

Annual Report of the Audit and Governance Committee

Summary

- 1 This report seeks Members' views on the draft annual report of the Audit and Governance Committee for the year ended 30 September 2010, prior to its submission to Full Council. The report also presents a draft assurance statement which the Committee has been requested to provide to the council's external auditors, the Audit Commission.

Background

- 2 The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees operate effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.
- 3 At the last meeting of this Committee the Audit Commission presented an update on the progress made in completing the 2009/10 Audit Plan. The report also set out the requirement on the external auditor to obtain specific assurances from the organisation's management and 'those charged with governance' in order to comply with International Standards for Auditing. In terms of the Audit and Governance Committee this assurance relates to the organisation's arrangements for preventing and detecting fraud and for ensuring compliance with existing laws and regulations. The external auditor must gain an understanding of:
 - (a) How management exercise key governance processes in relation to:
 - Undertaking an assessment of the risk that the financial statements may be materially mis-stated due to fraud;
 - Identifying and responding to risks of fraud in the organisation;
 - Communication to employees of views on business practice and ethical behaviour; and
 - Communication to those charged with governance the processes for identifying and responding to fraud.

- (b) How those charged with governance oversee management processes to identify and respond to the risk of fraud and possible breaches of internal control.
 - (c) Whether management or those charged with governance have knowledge of any actual, suspected or alleged frauds.
 - (d) How management, and those charged with governance, obtain assurance that all relevant laws and regulations have been complied with.
 - (e) How management has satisfied itself that it is appropriate to adopt the going concern basis in preparing the financial statements.
- 4 The Audit Commission has requested written assurances from those 'charged with governance' on these matters in addition to the formal letter of representation in relation to the assertions in the financial statements, which is obtained from management each year.

Annual Report of the Audit and Governance Committee

- 5 A copy of the draft annual report of the Committee is attached at Appendix 1. A copy of the Committee's terms of reference as set out in Section 8, Part 3C of the Constitution is also attached to the report at Appendix A, for information.

Written Assurance from those 'Charged with Governance'

- 6 A copy of the draft statement from the Audit and Governance Committee to the external auditor is attached at Appendix 2. The statement is intended to provide assurance in respect of the matters set out in paragraph 3 above.

Options

- 7 This report sets out the proposed wording of the Committee's Annual Report and the statement of assurance to the external auditor. Members are asked to suggest alternative wording if necessary.

Analysis

- 8 Not relevant for the purpose of the report.

Corporate Priorities

- 9 This report contributes to the council's overall aims and priorities by helping to ensure probity, integrity and honesty in everything we do. In doing so it contributes to the corporate objective of making the council an Effective Organisation.

Implications

- 10 The implications are:

- **Financial** – the external auditors may have difficulty in providing an unqualified opinion on the Statement of Accounts if they fail to obtain the necessary assurance from ‘those charged with governance’.
- **Human Resources (HR)** – there are no HR implications to this report.
- **Equalities** – there are no equalities implications to this report.
- **Legal** – there are no legal implications to this report.
- **Crime and Disorder** – there are no crime and disorder implications to this report.
- **Information Technology (IT)** – there are no IT implications to this report.
- **Property** – there are no property implications to this report.

Risk Management

- 11 Assurance in respect of the council’s arrangements for managing risk, the maintenance of effective controls including those designed to prevent and detect fraud, and compliance with relevant legislation, may not be provided if the Audit and Governance Committee does not produce an annual report and/or provide a written statement to the external auditors.

Recommendations

- 12 Members are asked to:
- Consider and comment on the Annual Report of the Audit and Governance Committee prior to its submission to Full Council.
 - Approve the wording of the assurance statement to the external auditor from ‘those charged with governance’ and confirm that the statement can be signed on behalf of the Audit and Governance Committee by the Chair.

Reason

To enable the Committee to fulfil its role in providing assurance about the adequacy of the council’s internal control environment and arrangements for managing risk and for reporting on financial and other performance.

