

Audit Committee – 24 June 2013

Annual Report of the Audit Committee Municipal year 2012/13

Summary of report

This report summarises the Audit Committee's activity for the municipal year 2012/13 and seeks approval for the Chair of Audit Committee to present this report to Council.

Recommendation

1. **That the annual report of the Audit Committee 2012/13 be approved and presented by the Chair of the Audit Committee to the next meeting of the Council.**



James Walsh – Chief Finance Officer

30 May 2013

Resource and legal considerations

The Council is not obliged by law to appoint an Audit Committee but this has been done in line with good governance practice and guidance from the Chartered Institute of Public Finance (Audit Committees: Practical Guidance for Local Authorities)

Governance issues / Citizen impact

The production of an annual report strengthens assurance reporting and governance. This is further strengthened by the Chair of the Audit committee reporting to Council on the activities of the committee.

Performance and risk management issues

Highlighting key risk and performance issues helps ensure that appropriate improvement action is taken.

Equality implications

Assurance reporting encompasses key equality and diversity implications.

Consultation

This annual report is produced in accordance with the work programme for the Audit Committee as agreed at its meeting on 20 June 2011 in the report 'The Roles and Responsibilities of the Audit Committee'.

Background papers

- 'Audit Committees: Practical Guidance for Local Authorities' (Chartered Institute of Public Finance)
- Audit Committee agendas, minutes and reports for the municipal year 2011/12

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Walsall Council

Annual Report of the Audit Committee 2012/13

1. Introduction

The Audit Committee forms part of the overall corporate governance process. Best practice drawn from both private and public sector organisations has the committee reporting directly to the board (private sector) or Council, making it independent of the executive and scrutiny functions.

The key role of the Committee is to provide independent assurance on the adequacy of the Council's risk management framework and the internal control and reporting environment. Presentation of an annual report to Council assists in the Committee discharging this duty.

The Audit Committee was established by the Council in 2002. Its purpose is:

- 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 weakens the control environment; and
- to oversee the financial reporting.

The key benefits of an Audit Committee are:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and similar review processes;
- providing additional assurance through a process of independent review; and
- raising awareness of the need for internal control and the implementation of audit recommendations.

The current terms of reference for the Committee can be found at **Appendix 1** of this report. A report on the roles and responsibilities of the Audit Committee was presented and agreed on the 12 June 2012.

2. Member and officer attendance

The Audit Committee met 8 times during the 2012/13 year. A summary of meetings and attendance is attached at **Appendix 2**.

A number of Audit Committee members also sit on various other committees and panels. On occasions there may be clashes with the Audit Committee and where this occurs, apologies are always received for any episodes of non-attendance.

In reviewing the effectiveness of the Audit Committee members considered whether there was a conflict of independence by sitting on both a scrutiny panel and the Audit Committee. Members felt that the simple matter of exempting themselves from any item under discussion which had or was being considered by a scrutiny panel which they were a member of, was sufficient to maintain that independence. Independence was further strengthened by increasing the potential number of independent members from one to three. The Committee currently has one independent member.

Senior officers from the council are also present as appropriate, including the Council's chief finance officer, the head of finance, the head of internal audit and the corporate risk and insurance manager. Where appropriate the external auditor will also attend.

3. Sources of assurance during 2011/12

The business conducted by the Audit Committee is detailed at **Appendix 2** and can be split into the following themes:

- internal audit;
- external audit / inspection;
- financial management;
- risk management; and
- corporate governance.

The Committee gained assurance in 2012/13 from these themes as follows:

Internal Audit

Annual report 2011/12; summary of audit activity (progress reports); scrutiny of audit reports receiving a no or limited assurance opinion; and internal audit's work plan 2012/13.

The head of internal audit gave the following opinion in her annual report for 2011/12 which was presented to the Committee on the 3 September 2013:

'In my opinion, formed solely on the basis of the work undertaken by internal audit and its partner organizations in 2011/12, and the positive action taken, or intended to be taken by managers to implement agreed audit report actions, Walsall council's overall system of internal control facilitates the effective provision of the council's functions and provides a satisfactory level of assurance regarding the effective, efficient and economic exercise of the council's functions'.

During 2012/13 internal audit reports given a no or limited assurance were submitted to Audit Committee for consideration. Selected accountable senior managers and their directors were called before the Audit Committee to provide necessary assurances that actions were being taken to address weaknesses in control identified.

