

# South Essex Homes Limited

Report of the Audit Committee  
to  
the Board  
on  
28th July, 2010

Agenda  
Item No.

15

Report prepared by: Head of Internal Audit  
Considered and agreed by the Audit Committee

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## Audit Committee Self Assessment and Annual Report

*A Public Agenda Item*

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### 1 Purpose of Report

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

### 2 Recommendations

2.1 The Board approves the Audit Committee's Annual Report for 2009/10 and the proposed work programme for 2010/11.

### 3 Background

#### *The Audit Committee's Role*

3.1 The aim of the Audit Committee is to provide one of the key means by which the Board ensures effective internal control arrangements are in place. In addition, the Committee provides a form of independent check upon the executive arm of the company.

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 company's financial and non-financial performance to the extent that it affects its 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 In discharging these duties the Audit Committee is required to:

- consider the effectiveness of the company's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
- seek assurances that action is being taken on risk-related issues identified by auditors and inspectors;
- be satisfied that the company's assurance statements, including its contribution

to the Council's annual Governance Statement, properly reflect the risk environment and any actions required to improve it;

- approve (but not direct) internal audit's strategy, plan and monitor performance;
- review summary internal audit reports and the main issues arising, and seek assurance that relevant action has been taken to address control weaknesses identified;
- receive the annual report of the Head of Internal Audit;
- consider the reports of external audit and inspection agencies;
- ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted; and
- review the financial statements, external auditor's opinion and reports to the board, and monitor management action in response to the issues raised by external audit.

3.4 The delivery of this remit is achieved:

- firstly, through the Committee being appropriately constituted; and
- secondly, by the Committee ensuring that internal accountability is maintained and effective audit and assurance services are delivered.

3.5 This report:

- outlines how the Audit Committee has delivered the duties delegated to it through its terms of reference by the company; and
- identifies key actions required to further develop the manner in which the Audit Committee discharges its role.

### ***How the Audit Committee operates***

3.6 The Audit Committee is now well established. The Committee's Terms of Reference is reviewed periodically. They were updated in November 2008 and again in April 2010.

3.7 Membership is reviewed annually. In 2009/10, it consisted of 3 members one of whom has 'recent relevant financial experience'.

3.8 Members have received some training during the year to support them in the discharge of their duties.

3.9 Meetings are required 'not less than three times a year'. Four meetings were held within the last financial year. The July meeting was timed to consider the company's financial statements as required by its Terms of Reference.

The Committee Chairman reports to the Board by the submission and adoption of the minutes of each meeting.

3.10 A work programme is to be produced and considered by the Audit Committee in October 2010.

- 3.11 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.
- 3.12 The Executive Director, Group Manager Finance & Support Services, Financial Services Manager, Support Services Officer and Internal Audit regularly attended at the Committee's request. Other officers attend as necessary to present specific reports.
- 3.13 A schedule of attendance at the meetings is provided in **Appendix 1** that demonstrates full compliance with the quorate requirements and regular attendance by those invited by the Committee.
- 3.14 In discharging its duties, the Committee meets its responsibilities through self assessment and review, requesting assurances from officers and receiving reports from the auditors.
- 3.15 The Audit Committee completed an annual self assessment this year see **Appendix 2**. This demonstrated that the Audit Committee has operated in line with recommended good practice guidance throughout 2009/10. There are no significant action points arising from this year's review.

#### ***Annual Conclusion on the systems of internal control***

- 3.16 On an annual basis, the Audit Committee is required to consider the declaration to be included in the Council's Governance Statement and assess whether it reflects its view of the robustness of the Company's systems of internal control.
- 3.17 Based on information received during the year, the Committee approved the declaration proposed for inclusion in the Council's Governance Statement for 2009/10.**

#### ***Basis for the conclusion***

- 3.18 The Committee received adequate assurance regarding the satisfactory operation the company'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**

- 3.19 In year management assurance was provided through reports that dealt with:
- implementing the company's risk management policy and strategy
  - monitoring the corporate risks identified
  - the company's financial position
  - the company's Anti-Fraud and Corruption arrangements
  - managers' self assessment of the application of key business management processes throughout the year
  - Financial Regulations and Standing Orders
  - changes in accounting policies adopted.