Contact Details

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Report
Approved



Date 15/9/10

Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

All

For further information please contact the author of the report

Background Papers:

- CIPFA 'A Toolkit for Local Authority Audit Committees'
- International Standard for Auditing 240 Fraud
- International Standard for Auditing 250 Laws and Regulations

**REPORT OF THE AUDIT AND GOVERNANCE COMMITTEE
FOR THE YEAR TO 30 SEPTEMBER 2010**

PURPOSE OF THE REPORT

To provide Members of the council with details of the work of the Audit and Governance Committee covering the year to 30 September 2010. The report also details how the Audit and Governance Committee has fulfilled its terms of reference.

BACKGROUND

The Audit and Governance Committee is responsible for overseeing the council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The functions of the Audit and Governance Committee are set out in Section 8, Part 3C of the Constitution. A copy of the list of the Committee's responsibilities is attached at **Appendix A** for information.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that audit committees are operating effectively. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities.

WORK UNDERTAKEN

The Audit and Governance Committee has met on seven occasions in the year to 30 September 2010. During this period, the Committee has assessed the adequacy and effectiveness of the council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, internal audit and the external auditors, the Audit Commission. The Committee has sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified by auditors or inspectors during this period. The Committee has also sought to ensure effective relationships exist between internal and external auditors, inspection agencies and other relevant bodies.

The specific work undertaken by the Committee is set out below. The Committee has:

- 1 Received and considered the results of the Audit Commission's Comprehensive Area Assessment (CAA) inspection for 2009. The Committee requested additional information on the definitions used for some of the indicators. Concerns were also raised about the format of the CAA report which was to be published on the 'One Place' website. Members requested a further update before the CAA refresh in Summer 2010.
- 2 Received and considered the Audit Commission's plan for the audit of the 2009/10 financial statements, the Use of Resources and Value for Money opinion, the certification of grant claims and the council's participation in the

National Fraud Initiative, together with the associated fee for undertaking this work.

- 3 Received and considered a number of reports issued by the Audit Commission on control and value for money issues. The Committee has also monitored the progress made by management to address any identified control weaknesses. An example of this was the review of the council's asset management arrangements which considered the strategic approach to asset management, whether assets are managed to deliver value for money and partnership and community involvement in asset management. The Committee considered officers' response to the Audit Commission's review as well as the recommendations contained in the Audit Commission's national report '*Room for Improvement*' (issued in June 2008).
- 4 Considered the progress made by management to improve data quality and to implement a Data Quality Policy following recommendations made by both the Audit Commission and internal audit. The Committee noted the improvements which had been made to the systems for collecting and reporting local and national performance indicators.
- 5 Considered the outcome of the Audit Commission's review of the council's arrangements for internal audit. The Committee noted that no significant areas of concern had been identified and no recommendations for improvement made.
- 6 Considered the outcome of the Audit Commission's review of the council's grant claim arrangements for the 2008/09 financial year. The Committee noted that there had been an improvement in the number of claims submitted by the relevant deadline and a reduction in the delay where claims had not been submitted in time.
- 7 Received and considered the results of internal audit work completed during the period and monitored the progress made by management to address identified control weaknesses. The Committee considered breaches of the council's Financial Regulations and Contract Procedure Rules identified during audit work and requested assurance that management would meet the submission deadline of the Sure Start grant claim for 2009/10.
- 8 Received, considered and approved the Internal Audit and Counter Fraud Plan for 2010/11.
- 9 Received and considered the outcome of counter fraud work, including details of the investigation of suspected benefit and housing tenancy related fraud and the results of a fraud awareness survey of council managers. The Committee also considered the outcomes of the self assessment exercise undertaken in response to the Audit Commission's national report '*Protecting the Public Purse – Local Government Fighting Fraud*' (issued in September 2009) and the work being undertaken in respect of the Audit Commission's National Fraud Initiative (NFI).
- 10 Received and considered the results of the annual review of the effectiveness of the system of internal audit for 2009/10. The outcome of this review informed the preparation of the Annual Governance Statement 2009/10.

