

Southend-on-Sea Borough Council

Agenda
Item No.

Report of the Audit Committee
to
Council
on
15 July 2010

Report prepared by: Linda Everard, Head of Internal Audit

Audit Committee Annual Report 2009/10

A Part 1 Public Agenda Item

1. Purpose of Report

1.1 To present the Audit Committee's Annual Report for 2009/10.

2. Recommendation

2.1 Council approves:

- **the Audit Committee's Annual Report for 2009/10 and the proposed work programme for 2010/11;**
- **the Annual Governance Statement for 2009/10.**

3. The Audit Committee's Role

3.1 The aim of the Audit Committee is to provide one of the key means by which the Council ensures effective internal control arrangements are in place. This also provides assurance to the executive arm of the Council that the processes are in place to deliver whatever policies and services it determines.

3.2 The purpose of an audit committee is to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- provide independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment; and
- oversee the financial reporting process.

Source: Chartered Institute of Public Finance and Accountancy (CIPFA) good practice guidance

3.3 The delivery of this remit is achieved:

- firstly, through the Committee being appropriately constituted; and
- secondly, by the Committee obtaining evidence regarding the effective operation of:
 - the Council's key business management processes and governance arrangements;
 - and accountability for the Council's systems of internal control, including the management of risk; and
 - a robust assurance framework and an independent and effective audit function.

3.4 This report:

- outlines how the Audit Committee has delivered the duties delegated to it by Council, through its terms of reference;
- identifies any key actions required to further develop the manner in which the Audit Committee discharges its role; and
- provides Council with the Committee's view on whether the Annual Governance Statement accurately reflects the evidence presented to it throughout the year regarding the operation of the systems of internal control.

4. How the Audit Committee operates

- 4.1 The Audit Committee is well established. It undertakes an annual review of its Terms of Reference to ensure they comply with good practice, take account of any developments in corporate governance arrangements or remits of other committees. This was last reviewed in March 2010 and is attached at **Appendix 1**.
- 4.2 Membership is also reviewed annually. In 2009/10, membership complied with good practice requirements and included a co-opted member with 'relevant financial experience'.
- 4.3 Various training sessions have been held during the year to support members in the discharge of their duties. These are outlined in **Appendix 2**.
- 4.4 A programme of training sessions covering the key business and governance processes is being developed and will be run annually. All members will be invited to attend. Some will also be opened to significant partners' members / non-executive members. Other training will be provided to meet specific needs of the Committee as they arise.
- 4.5 Meetings are required 'not less than three times a year'. Five meetings were held in 2009/10. They were timed to enable the Committee to deal with specific elements of its remit as outlined in the work programme that it agreed in March 2009 and Council in July 2009. The Committee Chairman reports to Council each quarter by the submission and adoption of the meeting minutes.

- 4.6 The 2010/11 work plan proposed by the Committee is attached at **Appendix 3**.
- 4.7 In order for the Committee to operate effectively it requests reports to be presented to it by officers and auditors regarding activities that fall within its remit.
- 4.8 In 2009/10, the Head of Finance and Resources (Section 151 Officer), Head of Policy and Improvement, Corporate Strategy and Performance Manager and Head of Internal Audit regularly attended with the External Auditor at the Committee's request. Other Council officers' attended as necessary to present specific reports.
- 4.9 The schedule of attendance (**Appendix 4**) that demonstrates full compliance with the quorate requirements and appropriate attendance by relevant officers thus enabling the Committee to discharge the requirements of its Terms of Reference.
- 4.10 In order to ensure that the Committee discharges its duties appropriately, it also undertakes an annual assessment of how it operates compared to good practice guidance. This demonstrated it has operated in line with recommended good practice guidance throughout 2009/10. There are no significant action points arising from this year's review.

