

Agenda Item No: 6
Report To: AUDIT COMMITTEE
Date: 27 JUNE 2011
Report Title: AUDIT COMMITTEE ANNUAL REPORT
Report Author: Ian Cumberworth



Summary:	This report sets out the Annual report of the activity of the Audit Committee for 2010/2011
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Key Decision: NO

Affected Wards: All

Recommendations: **1. Audit Committee agreed the content and the format of the Annual Committee report.**

2. Audit Committee agree to provide the Annual Report to Full Council, asking that the Report, setting out how the committee has discharged its responsibilities, is noted.

Policy Overview: Not Applicable

Financial Implications: Not Applicable

Risk Assessment No

Equalities Impact Assessment No

Other Material Implications: Not Applicable

Background Papers: Audit Committee Annual Report 2010/11

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Report Title: Audit Committee Annual Report 2010/11

Purpose of the Report

1. To provide members of Full Council with an assurance on the work undertaken by the committee together with evidence of the effectiveness of the committee, this will also feed into the Annual Governance statement.

Background

2. The meeting of the Audit Committee on 1 February 2011 agreed six action points arising from the Review of The Audit Committee by Local Government Improvement & Development (LGID). One of the agreed actions was that the Committee would in future produce an annual report of its activities and effectiveness.
3. The Annual Report would be provided to Full Council in order to provide assurance to the Council that the role and function of the Committee has been met.
4. The role of the Audit Committee is to obtain assurance on the control environment of the organisation, the attached report sets out how the committee has sought to achieve this.
5. The internal control environment comprises the whole network of systems and controls established to manage the Council, to ensure that its objectives are met. It includes financial and other controls, and arrangements for ensuring the Council is achieving value for money from its activities
6. In accordance with best practice the committee has produced an Annual Report for Full Council.

Risk Assessment

7. Not Applicable

Equalities Impact Assessment

8. Not Applicable

Other Options Considered

9. The introduction of an Annual Report is in accordance with the actions agreed following the review by LGID. An Annual Report is considered to be good practice. No other option could be recommended.

Consultation

10. The Committee is being consulted on the content and format of the Annual Audit Committee report.

Implications Assessment

11. Not Applicable

Handling

12. Not Applicable

Conclusion

13. Based on the coverage of the work undertaken by the committee it is working effectively and discharging its responsibilities.

Portfolio Holder's Views

- 14.

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Audit Committee Annual Report 2010/11



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Ashford Borough Council

Audit Committee Annual Report – 2010/11

1. Introduction

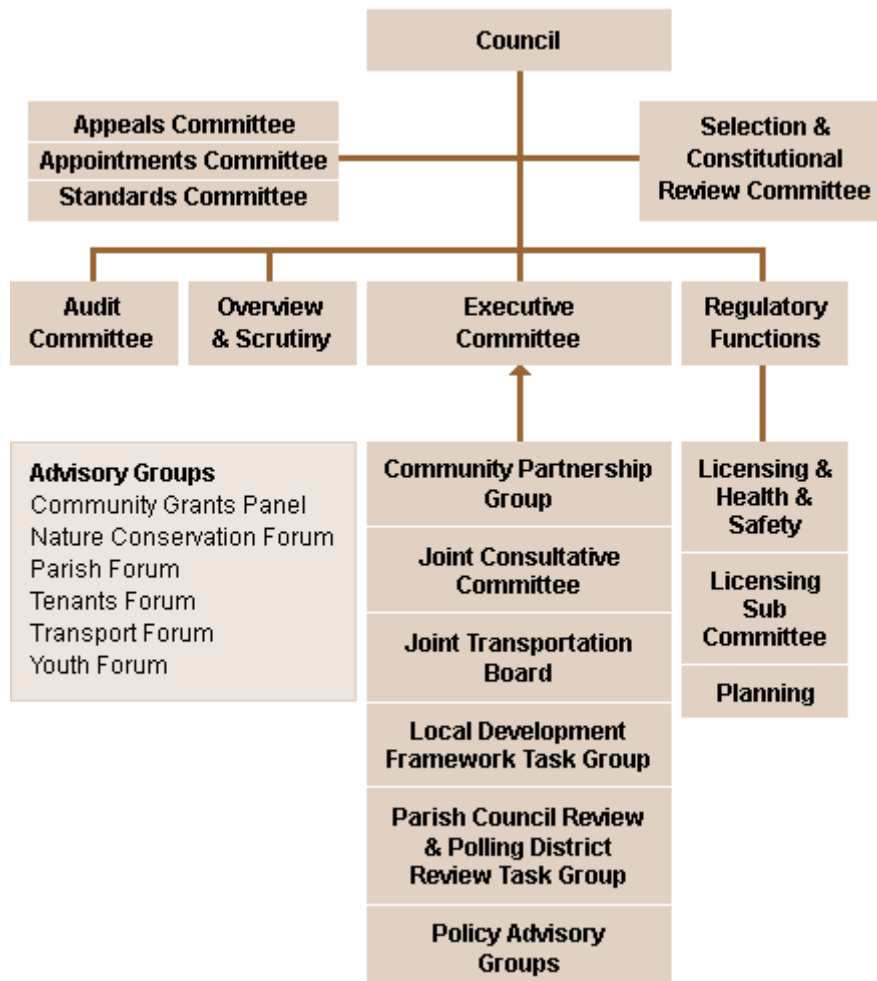
The Council established the Audit Committee as a full committee with effect from December 2006. Whilst there is currently no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issued on governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee:

