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## Audit Committee Annual Report 2011/12

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### 1. Purpose of Report

- 1.1 To report on the delivery of the Audit Committee's Terms of Reference for 2011/12.

### 2. The Audit Committee's Role

- 2.1 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*

- 2.2 The delivery of this remit is achieved by the Audit Committee:

- being appropriately constituted and operating in an appropriate manner as defined by relevant good practice guidance
- obtaining sufficient evidence throughout the year regarding the effective:
  - design and operation of the company's key business processes
  - management of key service delivery and financial risks
  - processes to address any control weaknesses identified
  - delivery of independent internal and external audit functions.

- 2.3 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 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 system of internal control.

### 3. How the Audit Committee operates

- 3.1 The Audit Committee is well established and operates effectively. Its Terms of Reference are reviewed annually along with committee membership, taking into account good practice guidance.
- 3.2 The Audit Committee operated with nine members in 2011/12 reflecting proportional representation. Although some members had experience of financial management, none were currently practising qualified accountants. No changes are proposed to the Terms of Reference for 2012/13, which are attached at **Appendix 1** for information.
- 3.3 Members receive training when a specific need is identified. In 2011/12, sessions delivered included:
- What is the Role of the Audit Committee
  - How to produce an Audit Plan and Deliver an Audit.
- 3.4 Future training needs are discussed as part of the annual performance assessment process. Audit Committee members have also been provided with briefings or information papers on relevant current issues as they have arisen during the year. These included relevant papers produced by CIPFA and the Audit Commission as well as briefings by PKF on:
- Setting External Audit Fees
  - The Procurement of External Audit for Local Government.
- 3.5 Good practice recommends that meetings are held 'not less than three times a year'. Four meetings were held within the last financial year. They were timed to enable the Audit Committee to deal with specific elements of its remit.
- 3.6 The Audit Committee Chairman reports to Council each quarter with the submission and adoption of meeting minutes.
- 3.7 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. The 2012/13 work plan proposed for the Audit Committee is attached at **Appendix 2**.
- 3.8 In 2011/12, the Head of Finance and Resources (Section 151 Officer) or his representative, Head of Policy and Improvement and the Head of Internal Audit regularly attended with the External Auditor at the Audit Committee's request. Other Council officers' attended as necessary to present or respond to specific reports. The schedule of attendance attached at **Appendix 3** demonstrates full compliance with the quorate requirements.
- 3.9 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 the Audit Committee has operated in line with recommended good practice guidance throughout 2011/12 and there are no significant improvement opportunities to report.

#### **4. Annual Conclusion on the System of Internal Control**

4.1 On an annual basis, the Audit Committee is required to consider the Annual Governance Statement and assess whether it reflects the evidence presented to it throughout the year regarding the operation of the Council's system of internal control.

4.2 ***The Audit Committee approves the Annual Governance Statement and action plan (refer item 7 on the agenda) as it agrees it reflects the operation of Council's system of internal control throughout 2011/12.***

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

5.1 The remainder of the report summarises the key evidence considered by the Audit Committee in reaching this conclusion.

##### **MANAGEMENT ASSURANCE**

5.2 The Local Code of Governance was updated to explain more cohesively, the:

- principles and values to be adopted by the Council, setting the tone for how the organisation operates but also how individuals (both members and officers) conduct themselves
- arrangements for managing itself effectively to enable it to successfully deliver the service objectives that it set itself.

5.3 A fundamental review was undertaken during the year of the Council's anti fraud and corruption arrangements. New policies were approved taking into account current good practice guidance and the requirements of the Bribery Act 2010. Action continues to raise awareness of the Council's zero tolerance to fraud, corruption or bribery with staff, members, significant partners and contractors as well as the public.

5.4 In year management assurance regarding the operation of the Council's business management processes was then provided through:

- periodic reports on the implementation of the strategies relating to risk management and anti fraud and corruption including whistleblowing
- a six monthly report on the progress being made to implement recommendations arising from the previous years' Governance Statement.

5.5 Heads of Service and Corporate Directors were asked to assess how well key business management processes were applied during the year in service areas via the completion of Manager Assurance Statements.

5.6 In year assurance regarding the management of financial risk was provided through reports that dealt with:

- the Annual Financial Statements presented by the Chief Finance Officer as required by the Accounts and Audit (England) Regulations 2011
- Treasury Management, both in terms of the Council's policy and strategy in this area as well as compliance with this.

- 5.7 The monthly performance report that is seen by all members also provides ongoing assurance throughout the year over financial and service performance.
- 5.8 South Essex Homes end of year reports demonstrate that its system of internal control was generally fit for purpose and applied in service areas throughout the year.

## **INDEPENDENT ASSURANCE**

### ***Internal Audit***

- 5.9 Internal Audit assurance was provided through the provision of:
- a risk based audit plan and quarterly progress reports on its delivery
  - the summary findings from each activity audited with an opinion on the strength of the control environment and details of action required to improve it where necessary
  - feedback on whether recommendations made are implemented properly, by the due dates
  - the Head of Internal Audit's Annual Report which includes an opinion on the robustness of the Council's system of internal control
  - annual assurance that Internal Audit operates in a manner that complies with the CIPFA, Code of Practice for Internal Audit in Local Government in the United Kingdom 2006.

### ***External Audit***

- 5.10 External Audit also produced a risk based audit plan and quarterly progress reports on its delivery as well as:
- an opinion on whether the financial statements for the year ended 31 March give a true and fair view of the Council's financial position and income and expenditure, and have been properly prepared in accordance with appropriate legislation and the CIPFA/LAASAC Code of Practice on Local Authority Accounting in the United Kingdom
  - a conclusion on whether the Council has made proper arrangements to secure economy, efficiency and effectiveness in the use of resources (value for money, or .VFM.)
  - a view on whether the Council's arrangements for preparing grant claims and other returns to Government Departments were generally operating effectively
  - certified, for specific grant claims, whether the grant received had been spent in accordance with the grant instructions issued by the relevant government department.

