

**Report of the Chair of the Audit Committee**

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**Annual Report of the Audit and Governance Committee**

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**Summary**

- 1 This report seeks Members' views on the draft annual report of the Audit and Governance Committee for the year ended 30 September 2011, 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 In order to comply with International Standards for Auditing, there is a requirement on the external auditor to obtain specific assurances from the organisation's management and 'those charged with governance'. 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 From 2009/10, 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.

## 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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Keith Best  
Assistant Director CBSS (Financial Services)  
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Report  
Approved



Date 19/9/11

## Specialist Implications Officers

Not applicable

Wards Affected: Not applicable

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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 2011**

**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 2011. 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 six occasions in the year to 30 September 2011. 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 Audit Commission's plan for the audit of the 2010/11 financial statements 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.
- 2 Considered the outcome of the Audit Commission's review of the council's grant claim arrangements for the 2009/10 financial year. The Committee noted a positive report that action had been taken to address a number of issues identified previously by the Audit Commission, notably timely submission of documents. This progress had resulted in a reduction in the fees charged by the Audit Commission for this work.
- 3 Received and considered the Annual Audit Letter of the Council's District Auditor. Members noted the inconsistencies highlighted about workforce planning and management, but were pleased to note that the Letter recognised improvements in a number of areas, and had made reference to the national award that Veritau had received for its shared service arrangements.
- 4 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.
- 5 Received, considered and approved the Internal Audit and Counter Fraud Plan for 2011/12.
- 6 Received and considered the outcome of counter fraud work, including details of the investigation of suspected benefit and housing tenancy related fraud. The Committee also considered the outcomes of the work being undertaken in respect of the Audit Commission's National Fraud Initiative (NFI).
- 7 Received and considered the results of the annual review of the effectiveness of the system of internal audit for 2010/11. The outcome of this review informed the preparation of the Annual Governance Statement 2010/11.
- 8 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 2010/11.

- 9 Considered a draft, and approved the final Statement of Accounts for 2010/11.
- 10 Considered and approved the Annual Governance Statement for 2010/11, noting that action plans would be put in place to address each of the significant governance issues identified in section 5.
- 11 Continued the role of scrutinising the council's treasury management strategy and policies. The Committee received and considered the Treasury Management Annual Report and review of Prudential Indicators for 2010/11 which compared actual performance against the budget and treasury management strategy for the year.
- 12 Received and considered a draft Income Collection Policy, prior to referral to the Executive and approval by Full Council.
- 13 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. These included the Community Stadium, Fairness and Inclusion, the new iTrent payroll system and the Council HQ Project.
- 14 Considered a number of proposed changes to the Council's Constitution, and recommended their adoption by Full Council. These included changes to the delegated powers of Cabinet members following the Organisational Review; amendments required by the Transition to a new style Leader and Cabinet Model, regulating the contents of the Constitution and removing certain internal protocols.
- 15 Approved the new Protocol for Liaison between Internal Audit and External Audit. Members also approved some minor amendments to the Internal Audit Terms of Reference.
- 16 Received and considered a report about the new Transparency Reporting requirements of the Department for Communities and



Local Government, including how the Council is meeting the requirements to publish online, all details of salaries over £50k, spending items over £500 and Councillor allowances and expenses in real time, rather than annually.

- 17 Received and considered minor changes to the Counter Fraud and Corruption and the Fraud and Corruption Prosecution policies prior to referral to the Cabinet Member for Corporate Services for approval.
- 18 Received and considered a further 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 and members recommended a number of amendments prior to its submission to Full Council for approval.
- 19 Received three more 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).
- 20 Received regular updates on national reports produced by the Audit Commission.
- 21 At each meeting the Committee has maintained a rolling 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 Lynn Jeffries  
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 &amp; Governance Committee are:

<b>No.</b>	<b>Delegated authority</b>	<b>Conditions</b>
	<b>Audit</b>	
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.	

No.	Delegated authority	Conditions
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.
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.	
<b>Governance &amp; Regulatory</b>		
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.	

<b>No.</b>	<b>Delegated authority</b>	<b>Conditions</b>
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 Assistant Director of Governance and ICT.
	<b>Annual Governance Statement and Accounts etc</b>	
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.	
22	To scrutinise the Treasury Management Strategy and Monitoring Reports.	

## 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 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:
  - the intentional misappropriation of assets (cash, property, etc), or,
  - 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 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 - Financial Services 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:
  - the creation of an anti-fraud culture
  - deterrence
  - prevention

- detection
  - investigation
  - sanction
  - redress
- 5 All reported cases of suspected fraud are investigated by Veritau. Details of the counter fraud work undertaken by Veritau and the outcome of investigations into suspected fraud are reported to the Audit and Governance Committee.
- 6 Management also 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:-
- receipt and approval of the annual internal audit and counter fraud plan
  - 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
  - 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.
- 8 The Audit and Governance Committee also receives and considers regular reports from its external auditors.

### **ISA 250 (Laws and Regulations)**

- 9 The organisation has developed and implemented a system of assurances based on:
- Objective setting – whereby the council's strategic objectives are identified and assigned to individual directors or assistant directors

- Risk assessment – whereby each director or assistant director identifies and prioritises the risks related to achieving those strategic objectives
- 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 own Business Model
- 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.

- 10 The council’s Cabinet is responsible for decision making within the policy and budget framework set by Full Council. The corporate management team has responsibility for implementing council policies and decisions, providing advice to members and for co-ordinating the use of resources and the work of the Council directorates. The Cabinet and corporate management team monitor and review council activities to ensure corporate compliance with governance, legal and financial requirements.
- 11 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.
- 12 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 processes and approves the Statement of Accounts.

- 13 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.

#### **ISA+ 540 Accounting Estimates and Accounting policies**

- 14 The Audit and Governance Committee has discussed the significant accounting estimates and accounting policies contained in the accounts with the Assistant Director – Financial Services and his staff. The Committee has obtained assurances to confirm that these estimates and policies are reasonable and have been consistently applied.

#### **ISA+ 570 Going Concern**

- 15 The Audit and Governance Committee has received regular reports from officers on the financial position of the council in terms of performance compared to budget, future financial plans and forecast levels of resources. The Committee has challenged officers on the going concern assumption and are satisfied that it is reasonable to apply this assumption to the 2010-11 accounts.

#### **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 disclosure or adjustment in the 2010/11 Financial Statements. We are also aware of the assurances provided by management which support the conclusion we have made.

Cllr L. Jeffries

Signed on behalf of the Audit and Governance Committee

29 September 2011