- 11 Received and considered the Annual Report of the Head of Internal Audit which provided an overall opinion on the council's control environment. The Head of Internal Audit confirmed that the council's internal controls provided substantial assurance although the Committee's attention was drawn to a number of significant control weaknesses. Again this informed the conclusions reported within the Annual Governance Statement 2009/10.
- 12 Considered and approved the Statement of Accounts for 2009/10. The Committee however requested that consideration should be given to making the amount spent on consultants more visible in the published accounts and to including information on energy related expenditure and savings in future Statements of Accounts.
- 13 Considered and approved the Annual Governance Statement for 2009/10 subject to an amendment to section 5 regarding the Committee's important role in respect of proposed changes to the council's Constitution.
- 14 Scrutinised the council's treasury management strategy and policies as a new role for the Committee. The Committee received and considered the Treasury Management Annual Report and review of Prudential Indicators for 2009/10 which compared actual performance against the budget and treasury management strategy for the year.
- 15 Received and considered draft revised Contract Procedure Rules prior to referral to the Executive and approval by Full Council. The Committee accepted a number of amendments which were tabled by officers at the meeting to correct typographical errors and to reflect the results of further consultation. The Committee then agreed a number of further amendments to the draft Rules.
- 16 Received and considered the council's new Corporate Debt Policy prior to referral to the Executive and approval by Full Council. The Committee emphasised the need for clear and consistent communication with customers but with a need for tact and discretion when dealing with the relatives of the deceased. The Committee agreed the new Policy subject to a small number of amendments.
- 17 Assessed the adequacy and effectiveness of the council's risk management arrangements through consideration of the progress made by officers to address the Key Corporate Risks (KCRs). Details of the KCR's were reported to the Committee on a quarterly basis. The Committee requested further information on a number of high risk areas in order to gain assurance that these risks were being appropriately managed.
- 18 Considered and agreed changes to the Committee's terms of reference prior to referral to Full Council for approval.
- 19 Considered a proposed change to Article 5 of the Constitution. The change was considered necessary in order to bring the Constitution up to date with respect to how the Lord Mayor operates and to reflect an increased profile for future Lord Mayors and Civic Parties.

- 20 Approved changes to the Internal Audit Terms of Reference following the transfer of audit and counter fraud services to Veritau Limited.
- 21 Approved the new Internal Audit Strategy to reflect the operational changes following the transfer of services to Veritau and to comply with best practice.
- 22 Received and considered the draft Information Governance Policy and Strategy prior to referral to the Executive for approval.
- 23 Received and considered minor changes to the Counter Fraud and Corruption and the Fraud and Corruption Prosecution policies prior to referral to the Executive Member for Corporate Services for approval.
- 24 Received and considered a report setting out how the council intends to respond to the petitions duty in the Local Democracy, Economic Development & Construction Act 2009. The committee was asked to provide its views on the proposed scheme prior to its submission to Full Council for approval.
- 25 Received regular updates on the progress being made to prepare for the change in financial reporting from UK Generally Accepted Accounting Practice (UK GAAP) to International Financial Reporting Standards (IFRS).
- 26 Received and considered the annual scrutiny report which detailed the work undertaken by the council's overview and scrutiny committees during 2009/10.
- 27 Received regular updates on national reports produced by the Audit Commission.
- 28 At each meeting the Committee has maintained a Forward Plan for a number of meetings ahead to ensure that its responsibilities are discharged in full and appropriate reports are brought by officers on a timely basis.