History of Corporate Governance	
1991	Cadbury Committee set up
1992	Cadbury report
1995	Greenbury Committee
1997	Nolan Committee reports
1998	Hampel Committee report
1999	Turnbull Committee
2001	Enron
2002	Sarbanes-Oxley Act
2003	Higgs & Smith reports
2003	Combined code

Audit Committees differ from the Scrutiny Committees in that the role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals. The Audit Committee, however, exists to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and affects the control environment, and oversight of the financial reporting process.

The Committee is not a substitute for the executive function in the management of internal or external audit, risk management, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is the Committee's role to examine these functions, and to offer opinions or recommendations on the way the management of these functions is conducted.

Ashford Borough Council – Committee structure



There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the committee will:

- raise greater awareness of the need for internal control and the implementation of audit recommendations;
- increase public confidence in the objectivity and fairness of financial and other reporting;
- reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement);
- provide additional assurance to the Authority and its stakeholders through the results of its reviews.

2. Terms of reference and responsibilities

The Committee's detailed terms of reference are set out in the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model.;

Audit Activity

1. The Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the Council's Corporate Governance arrangements.
2. The summary of internal audit reports issued in the previous period.
3. Reports on the management and performance of the Audit Partnership Agreement.
4. Reports from the Head of Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. The External Auditor's Annual Management Letter and relevant reports.
6. Any detailed responses to the External Auditor's Annual Letter.
7. Specific reports as agreed with the External Auditor.
8. The scope and depth of external audit work and to ensure it gives value for money.
9. Liaison with the Audit Commission on the appointment of the Council's External Auditor.
10. The commissioning of work from internal and external audit.

Regulatory Framework/Risk Management

11. An overview of the Council's Constitution in respect of Contract Procedure Rules and Financial Regulations.
12. The effective development and operation of financial management, risk management and those elements of corporate governance within the remit of the Audit Committee.
13. Council policies on "raising concerns at work" i.e. whistle-blowing in the context of the Anti-Fraud and Anti-Corruption Strategy and the Council's complaints process.
14. To recommend the Authority's Annual Governance Statement for approval to the Executive. (Minute No. 531/5/10).
15. The Council's compliance with its own and other published financial standards and controls.
16. The External Auditor's report on issues arising from the Audit of the Accounts.
17. The ability to refer matters to the Overview and Scrutiny Committee for their consideration (Minute No. 62/6/09).

Note: The Overview and Scrutiny Committee has a similar provision to refer matters to the Audit Committee.

Delegations

18. The approval of the Annual Statement of Accounts in line with the statutory Requirements including those relating to the publishing deadlines. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the Audit that need to be brought to the attention of the Council.

3. Membership

The Audit Committee comprises of nine members. The Committee met on five occasions in 2010/11. Committee agenda papers and minutes are available on the Council's website www.ashford.gov.uk

2010/11 Audit Committee Members

**Cllr Wallace
Chairman**

**Cllr Ellison
Vice-Chairman**

**Cllr
Koowaree**

**Cllr
Smith**

**Cllr
Taylor**

**Cllr
Feacey**

**Cllr
Link**

**Cllr Mrs
Laughton**

4. Committee Attendance 2010/11

The Committee has been well supported throughout the year by both members and officers, and attendance records are set out in the table below.