5. Annual Conclusion on the Systems of Internal Control

- 5.1 On an annual basis, the Audit Committee is required to consider the Council's Annual Governance Statement and assess whether it reflects the evidence presented to it throughout the year regarding the operation of key business management and governance processes.
- 5.2 ***The Committee agrees that the Annual Governance Statement and action plan reflects the operation of Council's systems of internal control throughout 2009/10 and recommends it to Council for approval.***

6 Basis for the conclusion

- 6.1 The Committee received adequate assurance regarding the satisfactory operation the Council's key business processes and governance arrangements from both internal and independent sources throughout 2009/10. It has also been provided with briefings or information papers on relevant current issues as they have arisen during the year.

MANAGEMENT ASSURANCE

- 6.2 The Committee starts by annually reviewing the Local Code of Governance and the expected, ongoing assurance to be afforded by operating sound key business management and governance processes throughout the year.
- 6.3 In year management assurance for 2009/10 was then provided through reports that dealt with:
- implementing the Council's risk management, anti fraud and corruption, whistleblowing, data quality and treasury management policies and strategies;
 - complying with contract procedure rules including where procurement is below the EU thresholds;

- financial reporting and budgetary control processes;
- the arrangements for implementing recommendations contained in inspection and external audit reports;
- addressing improvement opportunities identified in the 2008/09 Governance Statement; and
- the governance arrangements of Southend Together.

6.4 The Committee also considered:

- the results of various external inspections, following up with officers where it was identified that planning service processes needed to be strengthened;
- how well the Council was performing against the Audit Commission's Use of Resources criteria as this covers key business management and governance processes (as identified in the Local Code of Governance); and
- the Annual Financial Statements, which were subsequently reviewed and reported upon by the External Auditor.

INDEPENDENT ASSURANCE

Internal Audit

6.5 Internal Audit assurance was provided through:

- a risk based audit plan and quarterly progress reports on its delivery;
- the summary findings from each activity audited and the opinions as to the strength of the control environment, in particular where that was considered to be weak;
- reports on completed ad hoc investigations and whether recommendations made are implemented properly, by the due dates;
- an annual assessment of its compliance with Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy and getting this independently challenged;
- the annual summary of Manager Assurance Statements which show how well senior management believe key business management processes have been applied in service areas during the year; and
- the Head of Internal Audit's Annual Report which includes an opinion on the robustness of the Council's systems of internal control.

External Audit

6.6 External Audit also produce a risk based audit plan and quarterly progress reports on its delivery.

- 6.7 During 2009/10, the Committee also received the following assessments of key business management and governance processes from External Audit:
- an unqualified opinion and value for money conclusion on the 2008/09 Financial Statements and a view that the Annual Governance Statement for that year was not inconsistent or misleading;
 - feedback on issues arising from the audit of the 2008/09 Financial Statements prior to the opinion being given;
 - a 2008/09 Annual Audit Letter that commented on performance in a number of other areas such as performance management, working with the third sector, the Local Area Agreement, sustainable development, managing fees and charges, managing the capital programme and health inequalities;
 - an overall 'performs well' assessment for its Use of Resources although this included a 'performs adequately' for managing resources and 'a performs well' assessment for managing performance;
 - the Council has made a clear commitment to raising the profile of the fight against fraud and in establishing a robust corporate anti-fraud culture. However action is required to ensuring that:
 - key counter fraud messages are promptly communicated to all staff; and
 - all staff are aware of their personal responsibility to ensure ethical standards are applied and internal controls are operating effectively.
- 6.8 Finally, the Committee noted the Audit Commission report that confirmed that the Council's external audit suppliers continue to satisfy all of its quality requirements. The Committee also consider that the local external audit team continue to produce good quality work that is well presented. Good working relationship with officers and members of the Audit Committee have been maintained.

External Inspections

- 6.9 The Committee was provided with all external inspection reports issued during the year for information. This ensures the Committee is aware of any significant control weaknesses identified in those areas reviewed and allows it to take a view on whether they should be reflected in the Annual Governance Statement. These reports have not discussed at Audit Committee where they have been subject to challenge by another forum e.g. a relevant scrutiny committee or key strategic partnership within the Southend Together structure.
- 6.10 The Committee receives assurance that these other forums are operating effectively either from internal audit or their annual performance reports.