5.11 The Committee noted the Audit Commission report that confirmed that the Council's external auditor supplier continue to satisfy all of its quality requirements. The Committee also considered that the local external audit team:

- continue to produce good quality work that is well presented.
- maintain good working relationships with officers and members.

### ***Inspections***

5.12 Finally, consideration was also given to assurance provided by Ofsted in the report issued on the Adoption Service.

## **6. Corporate Implications**

### 6.1 Contribution to Council's Aims and Priorities

Operating robust business management and governance processes impacts on the Council's ability to successfully deliver all of its Aims and Priorities.

### 6.2 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 its financial position at the year end.

### 6.3 Legal Implications

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

However the Account and Audit (England) Regulations 2011 require councils to:

- at least once a year, conduct a review of the effectiveness of its system of internal control
- present the findings of this review to a committee to consider, as part of the evidence supporting the Annual Governance Statement, which it must approve.

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

### 6.4 People and Property Implications:

None

## 6.5 Consultation

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

## 6.6 Equalities Impact Assessment:

None

## 6.7 Risk Assessment / Value for Money

Without an effective Audit Committee, the Council 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 Council services at risk and may mean that they do not operate cost effectively.

## 6.8 Community Safety Implications and Environmental Impact:

None

## 7 Background Papers

- Accounts and Audit (England) Regulations 2011
- CIPFA: Audit Committee Practical Guidance for Local Authorities
- CIPFA: A toolkit for Local Authority Audit Committees
- CIPFA: Code of Practice for Internal Audit in Local Government in the UK (2006)
- CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010

## 8 Appendices

- Appendix 1: Audit Committee Terms of Reference
- Appendix 2: Audit Committee Proposed Work Plan 2012/13
- Appendix 3: Audit Committee Schedule of Attendance for 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 Authority's exposure to risk and weakens the control environment
- 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
- 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 Corporate Director of Support Services, 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 2: AUDIT COMMITTEE PROPOSED WORK PLAN FOR 2012/13**

<b>BUSINESS MANAGEMENT PROCESS</b>	<b>OFFICER RESPONSIBLE</b>	<b>CABINET</b>	<b>JUNE 2012</b>	<b>SEPT 2012</b>	<b>JAN 2013</b>	<b>MAR 2013</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>	Head of Internal Audit	No		X		
<b>ASSURANCE OVER KEY BUSINESS PROCESSES</b>						
Update of Local Code of Governance	Head of Internal Audit	Yes after Audit Committee review				X
Policies, strategies and action plans regarding key business processes	Various	Yes after Audit Committee review	X	X	X	X
Progress in implementing strategy action plans for key business processes	Various	No	X	X	X	X
Manager Assurance Statements Summary	Head of Internal Audit	No		X		
Annual Governance Statement	Policy and Partnership Manager	No, goes on to Council		X		
Annual Governance Statement Action Plan Progress Report	Policy and Partnership Manager	No				X

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<b>BUSINESS MANAGEMENT PROCESS</b>	<b>OFFICER RESPONSIBLE</b>	<b>CABINET</b>	<b>JUNE 2012</b>	<b>SEPT 2012</b>	<b>JAN 2013</b>	<b>MAR 2013</b>
<b>FINANCIAL REPORTING</b>						
Financial Statement Report including changes in accounting policies	Head of Finance and Resources	No		X		
Writing off debt	Head of Finance and Resources	No		X		
Budgetary Control and Financial Reporting Processes	Head of Finance and Resources	No		X		
Treasury Management Strategies and Policies	Head of Finance and Resources	No, goes onto Council			X	
Compliance with Contract Procedure Rules	Head of Procurement	No			X	
<b>INTERNAL AUDIT</b>						
Terms of Reference, Strategy and Audit Plan	Head of Internal Audit	No				X
Summary Audit Progress Reports	Head of Internal Audit	No		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	

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<b>BUSINESS MANAGEMENT PROCESS</b>	<b>OFFICER RESPONSIBLE</b>	<b>CABINET</b>	<b>JUNE 2012</b>	<b>SEPT 2012</b>	<b>JAN 2013</b>	<b>MAR 2013</b>
<b>EXTERNAL AUDIT</b>						
Annual Audit Plan	External Auditor	No			X	
Progress Reports on Delivering the Audit Plan	External Auditor	No	X	X	X	X
Annual Governance Report	External Auditor	No		X		
Annual Audit Letter	External Auditor	Yes before Audit Committee			X	
Grant Claim Certification Report	External Auditor	No				X

**APPENDIX 3: AUDIT COMMITTEE SCHEDULE OF ATTENDANCE**

	<b>22 June 2011</b>	<b>21 September 2011</b>	<b>12 January 2012</b>	<b>28 March 2012</b>
<b>AUDIT COMMITTEE MEMBERS</b>				
Cllr I T Robertson (Chairman)	√	√	√	√
Cllr C W Walker (Vice-Chairman)	√	√	√	√
Cllr Mrs M A Betson	√	√	√	√
Cllr P M Collins	√	√	√	√
Cllr R E Hadley	X	√	√	√
Cllr B T Kelly	√	X	√	X
Cllr J L Lamb	X	√	X	√
Cllr J McMahan	√	√	√	√
Cllr R A Woodley	√	√	√	X
Cllr J I Courtenay (substitute)	√			
Cllr Mrs Evans (substitute)	√		√	