Audit Committee received internal audit's performance reporting during the year indicating that the service was performing well against its performance measures. The Audit Committee also endorsed internal audit's 2013/14 work plan and adjustments required to the 2012/13 work plan.

External audit / inspection

External audit interim report; report on the 2011/12 accounts; annual external audit letter 2011/12; financial health resilience report 2011/12 external audit plan 2012/13; and grant certification work.

The main responsibility of the external auditor is to plan and carry out an audit that meets the requirements of the Audit Commission's Code of Audit Practice to review and report on the council's accounts and whether the council has made proper arrangements for securing economy, efficiency and effectiveness in its use of

resources. The annual letter summarised the significant issues arising from both these areas of work and highlighted some improvement actions.

The Committee has placed reliance upon the work undertaken by the external auditors. In the external auditors' 2011/12 annual letter, their opinion was as follows:

'The 2011/12 accounts give a true and fair view of the council's financial affairs and of the income and expenditure recorded by the council.

That whilst the council faces some significant risks and challenges during 2012/13 and beyond; its current arrangements for achieving financial resilience are adequate.

In reporting on their grant certification work, Grant Thornton concluded that the council was performing well and there were no significant matters arising from their certification of claims and returns. Grants were submitted on time and working papers were deemed good.

Financial management

Accounting policies; statement of accounts; treasury management; financial health indicators;.

The Committee scrutinised the 2011/12 statement of accounts and also received reports on accounting policies. The Committee also received regular reports on corporate financial performance (financial health indicators) and treasury management.

Risk management

Review and scrutiny of risks and risk management update.

The strategic risk register was subject to routine examinations and a number of strategic risks were scrutinised by the Committee during the year. This involved presentations by relevant managers and questioning on action taken to mitigate these risks. A number of changes were requested to the format and content of the risk register and these are currently being incorporated to improve the current assurance arrangements.

Corporate governance

Audit Committee roles, responsibilities, including work plan; Regulation of Investigatory Powers Act; review of decisions taken under delegated authority; review of the future of public audit; review of the effectiveness of the systems of internal audit and internal control and annual governance statement; anti fraud and corruption arrangements; protecting the public purse – fraud update; and annual review of the scheme of delegations.

The annual governance statement 2011/12 report concluded that the system of internal control and system of internal audit was adequate overall. This was supported by external audit's view that the council is operating at an adequate level in regards to its internal control framework. The main findings of the report and the council's intended actions were referred to within the annual governance statement and have played an integral part in the review of the effectiveness of the current governance arrangements.

The annual governance statement (AGS) and review of effectiveness for the 2011/12 financial year, concluded that the effectiveness of the system of internal control was adequate overall.

Updates were received on fraud and corruption matters including arrangements under the Regulation of Investigatory Powers Act, details of the Council's anti-fraud arrangements against the Audit Commission's "Protecting the Public Purse" checklist and the annual fraud survey return to the Audit Commission, which highlighted continued strong anti-fraud arrangements.

A report was considered detailing amendments to the scheme of delegation to officers, which was reviewed by the Committee. A report was also received on decisions taken under delegated authority in 2011/12.

The Committee received an update on progress against an improvement action plan following the external auditor's report on the effectiveness of the Audit Committee. This charted the progress against implementation of a member training programme and the appointment of an independent member to the Committee.

Audit Committee: Review of Effectiveness

The Audit Committee undertook a review of its effectiveness by an evaluation of its activities against the checklist contained within CIPFA's 'A Toolkit for Local Authority Audit Committees'. The checklist was first considered at the Audit Committee's 15 April 2013 meeting, where the Committee were asked to review, self assess and comment as necessary, including agreeing any areas where improvements could be made. The updated checklist is presented for endorsement at this, the 24 June 2013, Audit Committee.

4. Conclusion

The Committee was able to confirm that the system of internal control, governance and risk management in the authority was adequate in identifying risks and allowing the authority to understand the appropriate management of these risks.

The Committee was also able to confirm that there were no areas of significant duplication or omission in the systems of governance in the authority that had come to the Committee's attention which had not been adequately resolved.

APPENDIX 1

Audit Committee Terms of Reference

Extract from the Council's Constitution – Part 3 (Responsibility for Functions), Table 2 (Responsibility for Council Functions) – Scheme of delegations of non-executive functions to Committees

AUDIT COMMITTEE

Membership

7 Members of the authority as determined by the Council with 3 co-opted members (non-voting) appointed by the Council.

Substitutes

Substitute members may be nominated to the Committee in accordance with paragraph 4 of the Council procedure rules (Part 4).

