

# South Essex Homes Limited

Report of the Audit Committee

to

**The Board**

on

**25 May 2011**

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

Agenda  
Item No.

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## Audit Committee Annual Report 2010/11

*A Part 1 Public Agenda Item*

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### 1 Purpose of Report

1.1 To present the Audit Committee's Annual Report for 2010/11

### 2 Recommendations

2.1 **The Board approves the Audit Committee's Annual Report for 2010/11 and the proposed work programme for 2011/12.**

### 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, it 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 The delivery of this remit is achieved:

- firstly, through the Audit Committee being appropriately constituted; and
- secondly, by the Audit Committee obtaining evidence regarding the effective operation of:
  - the company's key business management processes and governance arrangements;

- and accountability for the company'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 the company, 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 the company with the Audit 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.

***How the Audit Committee operates***

3.5 The Audit Committee is now well established. Its Terms of Reference is reviewed periodically and were updated in November 2008 and again in July 2010.

3.6 Membership is reviewed annually. In 2010/11, it consisted of five members one of whom has 'recent relevant financial experience'.

3.7 A schedule of attendance at the meetings is provided in **Appendix 1**. It demonstrates full compliance with the quorate requirements. However it should be noted that one Audit Committee member did not attend any meetings during 2010/11. The Board should consider what action is required to address this.

3.8 Members receive training when there is a specific identified need. Future training needs are discussed as part of the annual performance assessment process.

3.9 Good practice suggests that meetings should be held '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 Audit Committee Chairman reports to the Board by the submission and adoption of the minutes of each meeting.

3.10 The Audit Committee's 2011/12 work plan was discussed and agreed at its November 2010 meeting. This is attached at **Appendix 2**.

3.11 In order for the Audit 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 In 2010/11, the Executive Director / Interim Director of Finance, Group Manager Finance & Support Services, Financial Services Manager, Support Services Officer and Internal Audit regularly attended at the Committee's request. Other officers attended as necessary to present specific reports. This enabled the Audit Committee to discharge the requirements of its Terms of Reference.

- 3.13 In order to ensure that the Audit 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 2010/11. Whilst there were no significant action points arising from this year's review, actions to be taken include:
- ensuring members are invited to relevant training organised by the Head of Internal Audit as well as organising sessions for members on topics discussed; and
  - developing the company's anti fraud and corruption arrangements and culture.
- 3.14 A report will be presented to the Audit Committee in October outlining progress made in implementing the action points arising from this review.

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

- 3.15 On an annual basis, the Audit Committee is required to consider an 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. This is then provided to the Council for inclusion in its Annual Governance Statement.
- 3.16 ***Based on information received during the year, the Audit Committee agrees that the Annual Governance Statement reflects the operation of company's systems of internal control throughout 2010/11 and recommends it to the Board for approval.***

***Basis for the conclusion***

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

- 3.18 In year management assurance was provided through reports that dealt with:
- financial management
  - treasury management
  - changes in accounting policy
  - management accounting.
- 3.19 Service managers were also asked to assess how well key business management processes have been applied during the year in service areas via Manager Assurance Statements. A report was produced summarising the results of these assessments, a small sample of which were challenged by Internal Audit to ensure the assessments were reasonable.

- 3.20 Management reporting on performance and risk has been considered by the Performance Committee. The Chair of the Audit Committee is a member of this Committee. In 2011/12, the Audit Committee will consider whether it receives sufficient evidence that these business management processes are fit for purpose and operating as designed.
- 3.21 The Audit Committee also considered the annual financial statements which were subsequently reviewed and reported upon by the external auditor.

**INDEPENDENT ASSURANCE****Internal Audit**

- 3.22 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 whether recommendations made are implemented properly, by the due dates
  - an assessment of whether the company has adequate arrangements in place for satisfying itself that:
    - its key business management processes are fit for purpose, consistently applied and operating effectively; and
    - sufficient evidence of this is provided to "those charged with governance"
  - the Head of Internal Audit's Annual Report which includes an opinion on the robustness of the company's systems of internal control.
- 3.23 Additionally the Audit Committee have been provided with briefings on current issues as they arise during the year.

**External Audit**

- 3.24 External Audit presented the plan for auditing the financial statements to the January 2011 Audit Committee. The "Report to those charged with governance" on the results of this work, will be considered by the Audit Committee in July 2011.

During the 2010/11, the period the Annual Governance Statements covers, an unqualified opinion was given on the 2009/10 statement of accounts.