7 Achievements

- 7.1 During the year, the Audit Committee has challenged the robustness of the Council's key business management and governance arrangements and the respective assurance it has been provided with in a number of areas.

- 7.2 Members attended a Cross Partner Audit Committee Workshop where they were asked to consider:
- What assurance do we require from:
 - each other
 - our Local Strategic Partnerships (LSP)
 - significant contractors (NHS Trusts, South Essex Homes, private firms)
 - What assurance should we be providing to our LSPs?
 - How are we going to do this?
 - Whether there is a role for a cross LSP audit committee forum and if so what is it?
- 7.3 The Committee subsequently endorsed a potential framework for partner bodies and local strategic partnerships (LSPs) to adopt so they can efficiently gain and provide consistent and relevant assurance that their governance arrangements are robust. The other significant partners who attended the workshop are also considering this report.
- 7.4 The Audit Committee has continued to focus on the adequacy of the Council's arrangements for ensuring that agreed audit recommendations are implemented, properly by the due date. This is an area where performance has improved but requires further work so it will continue to be monitored closely during 2010/11.

8. Corporate Implications

8.1 Contribution to Council's Vision & Critical Priorities

Operating robust business management and governance processes impacts on the Council's ability to successfully deliver all of its priorities and cross cutting themes.

8.2 Financial Implications:

Obtaining assurance that sound financial reporting and budgetary control processes operate throughout the Council, provides comfort that the budget set will be delivered and that the financial statements will present fairly the Council's financial position at the year end.

8.3 Legal Implications

There is no statutory requirement to have an Audit Committee however this is now considered to be good practice by CIPFA and the Audit Commission. This includes a requirement for the Committee to produce an annual report and undertake an assessment of performance periodically.

However the Account and Audit (Amendment) (England) Regulations 2006 require Council's to:

- at least once a year, conduct a review of the effectiveness of its systems of internal control; and
- present the findings of this review to the relevant committee to consider.

This is the role that has been delegated to the Audit Committee by Council.

8.4 People and Property Implications:

None

8.5 Consultation

The annual self assessment was undertaken and agreed by Audit Committee members with the support of the Head of Internal Audit.

8.6 Equalities Impact Assessment:

None

8.7 Risk Assessment / Value for Money

Without an effective Audit Committee, the Council is at risk of not obtaining assurance that it has sufficiently robust business management and governance arrangements in place to deliver the Sustainable Community Strategy, the Corporate Plan including routine statutory services.

It may also adversely effect the Council's Use of Resources assessment.

8.8 Community Safety Implications and Environmental Impact:

None

9 Background Papers

- CIPFA: Audit Committee Practical Guidance for Local Authorities
- CIPFA: A toolkit for Local Authority Audit Committees
- Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy

10 Appendices

- Appendix 1: Audit Committee Terms of Reference
- Appendix 2: Audit Committee Schedule of Attendance for 2009/10
- Appendix 3: Audit Committee Work Programme 2010/11
- Appendix 4: Audit Committee Training Schedule of Attendance for 2009/10

Extract from the Council's Constitution as at March 2010

8.1 Membership

7 Members of the Council (to include not more than one Executive Councillor, who should not be the Support Services Portfolio Holder) and one non-voting co-opted member.

At least 1 member should have financial expertise.

The Chairman shall not be an Executive Councillor.

Substitutes: Permitted in accordance with Standing Order 31.

Proportionality: Applies.

8.2 Quorum

As per Standing Order 38.1

8.3 Terms of Reference

8.3.1 The purpose of the Audit Committee is to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment;
- provide independent scrutiny of the council's financial and non financial performance to the extent that it affects the council's exposure to risk and weakens the control environment; and
- oversee the financial reporting process.

8.3.2 The Audit Committee will maintain a work programme that is reviewed at least annually, agreed by Council and provide the outline audit agenda for each meeting in the annual cycle. It should demonstrate that the Audit Committee is receiving sufficient and appropriate information to discharge its responsibilities and ultimately recommend adoption of the Annual Governance Statement.