Member/Officer	01/06/10	29/06/10	27/09/10	14/12/10	01/02/11
<u>Audit Committee Members</u>					
Cllr Wallace (Chair)	Y	Y	Y	N	N
Cllr Ellison (Vice Chair)	A	Y	Y	A	Y
Cllr Koowaree	Y	Y	Y	N	Y
Cllr Link	Y	Y	Y	Y	Y
Cllr Smith	Y	Y	A	Y	Y
Cllr Taylor	Y	Y	Y	Y	Y
Cllr Feacey	A	A		Y	Y
Cllr Laughton	A	Y	A	A	Y
<u>Other Members</u>					
Cllr Mrs Bell (Substitute)	Y(s)	-	-	-	-
Cllr Davison (Substitute)	Y(s)	-	Y(s)	Y(s)	Y
Cllr Ayres (Substitute)	-	Y(s)	-	-	-
Cllr Holland (Substitute)	-	-	Y(s)	-	-
Cllr Wood	Y	Y	Y	-	-
Cllr Naughton	Y	-	-	-	-
Cllr Hawes	-	-	-	Y	-
Cllr Hicks	-	-	-	Y	-
Cllr Cowley	-	-	-	-	Y
Cllr Packan					Y
<u>Officers</u>					
Deputy Chief Executive	Y	Y	Y	Y	Y
Finance Manager	Y	Y	Y	Y	Y
Head of Internal Audit Partnership	Y	A	Y	Y	Y
Audit Manager	Y	Y	Y	Y	Y
Head of Cultural & Project Services	Y	-	-	-	-
Senior Member Services Officer	Y	Y	Y	Y	Y
Principal Accountant (Technical)	-	Y	-	-	-
Performance & Improvement officer	Y	Y	Y		Y
Investigations & Visiting Manager	-	-	Y	-	-
Support Manager (Revenues & Benefits)	-	-	Y		
Corporate Change & Business Manager	-				Y
Eamon Lally (LGID)	-	-	-	Y	
<u>Audit Commission</u>					
Andy Mack	-	-	Y	Y	Y
Deborah Moorhouse	Y	Y	Y	Y	
Kevin Long	-	-	Y	-	-

Key: Y = Attendance, N = Non Attendance, A = Apologies Received, N/A = Not a Member

5. The Committee completed the following programme during 2010/11

Function/Issue	01/06/10	29/06/10	27/09/10	14/12/10	01/02/11
<u>INTERNAL AUDIT ACTIVITY</u>					
Operational Plan 2010/2011	-	-	X	-	-
Courtside	X	-	-	-	-
Section 106 Agreements	-	-	X	-	-
Annual Report 2009/10	X	-	-	-	-
<u>EXTERNAL AUDIT ACTIVITY</u>					
Audit Opinion 2009/10	X	-	-	-	-
Annual Fee Proposal	X	-	-	-	-
Certification of Grant Claims	X	-	-	-	-
09/10 Accounts & Governance report	-	-	X	-	-
Compliance – International Accounting Standards	-	X	-	-	-
Audit Plan 2010/11	-	-	-	-	X
Annual Audit Letter 2009/10	-	-	-	X	-
Audit Commission	-	-	X	-	-
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Benefit Fraud Annual Report	-	-	X	-	-
Governance Statement –action plan	X	-	X	X	X
Performance Compendium	-	-	X	-	-
Ashford's Growth Agenda - Strategic Risk	-	-	-	X	-
Review of the Audit Committee –ID&eA	-	-	-	X	X
<u>ACCOUNTS</u>					
Closure of Accounts 2007/08 -2009/10	-	-	-	X	-
Financial Statements	-	-	-	-	X
Statement of accounts 2009/10	-	X	-	-	-
<u>FORWARD PLAN</u>					
Tracker	X	X	X	X	X

6. Assurance

The Audit Committee needs to gain assurance of the governance arrangements within the organisation as part of its annual work programme.

This has been achieved by:

- Receiving progress reports on internal and external audit issues.

Internal Control assurance
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's control environment• Be satisfied that the Authority's assurance statements including the Annual Governance Statement properly reflect the control environment and any actions required to improve it

This has been achieved by:

- Considering the review of internal control for 2009/10 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2009/10;
- Approving the Authority's Annual Governance Statement for 2009/10 and the action plan to address significant improvements. These were incorporated into the Corporate Improvement Plan and actions have been monitored by the Committee throughout the year;
- Received and considered the Annual Benefits Fraud report.

