

Audit Committee – 25 September 2012

Annual Report of the Audit Committee 2011/12

Summary of report

This report summarises the Audit Committee's activity for the municipal year 2011/12 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 2011/12 be approved and presented by the Chair of the Audit Committee to the next meeting of the Council.**



James Walsh – Chief Finance Officer

11 September 2012

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.

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 2011/12

1. Introduction

The Audit Committee forms part of the overall corporate governance process. 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.

2. Member and officer attendance

The Audit Committee met 8 times during the 2011/12 year. A summary of meetings 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.

Senior officers from the Council are also present as appropriate, including the Council's statutory finance officer (the assistant director – finance), the head of finance, the head of internal audit and the corporate risk and project 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 2011/12 from these themes as follows:

Internal Audit

Annual report 2010/11; 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 and 2011/12.

The head of internal audit gave the following opinion in their annual report for 2010/11:

'In my opinion, formed solely on the basis of the work undertaken by internal audit and its partner organization in 2010/11, and the positive action taken, intended to be taken or confirmed as having been 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'.

The 2011/12 annual report of the head of internal audit, presented to the Committee in the 2012/13 municipal year on 3 September 2012, also included a significant assurance opinion on the system of internal control.

During 2011/12 internal audit reports which had been given a no or limited assurance were submitted to Audit Committee for scrutiny. 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 2012/13 work plan and adjustments required to the 2011/12 work plan.

External audit / inspection

External audit interim report; review of the council's arrangements for securing value for money; report on the 2010/11 accounts; annual external audit and inspection letter 2010/11; external audit plan 2011/12; and grant certification work.

The Committee has placed reliance upon the work undertaken by the external auditors. In the external auditors' 2010/11 annual letter, their opinion was as follows:

'The 2010/11 accounts give a true and fair view of the Council's financial affairs and of the income and expenditure recorded by the Council.

The Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011'.

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.

Financial management

Accounting policies; statement of accounts; treasury management; financial health indicators; and scrutiny of council payments.

The Committee scrutinised the 2010/11 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.

The Committee also considered its role in scrutinising council expenditure in light of the publication of payments over £500.

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.

Corporate governance

Audit Committee roles, responsibilities, including work plan; Regulation of Investigatory Powers Act; Bribery 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; business continuity arrangements; protecting the public purse – fraud update; and annual review of the scheme of delegations.

The annual governance statement 2010/11 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.

While not reported to Committee during the 2011/12 municipal year, being presented on 25 September 2012, the annual governance statement (AGS) and review of effectiveness for the 2011/12 financial year, concludes that the effectiveness of the system of internal control is adequate overall.

The Committee reviewed the Council's arrangements in the areas of business continuity.

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. The council's arrangements in light of the new Bribery Act were also considered.

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 2010/11.

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.

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:

- (1) 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
Summary of Audit Committee Work Plan 2011/12

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
20 June 2011	• Audit Committee roles and responsibilities, including work plan					✓
	• Internal audit activity for 2010/11	✓				
	• Annual report of the Head of Internal Audit on the overall adequacies of the internal control environment 2010/11	✓				
	• Regulation of Investigation Powers Act					✓
	• Bribery Act					✓
	• External audit interim report		✓			
	• Decisions taken under delegated authority					✓
	• Future of local public audit					✓
13 July 2011	• No and limited assurance audit reports	✓				
	• Findings into the effectiveness of the systems of internal audit and internal control and annual governance statement 2010/11	✓				✓
26 September 2011	• Annual report on treasury management			✓		
	• Review of the Council's arrangements for securing value for money		✓			
	• Statement of accounts: 2010/11: post		✓	✓		

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	audit					
	• Chair's annual report to Council					✓
	• Anti fraud and corruption arrangements					✓
	• Scrutiny of over £500 payment list			✓		
	• Risk management update 2011/12				✓	
14 November 2011	• Internal audit progress report	✓				
	• Regulation of Investigation Powers Act					✓
	• Financial health indicators 2011/12			✓		
	• No and limited assurance audit reports	✓				
	• Submission of corporate risks for scrutiny				✓	
	• Business continuity arrangements					✓
24 January 2012	• No and limited assurance audit reports	✓				
30 January 2012	• Regulation of Investigation Powers Act					✓
	• Annual external audit and inspection letter 2010/11		✓			
	• Protecting the public purse – fraud update					✓
	• Submission of corporate risks for scrutiny				✓	
	• Internal audit proposed work plan 2012/13	✓				
13 March 2012	• Financial health indicators 2011/12			✓		

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	• Regulation of Investigation Powers Act					✓
	• Scrutiny of over £500 payment list			✓		
	• External audit's audit plan 2011/12		✓			
	• External audit – grant certification work report		✓			
	• Accounting policies			✓		
	• Internal audit work plan 2012/13	✓				
	• Internal audit work plan 2011/12	✓				
17 April 2012	• No and limited assurance audit reports	✓				
	• Annual review of the scheme of delegations					✓
	• Review of the effectiveness of Audit Committee					✓
	• Outcome of the future of public audit consultation					✓
	• Scrutiny of over £500 payment list			✓		