

Southend-on-Sea Borough Council

Agenda
Item No.

Report of the Audit Committee
to
Council
on
14 July 2011

Report prepared by: Linda Everard, Head of Internal Audit

Audit Committee Annual Report 2010/11

A Part 1 Public Agenda Item

1. Purpose of Report

- 1.1 To report to Council on the delivery of the Audit Committee's Terms of Reference for 2010/11.

2. Recommendation

2.1 Council approves:

- **the Audit Committee's Annual Report for 2010/11 and the proposed work plan for 2011/12**
- **the Annual Governance Statement for 2010/11.**

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
- 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
- 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
 - 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
- 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 has the Audit Committee operated?

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, taking into account any developments in corporate governance arrangements or remits of other committees. This was last reviewed in March 2011 and is attached at **Appendix 1**. Minor amendments have been made to this to reflect the Committee now has nine members and is planning to meet four not five times in 2011/12.

4.2 Membership is also reviewed annually. In 2010/11, membership complied with good practice requirements although it operated without a co-opted member who brought 'relevant financial experience' to the Committee but resigned at the start of the financial year. A significant change in membership for 2010/11 resulted in fewer members sitting on the Committee with experience in this area.

4.3 Training sessions have been held during the year as required to support members in the discharge of their duties. The Audit Committee had attendees at the following events:

- An Introduction to the Role of the Audit Committee
- Advanced Audit Committee Workshop by CIPFA Better Governance Forum
- Statement of Accounts Adoption' Training Workshop

- An Introduction to Treasury Management
- 4.4 Good practice recommends that meetings are held 'not less than three times a year'. Five meetings were held in 2010/11. They were timed to enable the Committee to deal with specific elements of its remit as outlined in the work plan that it agreed in March 2010 and Council in July 2010. The Committee Chairman reports to Council each quarter by the submission and adoption of the meeting minutes.
- 4.6 The 2011/12 work plan proposed by the Committee is attached at **Appendix 2**.
- 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 2010/11, Corporate Director Support Services, the Head of Finance and Resources (Section 151 Officer), Head of Policy and Improvement, 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 3**) 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 the Audit Committee has operated in line with recommended good practice guidance throughout 2010/11 and there are no significant improvement opportunities to report. Potential topics for workshops were identified. Members also expressed an interest in short evening briefings on the impact of changes in government policy on the delivery of local services as things crystallise.
- 4.11 Progress in addressing general improvement opportunities identified will be subject to periodic monitoring by the Committee.

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 2010/11 and recommends it to Council for approval.***

6 Basis for the conclusion

- 6.1 The Committee received adequate assurance regarding the satisfactory operation of the Council's key business processes and governance arrangements from both internal and independent sources throughout 2010/11. 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 undertook an annual review of the Local Code of Governance. It also agreed to adopt a proposed approach to obtaining on-going assurance that the Council is managing its business in the most efficient and cost effective way, throughout the year.
- 6.3 In year management assurance for 2010/11 was then provided through reports that covered:
- implementing International Financial Reporting Standards and Debt Recovery and Debt Write Offs
 - the Annual Financial Statements, which were subsequently reviewed and reported upon by the External Auditor
 - progress on both updating and implementing the Finance Manual and policies and strategies covering:
 - Risk Management
 - Anti Fraud and Corruption
 - Whistleblowing
 - Anti Money Laundering
 - Undertaking Covert Surveillance and the Use of Covert Human Intelligence Sources
 - Data Quality
 - Treasury Management
 - Debt Collection and Recovery.
 - the annual summary of Manager Assurance Statements produced by senior management which provided reasonable assurance that business management processes have been applied in service areas throughout the year
 - recommendations arising from the 2009/10 Governance Statement, demonstrating that good progress had been made in addressing these issues
 - assurance provided by South Essex Homes that its business management and governance processes were fit for purpose and applied in service areas throughout the year.

INDEPENDENT ASSURANCE

Internal Audit

- 6.4 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 assessment of compliance with the Code of Practice for Internal Audit in Local Government in the UK (2006) published by the Chartered Institute of Public Finance and Accountancy, and the independent challenge of this provided by external audit
- the Head of Internal Audit's Annual Report which concluded that:
 - the Council's overall systems of internal control designed to support the delivery of its objectives remain sound and that controls are generally being applied. Where opportunities to strengthen the control environment were identified and actions agreed to address this
 - the business management arrangements established to support the delivery of the Council's objectives remain sound, but require ongoing focus to ensure they are consistently applied as resources reduce
- a report outlining the need to strengthen the governance arrangements of Key Strategic Partnerships, the way they interacted with each other and Southend Together Executive.

External Audit

- 6.5 External Audit also produce a risk based audit plan and quarterly progress reports on its delivery.
- 6.6 In addition, during 2010/11, the Committee received the External Auditor's 2009/10 Annual Audit Letter that summarised work findings from the work completed during the year and included the following assessments:
- An unqualified true and fair view audit opinion and value for money conclusion on the 2009/10 Financial Statements and feedback on issues arising from the audit prior to the opinion being given.
 - The Annual Governance Statement for that year was not inconsistent or misleading.
 - Southend Together had significantly strengthened its arrangements for tackling *Health Inequalities* since the previous review. The need to further improvements was identified but it was concluded that Southend Together already had a much stronger base for delivery and for having an impact on health inequalities in the future.