Cllr Brian Watson
Chair of the Audit & Governance Committee

AUDIT AND GOVERNANCE COMMITTEE TERMS OF REFERENCE

Part 3 C of the Constitution (Council Committees and Other Bodies)

8.1 The functions of the Audit & Governance Committee are:

No.	Delegated authority	Conditions
	Audit	
1	To consider the annual report and opinion of the Assistant Director (Customer Service & Governance) including a summary of internal and external audit activity (actual and proposed in the relevant accounting period) and the level of assurance that can be given over the corporate governance arrangements at the Council and to advise the Executive accordingly.	
2	To consider summaries of specific internal audits reports as scheduled in the forward plan for the Committee or otherwise requested by Members.	
3	To consider reports dealing with the management and performance of the Internal and External Audit functions.	
4	To consider reports from Internal Audit on agreed recommendations not implemented within agreed timescales.	
5	To consider the action plan arising from the Annual Letter of the External Auditor.	With respect to the Annual Letter being first considered and accepted by the Executive.
6	To consider all other relevant reports from the District Auditor as scheduled in the forward plan for the Committee as agreed with the External Auditor or otherwise requested by Members.	
7	To comment on the scope and depth of External Audit work and ensure it provides value for money.	
8	To liaise with the Audit Commission over the appointment of the Council's External Audit body.	
9	To approve the Annual Plans of the Internal Audit Service and the External Auditor.	
10	To commission work from the Internal Audit Service and External Audit with regard to the resources available and the existing scope and breadth of their respective work programmes and the forward plan for the Committee.	Subject to budgetary provision.

No.	Delegated authority	Conditions
11	To provide advice to the Council on issues arising out of a fraud investigation and report any action which has or ought to be taken by the Council.	
Governance & Regulatory		
12	To keep under review the Council's contract procedure rules, financial regulations, working protocols and codes of conduct and behaviour (not otherwise reserved to the Standards Committee).	
13	To review any relevant issue referred to it by the Chief Executive, S151 Officer, the Assistant Director (Customer Service & Governance), the Monitoring Officer or any other Council body.	
14	To consider any reports of the Assistant Director (Customer Service & Governance) referred to the Committee for consideration further to Article 13 of this Constitution.	
15	To monitor the effective development and operation of risk management and corporate governance across the Council.	
16	To monitor Council policies on 'whistle blowing', the Anti-Fraud & Corruption Strategy and consider any issues referred to it in accordance with the Council's whistle blowing policy and procedures as set out in Part 5 of this Constitution.	
17	To consider the Council's arrangements for corporate governance and make recommendations about all actions necessary for compliance with best practice to Full Council.	
18	To consider the Council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice.	
19	To bring to Full Council all proposals for amendment to this Constitution submitted by Members in accordance with this Constitution.	Subject to the advice of the Head of Civic, Democratic and Legal Services.
Annual Governance Statement and Accounts		
20	To approve the Statement of Accounts and the Annual Governance Statement.	
21	To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.	

DRAFT STATEMENT FROM THOSE CHARGED WITH GOVERNANCE

Responsibility for preventing and detecting fraud is identified by the International Standard for Auditing (UK and Ireland) 240 as resting with the management and 'those charged with governance', i.e. the Audit and Governance Committee. A similar standard (ISA 250) requires the organisation to ensure its operations are conducted in accordance with existing laws and regulations and also assigns responsibility for the prevention and detection of non compliance. This statement covers the role of the Audit and Governance Committee in discharging its responsibilities.

ISA 240 Fraud

- 1 The International Standards for Auditing views fraud as either:
 - (a) the intentional misappropriation of assets (cash, property, etc), or,
 - (b) the intentional manipulation or misstatement of the financial statements.
- 2 Management discharges its responsibilities via systems of internal control, including Financial Regulations, Contract Procedure Rules and the Employee Code of Conduct, and via disciplinary procedures where fraud is highlighted as a dismissible event. The organisation also has in place Counter Fraud and Corruption and Fraud and Corruption Prosecution policies which clearly outline to staff the commitment to the elimination of fraud and the steps that they should take in the event of fraud being suspected.
- 3 The organisation commissions local counter fraud specialists from the council's shared service provider, Veritau Limited, to undertake an annual counter fraud plan of work on its behalf. The Assistant Director of Customer & Business Support Services (Customer Service & Governance) meets on a regular basis with the Head of Internal Audit (Veritau) and relevant counter fraud specialists to discuss progress.
- 4 The council's Counter Fraud and Corruption Policy and the annual counter fraud plan cover the following main areas:
 - (a) the creation of an anti-fraud culture
 - (b) deterrence
 - (c) prevention
 - (d) detection
 - (e) investigation
 - (f) sanction
 - (g) redress
- 5 All reported cases of suspected fraud are investigated by Veritau. Details of the counter fraud work undertaken by Veritau during 2009/10 and the outcome of investigations into suspected fraud were reported to this committee on 26 April 2010.