**ACHIEVEMENTS OF THE COMMITTEE**

- 3.25 During the year, the Audit Committee has challenged the robustness of the company's governance arrangements and the respective assurance it has been provided with in a number of areas. It has had a significant role in reviewing and contributing to the development of the following:

- Treasury Management Policy and Strategy
- Financial Regulations
- Regular Financial Control Reports.

#### **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 2010/11***

9.2 ***Appendix 2 Audit Committee Outline Work Programme 2011/12***

**APPENDIX 1: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE 2010/11**

	28 April 2010	15 July 2010	11 Nov 2010	18 Jan 2011
<b>AUDIT COMMITTEE MEMBERS</b>				
Tony Summers (Chair)	✓	✓	✓	✓
Catherine Haycock	✓	✓	✓	✓
Nigel Folkard	✓	X	✓	✓
Kirsty Cornell		X	X	X
George Sutherland	X	✓	✓	✓
<b>IN ATTENDANCE:</b>				
Executive Director (Finance)	✓	✓	✓	✓
Group Manager Finance & Support Services	✓	X	✓	✓
Financial Services Manager	✓	✓	✓	X
Accountant – Housing Management and Support Services	✓	X	X	X
Group Manager, Property Services	✓	X	✓	X
Group Manager, Housing Services	X	X	X	✓
Company Secretary	X	X	X	✓
Support Services Officer	✓	✓	✓	X
Head of Internal Audit / Internal Audit	✓	✓	✓	✓
External Audit	X	✓	X	✓

**APPENDIX 2: AUDIT COMMITTEE OUTLINE WORK PROGRAMME 2011/12**

<b>BUSINESS MANAGEMENT PROCESS / GOVERNANCE ARRANGEMENTS</b>	<b>LEAD OFFICER</b>	<b>REFERRED ON TO THE BOARD</b>	<b>APR / MAY</b>	<b>JUL</b>	<b>OCT / NOV</b>	<b>JAN</b>
<b>AUDIT COMMITTEE</b>						
<b>AUDIT COMMITTEE ANNUAL REPORT INCLUDING:</b> <ul style="list-style-type: none"> <li>• Terms of Reference and Work Programme</li> <li>• Outcome of the Annual Performance Assessment (April)</li> </ul>	Company Secretary / Head of Internal Audit	Yes	X			
<b>ASSURANCE OVER KEY BUSINESS PROCESSES (AS OUTLINED IN THE ANNUAL ASSURANCE STATEMENT)</b>						
Policies, strategies and action plans regarding key business processes	Various	Yes	X	X	X	X
Progress in implementing strategy action plans for key business processes	Various	No	X	X	X	X
Annual Assurance Statement	Company Secretary	Yes	X			
Manager Assurance Statement Summary Report	Head of Internal Audit	No	X			
Annual Governance Statement	Company Secretary	Yes	X			
Annual Governance Statement Action Plan Progress Report	Company Secretary	No			X	
Assurance gained by other committees that the key business management process are fit for purpose and operating as designed.	Interim Director of Finance / Company Secretary	Yes	X	X	X	X

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<b>FINANCIAL REPORTING</b>						
Standing Orders, Financial Regulations and Scheme of Delegation	Interim Director of Finance	Yes		X		
Budget Position and Management Accounts	Interim Director of Finance	Yes	X	X	X	X
Financial Statements including changes in accounting policies	Interim Director of Finance	Yes		X		
Debt Write Offs	Interim Director of Finance	Yes		X		X
Treasury Management Strategies and Policies	Interim Director of Finance	Yes				X
Compliance with Standing Orders and Contract Procedure Rules	Interim Director of Finance	Yes		X		X
<b>INTERNAL AUDIT</b>						
Appointment of internal auditor	Interim Director of Finance	No	X			
Internal Audit's Terms of Reference, Strategy and Audit Plan	Head of Internal Audit	No	X			X
Internal Audit Summary Progress reports of performance against agreed measures and implementation of recommendations made	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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Head of Internal Audit Annual Report	Head of Internal Audit	No	X			
Individual Internal Audit reports	Head of Internal Audit	No	X	X	X	X
Audit Committee & Internal Audit Action Plans Progress Report	Head of Internal Audit	No			X	
<b>EXTERNAL AUDIT</b>						
Appointment of the external auditor	Interim Director of Finance	Yes	X		X	
Fee Letter	External Auditor	No				X
Presentation of Audited Financial Statements	External Auditor	Yes		X		