Chairman and Vice-Chairman

The Chairman and Vice-Chairman will be appointed at the Annual Council meeting for the municipal year.

Quorum

The quorum of the Committee shall be one third of the membership (3), subject to a minimum of two.

Meetings

The Committee will meet six weekly, or thereabouts and will usually meet at the Council House, Walsall at 6.00 p.m.

Access to information

The Committee will comply with the Access to Information Rules set out in Part 4 of the Constitution.

Remit

To act as the Council's Audit Committee, the purpose of which is 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 weakens the control environment and to oversee the financial reporting.

Delegations

To exercise the following powers and functions of the Council:

- (15) Consider the effectiveness of the Council's control environment and associated anti-fraud and anti-corruption arrangements.

- (2) Consider the effectiveness of the Council's risk management arrangements.
- (3) Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.
- (4) Be satisfied that the Council's assurance statements, including the Annual Governance Statement properly reflect the risk environment and any actions to improve it.
- (5) Approve (but not direct) internal audit's strategy, plan and monitor performance.
- (6) Review summary internal audit reports and main issues arising and seek assurance that action has been taken where necessary.
- (7) Receive the annual report of the Head of Internal Audit.
- (8) Review the effectiveness of key control strategies including; risk management, the local code of governance, arrangements for delivering value for money, anti-fraud arrangements and anti-corruption.
- (9) Consider the reports of external audit and inspection agencies.
- (10) Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies and that the value of the audit process is actively promoted.
- (11) 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.
- (12) Calling officers and/or Chairs of Committees to assist the Committee in its work.
- (13) Considering the exercise of officers' statutory responsibilities and of functions delegated to officers.
- (14) To review any issue referred to it by the Chief Executive or any Director or any Council bodies.
- (15) To maintain an overview of the Council's constitution in respect of contract procedure rules and financial regulations.

Appendix 2: Audit Committee Meetings and Attendance

	Councillor E Hughes	Councillor K Chambers	Councillor J Fitzpatrick	Councillor M Flower	Councillor G Illman- Walker	Councillor J Murray	Councillor D Shires	Mr A Green
MEETINGS	ATTENDANCE							
12.06.12	✓	✓	✓	✓	✓	✓	✓	✓
23.07.12	✓	✓	x	x	✓	x	✓	✓
03.09.12	✓	✓	✓	✓	✓	✓	✓	✓
25.09.12	✓	✓	✓	✓	✓	x	✓	x
12.11.12	✓	✓	✓	✓	✓	✓	✓	✓
14.01.13	✓	✓	✓	✓	✓	✓	✓	✓
25.02.13	✓	✓	✓	✓	✓	✓	✓	x
15.04.13	✓	✓	✓	x	✓	✓	✓	✓

Chair, Councillor E Hughes 100%

Councillor K Chambers 100%

Councillor J Fitzpatrick 87.5%

Councillor M Flower 75%

Vice Chair, Councillor G Illman-Walker 100%

Councillor J Murray 75%

Councillor D Shires 100%

Mr A Green 75%

Scrutiny Panels

Childrens Scrutiny Panel

None

None

Regeneration and Health Scrutiny Panels

Community Services and Corporate Scrutiny Panels

None

Childrens and Corporate Scrutiny Panels

Audit Committee Meetings and Attendance (Officers)

	Leader	Finance & Personnel Portfolio Holder	Chief Executive	Executive Director Resources	Executive Director Social Care & Inclusion	Executive Director Neighbourhoods	Executive Director Childrens Services	Contracts Officer Childrens Services	Grant Thornton
MEETINGS	ATTENDANCE								
12.06.12	x	x	x	x	x	x	x	x	x
23.07.12	✓	✓	✓	✓	✓	✓	✓	✓	✓
03.09.12	x	x	x	x	x	x	x	x	✓
25.09.12	x	x	x	x	✓	✓	x	x	✓
12.11.12	x	x	x	✓	x	x	✓	x	✓
14.01.13	x	x	x	x	x	✓	x	x	x
25.02.13	x	x	x	x	x	x	✓	x	✓
15.04.13	x	x	x	x	x	✓	x	x	✓

