

# South Essex Homes Limited

Report of the Audit Committee

to

**The Board**

on

**30 May 2012**

Agenda  
Item No.

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

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## Audit Committee Annual Report 2011 - 12

*A Public Agenda Item*

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### 1 Purpose of Report

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

### 2 Recommendations

- 2.1 **The Board approves the Audit Committee's Annual Report for 2011/12**

- 2.2 **The Board agrees the annual Governance Statement.**

### 3 Background

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

- 3.1 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 company's financial and non-financial performance to the extent that it affects its 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***
- 3.2 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 risks
    - management of financial risk
  - delivery of independent internal and external audit functions.

3.3 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
- 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 system of internal control.

***How the Audit Committee operates***

3.4 The Audit Committee is well established and its Terms of Reference is reviewed periodically, having been updated in Jan 2011 and now May 2012.

3.5 Membership is reviewed annually and in 2011/12, consisted of five members including at least one that had 'recent relevant financial experience' although latterly not someone who is a qualified accountant.

3.6 Members receive training when there is a specific identified need. In 2011/12 sessions provided included:

- the Role of the Audit Committee
- the Bribery Act 2010
- Treasury Management
- How to Produce an Audit Plan and Plan an Audit
- General Fraud Awareness Session: Help Us Stop Fraud

Future training needs are discussed as part of the annual performance assessment process. It has also been provided with briefings or information papers on relevant current issues as they have arisen during the year.

3.7 Good practice recommends that meetings should be held 'not less than three times a year'. Four meetings were held within the last financial year. They were timed to enable the Committee to deal with specific elements of its remit.

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

3.8 In order for the Audit Committee to operate effectively it requests reports to be presented to it by officers and auditors regarding the activities that fall within its remit.

3.9 In 2011/12, the 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. Relevant senior officers also attended to respond to any questions arising from Internal Audit reports presented to the Audit Committee.

- 3.10 The schedule of attendance at **Appendix A**, 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.
- 3.11 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 appropriately throughout 2011/12.

Whilst there were no significant areas of non compliance arising from this year's performance review, the Audit Committee identified some areas for further work during 2012/13 which includes:

- revisiting the objectives and work programmes for the Audit Committee and the Performance Committee to ensure:
    - there is a clear difference in their purpose
    - that they are both getting the information they require in order to discharge their respective Terms of Reference
  - considering how the Audit Committee will get assurance over the development and operation of new business activities
  - continuing the work to develop the company's anti fraud and corruption arrangements and culture in conjunction with the Council.
- 3.12 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***

- 3.13 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 the company's system of internal control. This is then provided to the Council for inclusion in its Annual Governance Statement.
- 3.14 The Audit Committee agreed that the Annual Governance Statement reflected the operation of company's governance arrangements throughout 2011/12 and recommended this to the Board for agreement.

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

- 3.15 The Audit Committee received adequate assurance regarding the operation the company's key business processes and significant financial and service delivery risks from both internal and independent sources throughout 2011/12. The company has also maintained adequate and effective internal and external audit functions during this period.

**MANAGEMENT ASSURANCE**

- 3.16 Service managers 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. 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. The key improvement opportunities identified from this work have been reflected in the Annual Governance Statement.
- 3.17 Management reporting on performance and risk continued to be considered by the Performance Committee. The Chair of the Audit Committee until January 2012 was a member of this Committee and the Board receives minutes of all committees to discuss and approve. The Audit Committee discussed during the year, whether it received sufficient assurance regarding the operation of the company's risk management arrangements. It made recommendations to the Performance Committee on the level of challenge it wanted to see of specific risks. This recommendation has been adopted by the Performance Committee.
- 3.18 A fundamental review was undertaken during the year of the company'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 company's zero tolerance to fraud, corruption or bribery with staff, board members, tenants and the public.
- 3.19 In year assurance regarding the management of financial risk was provided through reports that dealt with:
- proposed changes in accounting policy for the forth coming year
  - revisions to the Financial Regulations
  - the budget position and management accounts
  - the audit of the financial statements including the report from the external auditor to The Report to Those Charged with Governance
  - the Treasury Management Strategy for the company
  - the delivery of the company's value for money targets.
- The company received an unqualified opinion on its financial statements and none of the other financial reports raised any significant matters of concern.

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

- 3.20 Internal Audit assurance was provided through the provision of:
- a risk based audit plan and quarterly progress reports on its delivery
  - summary findings from each activity audited with an opinion on the strength of the control environment and details of actions 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 company's systems 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.

3.21 The control environments of all the areas audited this year have been either adequate or good with the exception of:

- payroll (the Council Delphi system)
- information management (which is in the process of being finalised).

However it should be noted that as at the 23 April 2012, two audits remained outstanding:

- The payroll module of the Council's new integrated financial accounting system did not go live until February 2012. So additional testing has been completed on the previous Delphi payroll system to get the assurance required up to this date. The new system still has to be documented, evaluated and tested
- Work on the Income and Banking system is due to be completed at the end of May 2012.

3.22 Therefore on this basis the Head of Internal Audit was able to conclude that the company's system of internal control was good and that controls were generally being applied. However further work is required to strengthen controls within the company's information management processes.

### **External Audit**

3.23 External Audit presented the plan for auditing the financial statements to the January 2012 Audit Committee. External Audit will present the "Report to Those Charged with Governance" on the results of audit to the Audit Committee in July 2012.

During the 2011/12, the period the Annual Governance Statements covers, an unqualified opinion was given on the 2010/11 financial statements.

## **4 Diversity and Equal Opportunities**

4.1 None

## **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 None

## **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
  - 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

**9 Appendices**

- 9.1 **Appendix A** Audit Committee Schedule of Attendance for 2011/12

**APPENDIX A OF APPENDIX 2 AUDIT COMMITTEE SCHEDULE OF ATTENDANCE 2011/12**

	10 May 2011	26 July 2011	31 Oct 2011	31 Jan 2012
Tony Summers (Chair to Oct 2011 )	✓	✓	✓	
George Sutherland (Chair from Jan 2012 )	X	✓	✓	✓
Kirsty Cornell	X			
Cllr Mary Betson		✓	✓	✓
Cllr Nigel Folkard	✓	✓	✓	✓
Catherine Haycock	✓	✓	✓	X
<b>IN ATTENDANCE:</b>				
Interim Director of Finance	✓	✓	✓	✓
Group Manager Finance & Support Services	✓	✓	✓	✓
Financial Services Manager	X	✓	X	✓
Company Secretary	✓	✓	X	✓
Support Services Officer	X	✓	✓	✓
Head of Internal Audit	✓	X	✓	✓
Audit Manager(s)	✓	✓	✓	✓
External Audit		✓		✓
Executive Director	✓			
Group Manager Housing Services	✓	✓		
Group Manager Property Services	✓			