- 6 Management commissions internal audit services from Veritau. The company is required to report on the council's systems for financial accounting and financial management as part of its annual internal audit plan. This includes reporting potential errors or control weaknesses which may result in financial misstatement. The assurance gained contributes to the preparation of the Annual Governance Statement.
- 7 The Audit and Governance Committee receives assurance from management through:
 - (a) receipt and approval of the annual internal audit and counter fraud plan
 - (b) receipt of regular update reports from the Head of Internal Audit detailing the results of internal audit and counter fraud work, including the audit of the financial accounting and financial management systems of the organisation
 - (c) receipt of the annual Report of the Head of Internal Audit which provides an overall opinion on the council's control environment, including the arrangements to prevent and detect fraud.

ISA 250 (Laws and Regulations)

- 1 The organisation has developed and implemented a system of assurances based on:
 - (a) Objective setting - whereby the council's strategic objectives are identified and assigned to individual directors or assistant directors.
 - (b) Risk Assessment - whereby each director or assistant director identifies and prioritises the risks related to achieving those strategic objectives.
 - (c) A Local Code of Corporate Governance - which is consistent with the principles of the CIPFA/SOLACE 'Delivering Good Governance in Local Government framework' and the council's Business Model.
 - (d) Annual Governance Statement (AGS) – which sets out the council's governance framework. The key elements of the governance framework consist of strategic planning processes, political and managerial structures and processes, management and decision making processes, policies and guidance, financial management, compliance arrangements, risk management, internal audit, counter fraud activities, performance management, consultation and communication methods and partnership working arrangements. A review of the governance framework is undertaken as part of the process to prepare the AGS. All significant governance issues are highlighted in the published AGS.
- 2 The council's Executive is responsible for decision making within the policy and budget framework set by full Council. The Corporate Management Team (CMT) has responsibility for implementing council policies and decisions, providing advice to members and for coordinating the use of resources and the work of the council's directorates. The Executive and CMT monitor and review council activity to ensure corporate compliance with governance, legal and financial requirements.

- 3 Specific policies, regulations and written guidance exist to support the council's corporate governance arrangements. The Officer Governance Group is responsible for monitoring the effectiveness of these arrangements and for the maintenance of appropriate systems of assurance. Assurance is obtained from the work of internal and external audit, inspection agencies and other relevant bodies
- 4 The Audit and Governance Committee acts as the responsible body charged with governance on behalf of the council. In doing so, the committee provides independent assurance on the adequacy of the risk management framework and the associated control environment, and independent scrutiny of the council's financial and non-financial performance to the extent that it affects the council's exposure to risk. It also oversees the council's financial reporting process and approves the Statement of Accounts.
- 5 The Audit and Governance Committee's terms of reference include the requirement to monitor the effective development and operation of risk management and corporate governance as well as to consider the council's compliance with its own and other relevant published regulations, controls, operational standards and codes of practice. The Committee is also responsible for keeping under review the council's Financial Regulations, Contract Procedure Rules, working protocols and codes of conduct and behaviour.

Conclusion

Having reviewed the work of internal and external audit, the management processes and the governance arrangements throughout the year, we are not aware of any events, and nothing has come to our attention, which would require additional adjustment or disclosure in the 2009/10 Financial Statements. We are also aware of the assurances provided by management which support the conclusion we have made.

Signed on behalf of the Audit and Governance Committee
29 September 2010