8.3.3 The work programme will cover;

- the effectiveness of the Council's governance arrangements, including the approval of the Council's annual Governance Statement;
- the adequacy of the Council's financial framework, including approval of the annual Statement of Account;
- the scrutiny of the Council's Treasury Management Strategy and Policies;

APPENDIX 1: AUDIT COMMITTEE TERMS OF REFERENCE

- the performance and effectiveness of external and internal audit, including consideration of the respective annual reports;
- consideration of any inspection reports produced and whether reliance will be placed on work of any other committee in specialist areas; and
- the functions and effectiveness of the Audit Committee, including the production of its annual report.

8.3.4 The Committee will meet five times per year, with dates included in the Council Calendar. Further meetings can be arranged on an ad hoc basis as the Audit Committee deems appropriate.

8.3.5 The Head of Finance & Resources (S151 Officer), the Head of Internal Audit and the Council's External Auditors will be invited to attend every Audit Committee meeting. As well as reviewing documentation, the Audit Committee exercise the right to invite any other officers, Chairs of other Committees or Cabinet Members to attend before it, as and when required. This would be to provide assurance in relation to the adequacy of the governance arrangements pertaining to their area of activity / responsibility.

It is the duty of those persons to attend if so required.

Where any member or officer is required to attend the Audit Committee under this provision, maximum notice will be given.

Where in exceptional circumstances, the Member or officer is unable to attend on the required date; an alternative date will be agreed with the Chairman.

8.4 Status of Meetings

Open to the public

8.5 Reports To

Council

APPENDIX 4: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE

	17 June 2009	24 June 2009	23 September 2009	13 January 2010	24 March 2010
AUDIT COMMITTEE MEMBERS					
Cllr T Cox	√	√	√	√	√
Cllr Mrs M F Evans	√	√	√	X	√
Cllr S J Habermel	√	√	X	√	√
Cllr B T Kelly	√	√	X	√	X
Cllr Mrs M A Betson	√	√	√	√	√
Cllr R A Woodley	√	√	√	√	X
Cllr Ms J McMahon	√	√	X	X	√
Mr R Peters (Co-opted member)	X	X	√	√	√
Cllr Mrs E Day (substitute)			√	√	
Cllr J M Garston (substitute)					√
IN ATTENDANCE:					
Corporate Director (Support Services)	√	X	X	X	X
Head of Finance and Resources	√	√	√	√	√
Head of Policy and Improvement	√	√	√	√	√
Strategy and Performance Manager	√	√	√	X	X
Strategy and Performance Advisor	√	√	√	√	√
Head of Internal Audit	√	X	√	√	√
Group Manager (Democratic Services)	√	√	√	√	√
External Audit	√	√	√	√	√
Group Manager Financial Management		√	√		
Group Manager Financial Planning and Capital		√		√	
Partnership Manager			√		
Head of Procurement			√		

APPENDIX 4: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE

	17 June 2009	24 June 2009	23 September 2009	13 January 2010	24 March 2010
Group Manager Development Control and Building Control			√		
Internal Audit Supervisor		√			
Representatives from Butlers (Treasury Management Advisers)				√	
Head of Transport and Planning					√
Interim Head of Enterprise, Tourism and Regeneration					√
Relationship Manager	X	X	X	X	X

APPENDIX 3: AUDIT COMMITTEE PROPOSED WORK PLAN FOR 2010/11

BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS	OFFICER RESPONSIBLE	CABINET	16 JUNE 2010	23 JUNE 2010	22 SEPT 2010	13 JAN 2011	30 MAR 2011
AUDIT COMMITTEE							
Annual Review of Terms of Reference and Work Programme	Head of Internal Audit	No, goes on to Council if amendments proposed					X
Annual Self Assessment (April) included in the Audit Committee Annual Report	Head of Internal Audit	No, goes on to Council	X				
ASSURANCE OVER KEY BUSINESS PROCESSES							
Update of Local Code of Governance	Corporate Strategy and Performance Manager	Yes after AC review					X
Policies, strategies and action plans regarding key business processes	Various	Yes after AC review	X	X	X	X	X
Progress in implementing strategy action plans for key business processes	Various	No	X	X	X	X	X
Assurance from Southend Together	Partnership Manager	No			X		X
Use of Resources Update	Corporate Strategy and Performance Manager	No			X		X
Manager Assurance Statement Summary Report	Head of Internal Audit	No	X				
Operation of Cabinet, Standards Board, Overview and Scrutiny Committees	Head of Legal & Democratic Services	No	X				