- *Investment works to the Council housing stock to contribute towards the achievement of the Decent Homes Standard:* The Council had adequate and effective arrangements in place that had fully delivered the £10m investment programme agreed for 2009/10, and was on track to deliver the planned programme for 2010/11.
- *Building Schools for the Future:* The Council had implemented appropriate governance arrangements in respect of the delivery of the Building Schools for the Future work programme and, as a result, was successfully delivering the capital works to the Belfairs School, in line with the project plan implemented at the outset of the project. At the time this work was completed, progress was on course to deliver the programmed works in accordance with the Project Execution Document.
- *Thames Gateway:* the Council had implemented appropriate governance arrangements in respect of the delivery of the Thames Gateway investment projects and was delivering the capital works supported by funding agreements with the Homes and Communities Agency in line with the timetables required to enable that funding to be accessed. However, there were some inconsistencies between projects in respect of the use made of the project management documentation arrangements that had been implemented by the Council. The need to address these inconsistencies was highlighted so that all projects were recorded to the corporate standard, to demonstrate that they were being properly project managed and delivered in accordance with the Council's plans and expectations.
- Appropriate management arrangements were in place, for the five performance indicators reviewed, to deliver an appropriate level of data quality to support the reporting of accurate performance indicators. They were also found to be fairly stated.
- Arrangements for the preparation and submission grant claim returns was generally sound for the work completed for the year ended 31 March 2010.

6.7 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 has been maintained with officers and members of the Audit Committee.

External Inspections

6.8 The Committee was provided with all external inspection reports issued during the year for information. Current practice is to not include them as an agenda item for discussion, where they have been subject to challenge by another forum e.g. a relevant scrutiny committee. 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.

7. Corporate Implications

7.1 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.

7.2 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.

7.3 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.

7.4 People and Property Implications:

None

7.5 Consultation

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

7.6 Equalities Impact Assessment:

None

7.7 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.

7.8 Community Safety Implications and Environmental Impact:

None

8 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

9 Appendices

- Appendix 1: Audit Committee Terms of Reference
- Appendix 2: Audit Committee Schedule of Attendance for 2010/11
- Appendix 3: Audit Committee Work Plan 2011/12

Extract from the Council's Constitution

8.1 Membership

9 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 plan that is reviewed at least annually, agreed by Council and provides 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 plan 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 **four** 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 3: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE

	16 June 2010	23 June 2010	22 September 2010	13 January 2011	30 March 2011
AUDIT COMMITTEE MEMBERS					
Cllr B T Kelly (Chairman)	√	√	√	√	√
Cllr Walker (Vice-Chairman)	√	√	√	√	√
Cllr Mrs M A Betson	√	√	√	√	√
Cllr SJ Carr	√	X	√	√	√
Cllr P M Collins	√	√	√	√	√
Cllr S G George	√	√	√	√	√
Cllr S J Habermel	X		X	X	√
Cllr J L Lamb	X	√	X	X	√
Cllr R A Woodley	√	√	X	√	√
Cllr Mrs Evans (substitute)	√	√			
Cllr Assenheim (substitute)		√			
Cllr Terry (substitute)	√	√			
Cllr Cox (previous Chairman)	√				
IN ATTENDANCE:					
Corporate Director Support Services	√	√	√	√	√
Head of Finance and Resources	√	√	X	√	√
Head of Policy and Improvement	√	X	√	√	√
Head of Internal Audit	√	√	√	√	√
Strategy and Performance Manager	√	X	√	X	X
Strategy and Performance Advisor	√	√	√	√	X
Group Manager (Democratic Services)	√	√	√	√	√
External Audit	√	√	√	√	√

APPENDIX 3: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE

	16 June 2010	23 June 2010	22 September 2010	13 January 2011	30 March 2011
Group Manager Financial Management	√	√	√	X	X
Group Manager Financial Planning and Capital	√	√	X	X	X

APPENDIX 2: AUDIT COMMITTEE PROPOSED WORK PLAN FOR 2011/12

BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS	OFFICER RESPONSIBLE	CABINET	22 JUNE 2011	22 SEPT 2011	13 JAN 2012	30 MAR 2012
AUDIT COMMITTEE ANNUAL REPORT INCLUDING: <ul style="list-style-type: none"> • Terms of Reference and Work Programme • Outcome of the Annual Performance Assessment (April) 	Head of Internal Audit	No. Goes to Council if amendments proposed	X			
ASSURANCE OVER KEY BUSINESS PROCESSES						
Update of Local Code of Governance	Head of Internal Audit	Yes after AC review				X
Annual Assurance Statement	Head of Internal Audit	No	X		X	
Policies, strategies and action plans regarding key business processes	Various	Yes after AC review	X	X	X	X
Progress in implementing strategy action plans for key business processes	Various	No	X	X	X	X
Assurance from Southend Together	Partnership Manager	No		X		X
Manager Assurance Statement Summary Report	Head of Internal Audit	No	X			
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	

APPENDIX 2: AUDIT COMMITTEE PROPOSED WORK PLAN FOR 2011/12

BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS	OFFICER RESPONSIBLE	CABINET	22 JUNE 2011	22 SEPT 2011	13 JAN 2012	30 MAR 2012
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		
Treasury Management Strategies and Policies	Head of Finance and Resources	No			X	
Compliance with Contract Procedure Rules	Head of Procurement	No			X	
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		
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	
EXTERNAL AUDIT						
Annual Audit Fee Letter	External Auditor	No	X			
Progress Reports on Delivering the Audit Plan	External Auditor	No	X	X	X	X

APPENDIX 2: AUDIT COMMITTEE PROPOSED WORK PLAN FOR 2011/12

BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS	OFFICER RESPONSIBLE	CABINET	22 JUNE 2011	22 SEPT 2011	13 JAN 2012	30 MAR 2012
Delivering the Savings Programme Report	External Auditor / Head of Internal Audit	Yes before AC		X		
Annual Governance Report	External Auditor	No		X		
Annual Audit Letter	External Auditor	Yes before AC			X	
Annual Audit Plan	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.