	Chief Finance Officer	Head of Finance	Head of Internal Audit	Senior Finance Manager	Lead Accountant	Senior Accountancy Officer	Area Manager Trading Standards	Risk and Insurance Manager	Head of Community Care
MEETINGS	ATTENDANCE								
12.06.12	✓	x	✓	x	x	x	x	x	x
23.07.12	✓	x	✓	x	x	x	x	x	x
03.09.12	✓	x	✓	✓	x	x	x	x	x
25.09.12	✓	✓	✓	✓	✓	✓	✓	✓	✓
12.11.12	✓	x	✓	x	x	x	x	x	x
14.01.13	✓	x	✓	x	x	x	x	x	x
25.02.13	✓	x	✓	x	x	x	x	x	x
15.04.13	✓	✓	✓	x	x	x	x	✓	x

	Treasury, Financial Administration and Systems	Internal Audit x 2	Libraries and Heritage	Art Gallery Manager	Head of Legal	Principal of Walsall College			
MEETINGS	ATTENDANCE								
12.06.12	x	x	x	x	x	x			
23.07.12	x	x	x	x	x	x			
03.09.12	x	x	x	x	x	x			
25.09.12	x	x	x	x	x	x			
12.11.12	✓	x	x	x	x	x			
14.01.13	✓	✓	✓	✓	x	x			
25.02.13	x	x	x	x	x	x			
15.04.13	x	x	x	x	✓	✓			

Summary of Audit Committee Work Plan 2012/13

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
12 June 2012	• The Roles and Responsibilities of the Audit Committee					✓
	• Officers Exercise of Delegated Powers during 2011/12					✓
	• No or Limited Assurance Internal Audit Reports	✓				
	• Internal Audit Progress Report for the year ending 31 st March 2012	✓				
	• Internal Audit Unplanned Assurance Summary for the year ending 31 st March 2012	✓				
	• Risk Management Update 2012/13				✓	
23 July 2012	• Interim Audit Report		✓			
	• No or Limited Assurance Internal Audit Reports	✓				
	• HR Report	✓				
03 September 2012	• Annual report into the overall adequacies of the Internal Control Environment	✓				
	• Independent Members on Audit Committee					✓
	• Limited and No Assurance Audit Reporting	✓				
25 September 2012	• Statement of Accounts 2011/12		✓			

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	Annual Governance Statement and Review of Effectiveness					
	• Statement of Accounts 2011/12: Post Audit		✓			
	• Annual Report of the Audit Committee 2011/12					✓
	• Regulation of Investigatory Powers Act (RIPA)					✓
	• No or Limited Assurance Internal Audit Reports	✓				
	• Risk Management Update 2012/13				✓	
12 November 2012	• Annual Audit Letter		✓			✓
	• Financial Health Indicators			✓		
	• Treasury Management Mid-Year Position Statement 2012/13			✓		
	• Internal Audit Progress Report for Six Months ending 30 th September 2012	✓				
	• Ofsted Report					✓
	• HR report	✓				
	• No and Limited Assurance Report	✓				
	• Internal Audit Unplanned Summary for Six Months ending 30 th September	✓				

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	2012					
14 January 2013	• Regulation of Investigatory Powers Act (RIPA) 2000					✓
	• Annual review of Treasury Management			✓		
	• No or Limited Assurance Internal Audit Reports	✓				
	• Internal Audit Work Plan 2012/13	✓				
	• Internal Audit proposed Work Plan 2013/14	✓				
25 February 2013	• Childrens Services Safeguarding Children Improvement Progress					✓
	• Grant Certification Report 2011/12		✓			
	• Financial Health Indicators 2012/13			✓		
	• External Auditors Financial Health Resilience Report 2011/12		✓			
	• Audit Committee response to Grant Thornton on Assurance in respect of the 2012/13 account		✓			
	• Term of Office Extension: Independent Lay Member to the Audit Committee					✓
	• Internal Audit Plan 2013/14	✓				
	•					

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
15 April 2013	• Annual Review of Scheme of Delegations					✓
	• Code of Conduct					✓
	• Review of the Effectiveness of the Audit Committee					✓
	• Accounting Policies 2012/13			✓		
	• Protecting the Public Purse and Anti Fraud and Corruption Arrangements					✓
	• Regulation of Investigatory Powers Act (RIPA) 2000					✓
	• WACC Ofsted					✓
	• Submission of Corporate Risk for Scrutiny				✓	
	• Risk Management Update				✓	