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BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS	OFFICER RESPONSIBLE	CABINET	16 JUNE 2010	23 JUNE 2010	22 SEPT 2010	13 JAN 2011	30 MAR 2011
Annual Governance Statement	Corporate Strategy and Performance Manager	No, goes on to Council	X				
Annual Governance Statement Action Plan Progress Report	Corporate Strategy and Performance Manager	No				X	
FINANCIAL REPORTING							
Financial Statement including changes in accounting policies	Head of Finance and Resources	No, goes on to Council		X			
Writing off debt	Head of Finance and Resources	No		X			
Budgetary Control and Financial Reporting Processes	Head of Finance and Resources	No			X	X	
Treasury Management Strategies and Policies	Head of Finance and Resources	No				X	
Compliance with Contract Procedure Rules	Head of Procurement	No					
INTERNAL AUDIT							
Terms of Reference, Strategy and Audit Plan	Head of Internal Audit	No			X		X
Summary Audit Progress Reports	Head of Internal Audit	No	X		X	X	X
Annual Assessment of Internal Audit Performance	Head of Internal Audit	No	X				

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BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS	OFFICER RESPONSIBLE	CABINET	16 JUNE 2010	23 JUNE 2010	22 SEPT 2010	13 JAN 2011	30 MAR 2011
Head of Internal Audit Annual Report	Head of Internal Audit	No	X				
Audit Committee & Internal Audit Action Plans Progress Report	Head of Internal Audit	No				X	
INSPECTION (SEE FOOT NOTE)							
External Inspection and Audit Action Summary	Strategy and Performance Manager	No	X			X	
EXTERNAL AUDIT							
Annual Audit Fee Letter	External Auditor	No		X			
Progress Reports on Delivering the Audit Plan	External Auditor	No	X		X	X	X
Working with the Third Sector	External Auditor	Yes before AC			X		
Health Inequalities Follow Up Report	External Auditor	Yes before AC			X		
Annual Governance Report 2009/10	External Auditor	No			X		
Use of Resources Assessment 2009/10	External Auditor	Yes before AC				X	
Annual Audit Letter 2009/10	External Auditor	Yes before AC				X	
Annual Audit Plan 2010/11	External Auditor	No				X	
Grant Claim Certification Report	External Auditor	No					X

Inspection reports covering all directorates will be circulated to the Audit Committee for information but will only be discussed if they are not already subject to challenge by a relevant scrutiny committee and or a key strategic partnership within the Southend Together structure.

APPENDIX 2: AUDIT COMMITTEE TRAINING SCHEDULE OF ATTENDANCE 2009/10

COURSE DETAILS						
	26 May 2009	10 June 2009	28 July 2009	10 November 2009	2 December 2009	21 January 2010
	Final Accounts Training Workshop	Audit Committee Induction Session	Budget Setting	Treasury Management	Risk Management including Fraud & Corruption	Cross Partner Audit Committee Member Workshop
AUDIT COMMITTEE MEMBERS ATTENDING						
Cllr T Cox		√		√		√
Cllr Mrs M F Evans	√	√	√	√		√
Cllr S J Habermel			√			√
Cllr B T Kelly				√	√	
Cllr Mrs M A Betson		√	√	√	√	√
Cllr R A Woodley	√	√	√		√	
Cllr Ms J McMahan						
Mr R Peters (Co-opted member)						√
Cllr Mrs E A Day	√					
Cllr J M Garston	√		√	√		
Cllr M Stafford	√					