and the external auditors and also form part of the risk assessment procedures.

External Audit (Grant Thornton): Audit Committee update report

Report of External Auditor presented to members which highlighted the progress made on work undertaken during the year concluding that no major issues had been identified.

Internal Audit risk management report 2013/14

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.

Protecting the Public Purse Fraud Briefing 2013

Briefing by the External Auditor on Protecting the Public Purse Fraud Briefing 2013. The Engagement Lead reported to members that the Audit Commission had undertaken a national study of fraud in local government, the results of which were contained within the report; he reminded members of the Audit Committee of their obligation in the fight against fraud.

Draft Internal Audit risk based plan 2014/15

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 2014/15. The plan could be adjusted during the course of the year as workflow dictated and indicated that this would be undertaken in consultation with the Section 151 Officer if necessary.

Draft Audit Committee annual work plan and future training requirements

Report of the Audit Service Manager detailing the Audit Committee's proposed work plan and a future learning and development plan for 2014/15.

At the meeting on the 26 June 2014, the following reports were received and considered:

Update on programme management controls and risks

Report of the Director of Commissioning giving assurance on the robustness of governance arrangements for all change related activity including service redesign, new delivery vehicles including IT enablement and mobile and flexible ways of working.

Council tax and NNDR performance report monitoring

Report of the Revenues and Customer Contact Manager which provided members with performance monitoring information on the collection of income in respect of Council tax and national non-domestic rates (NNDR).

Annual Whistleblowing report

Report of the Head of Human Resources on the number of cases raised about Council employees over the last year through the whistleblowing process.

Revenue outturn report 2013/14

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

Capital outturn report 2013/14

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

Review of the Annual Statement of Accounts 2013/14

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

Review of Shropshire Council's Code of Corporate Governance

Report of the Engagement 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 control 2013/14

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 2013/14

Report of the Audit Service Manager on achievements against the revised internal audit plan for 2013/14 and the annual internal audit assurance.

Annual review of the effectiveness of the system of Internal Audit and Quality Assurance and Improvement Programme (QAIP) 2013/14

Report of the Section 151 Officer on the effectiveness of the system of Internal Audit in 2013/14.

External Audit: Certification report 2013/14

Report of External Auditor which summarised the overall assessment of the outcome of the grant certification work undertaken during the last financial year.

Annual Assurance report of Audit Committee to Council 2013/14

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

External Audit: Annual Fee Letter 2014/15

Report of External Auditor on the proposed work programme and scale of fees for 2014/15, along with the scope, resources and timing of the associated work.

External Audit: audit plan for the Pension Fund 2013/14

Report of the External Auditor which summarises for members the 2013/14 planned audit of the Pension Fund financial statements

External Audit: Audit Committee update

Report of External Auditor 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.