- 3.20 The Committee also considered the annual financial statements which were subsequently reviewed and reported upon by the external auditor.

## **INDEPENDENT ASSURANCE**

### **Internal Audit**

- 3.21 The Audit Committee approved the 2009/10 Audit Plan and received quarterly progress reports on its delivery. These highlighted limited assurance opinions issued, ad hoc investigations undertaken and reported on whether recommendations made are implemented properly, by the due dates (see the Head of Internal Audit Annual Report for summary details).
- 3.22 Internal Audit demonstrated 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. This year the self assessment (and supporting evidence) was independently challenged by the External Auditor and the Chairman of South Essex Homes Audit Committee. Progress in addressing improvement opportunities identified will be reported to Committee in the coming year.
- 3.23 The Head of Internal Audit's Annual Opinion of the systems of internal control was presented to the Audit Committee on the 28th April 2010. This concluded that assurance can be given that the system of internal control designed to support the delivery of the organisation's objectives is sound and that controls are generally being applied.
- 3.24 Additionally the Committee have been provided with briefings on current issues as they arise during the year.

### **External Audit**

- 3.25 External Audit's presented the plan for auditing the financial statements to the January 2010 Audit Committee and the results of this work to the July 2010 meeting. Feedback on issues arising from the audit of the Financial Statements was provided in the "Report to those charged with governance" issued prior to an unqualified opinion being given.

## **4 Diversity and Equal Opportunities**

- 4.1 There are no direct diversity or equal opportunities as a result of this report.

## **5 Risk**

- 5.1 Without an effective Audit Committee, the company is at risk of not obtaining ongoing assurance as to the robustness of its internal control framework. An ineffective system of internal control potentially puts the delivery of company services at risk.

## **6 Financial Implications**

- 6.1 There are no direct financial implications as a result of this report.

## **7 Resident Consultation**

7.1 None.

## **8 Background Papers**

- 8.1
- 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

## **9 Appendices**

**9.1 Appendix 1 Audit Committee Schedule of Attendance for 2009/10**

**9.2 Appendix 2 Audit Committee Self Assessment 2009/10**

**APPENDIX 1: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE**

|   | 26 May<br>2009 | 14 July<br>2009 | 28<br>October<br>2009 | 27<br>January<br>2010 |
|---|----------------|-----------------|-----------------------|-----------------------|
| <b>AUDIT COMMITTEE MEMBERS</b>              |                |                 |                       |                       |
| Tony Summers (Chair)                        | ✓              | ✓               | ✓                     | ✓                     |
| Bill O'Callaghan                            | ✓              |                 |                       |                       |
| Catherine Manley                            |                | ✓               | ✓                     | ✓                     |
| Nigel Folkard                               |                | ✓               | ✓                     | ✓                     |
| Tania Painton                               |                | X               | ✓                     | X                     |
| <b>IN ATTENDANCE:</b>                       |                |                 |                       |                       |
| Executive Director                          | ✓              | ✓               | ✓                     | ✓                     |
| Group Manager Finance & Support<br>Services |                | ✓               | ✓                     | ✓                     |
| Financial Services Manager                  | ✓              | ✓               | ✓                     | ✓                     |
| Support Services Officer                    | ✓              | ✓               | ✓                     |                       |
| Internal Audit                              | ✓              | ✓               | ✓                     | ✓                     |
| External Audit                              |                | ✓               |                       | ✓                     |
| Group Manger, Property Services             |                |                 | ✓                     |                       |

Note Blanked out cells indicate that the person was not a member of the Audit Committee at the date of meeting.