Audit Activity
<ul style="list-style-type: none">• Approve (but not direct) Internal Audit's strategy; plan and monitor performance• Review summary Internal Audit reports where they've received a 'limited' or 'minimal' assurance and seek assurances that action has been taken where necessary• Receive the annual report of the Head of Internal Audit• Consider the reports of external audit and inspection agencies• Ensure there are effective relationships between internal and external audit, and inspection agencies

Internal Audit

The Committee has:

- Considered and agreed the Internal Audit Plan for 2010/11;
- Received and considered the Head of Internal Audit Partnership Manager's Annual Report for 2009/2010, including the opinion on the Authority's control environment which was incorporated into the Annual Governance Statement;
- Received reports on the Internal Audit team's progress against the Plan;

- Received reports setting out the position regarding the agreement of audit reports and the assurance opinions provided for each review area;
- Considered specific Internal Audit reports with regard to Courtside;

External Audit

The Committee has:

- Received and agreed the Annual Audit & Inspection Letter for 2009/10,
- Considered and agreed the Audit & Inspection Plan for 2009/10;
- Considered and agreed the certification of grant claim reports;
- Received progress reports on the action taken in response to external audit recommendations via the corporate improvement reports.

Accounts
<ul style="list-style-type: none">• Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit

The Committee has sought assurance by:

- Considering changes both to the format of the Accounts and the accounting policies used to prepare the accounts;
- Approving the Statement of Accounts for 2009/10 and later amendments;
- Receiving and considering the Annual Governance Report 2009/10.

7. Review of the Audit Committee's Effectiveness

It is regarded as best practice to periodically review the Audit Committee's effectiveness. Earlier in the year the Council commissioned a peer review from Local Government Improvement & Development (LGID) to be undertaken on the four partners Audit Committees covering the following elements:

- Terms of Reference
- Internal Audit Process
- External Audit Process
- Membership
- Meetings
- Training
- Administration

Ashford Borough Council

Strengths

- Well regarded chair and members
- Audit Committee has supported the Council to improve its financial position over the last three years
- Is now achieving greater independence
- Committee reviews its own effectiveness
- Committee well supported by officers
- Briefings are provided to Audit Committee members on topical issues
- Annual governance statement developed with member and officer involvement

Areas for Development

- Risk reports need enhancing
- Committee could expand its governance assurance role to cover partnerships
- Audit Committee should produce an annual report of its activities and effectiveness
- Skills assessment and further development for committee members
- Council could consider appointing co-opted non-voting members
- Greater promotion of the role of the Audit Committee across the Council

8. Summary update

In response to this report the committee has already taken steps to address some of the issues raised as part of this review. A meeting was convened where it was agreed the committee will:

- Further explore the option of a co opted Independent member sitting on the Audit Committee – a change has been made to the Constitution to allow an appointment to be made should members decide that they want to proceed with this option.
- Produce the Audit Committees first annual report for 2010/2011.
- Develop a training programme to ensure that Members are appropriately equipped to discharge their responsibilities
- Receive a report from the Head of Audit Partnership on the development of risk management within Ashford Borough Council.

Future Challenges

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. Next year the Committee will explore the option of co-opting an independent member onto the committee to further strengthen the independence of the committee. In addition it will need to ensure that the annual accounts are properly prepared in accordance with the requirement to adopt International Accounting Standards.

The Committee will also take a leading role in determining the way in which external audit will be delivered to the Council, in the context of the pending abolition of the Audit Commission.

9. 2011/12 Work Programme

The Committee faces a challenging year ahead. The Committee's detailed work programme for the forthcoming year is set out below.

Function/Issue	07/06/11	27/06/11	06/09/11	06/12/11	07/2/12
Training Session for Audit Committee Members	X				
<u>INTERNAL AUDIT ACTIVITY</u>					
Operational Plan 2011/12			X-	-	-
Annual Report		X	-	-	-
<u>EXTERNAL AUDIT ACTIVITY</u>					
Audit Plan 2010/11		-	-	-	X-
Fee Proposal		-	-	-	X-
Grant Claims		-	X	-	-
2010/11 Accounts & Governance statement		-	X	-	-
Audit Plan 2011/12		-	-	-	X
Audit Letter		-	-	X	-
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Benefit Fraud – Annual Report		X	-	-	-
Governance statement		X	-	-	-
Governance Statement - Action Plan		-	X	X	X
Performance Compendium		-	X	X	-
CLG Consultation – Future of Local Public Audit Risk Management		X	X		
<u>ACCOUNTS</u>					
Statement of Accounts 2010/11		X	-	-	-
<u>FORWARD</u>					
Tracker		X	X	X	X