

**Audit Committee – 26 September 2011**

**Annual Report of the Audit Committee 2010/11**

**Summary of report**

This report summarises the Audit Committee's activity for the municipal year 2010/11 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 2010/11 be approved and presented by the Chair of the Audit Committee to the next meeting of the Council.**



**Rebecca Neill**  
**Head of Internal Audit**  
**8 September 2011**

**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 2010/11

## Authors

Rebecca Neill  
Head of Internal Audit  
☎ 01922 652831  
✉ [neillr@walsall.gov.uk](mailto:neillr@walsall.gov.uk)

Charles Barber  
Audit Manager  
☎ 01922 652932  
✉ [barberc@walsall.gov.uk](mailto:barberc@walsall.gov.uk)

Vicky Buckley  
Head of Finance  
☎ 01922 652349  
✉ [buckleyv@walsall.gov.uk](mailto:buckleyv@walsall.gov.uk)

James Walsh  
Chief Finance Officer  
☎ 01922 652102  
✉ [walshj@walsall.gov.uk](mailto:walshj@walsall.gov.uk)

# Walsall Council

## Annual Report of the Audit Committee 2010/11

### 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 11 times during the 2010/11 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 2010/11

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 2010/11 from these themes as follows:

### **Internal Audit**

#### **Annual report 2009/10, summary of audit activity, scrutiny of audit reports, work plan 2011/12 and benchmarking review**

The chief internal auditor (now referred to as head of internal audit) gave the following opinion in their annual report for 2009/10:

‘In our opinion, formed solely on the basis of the work undertaken by internal audit and its partner organization in 2009/10, 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 2010/11 annual report of the head of internal audit, presented to the Committee in the 2011/12 municipal year on 20 June 2011, also included a satisfactory opinion on the system of internal control.

During 2010/11 internal audit reports which had 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 the control identified.

Audit Committee received internal audit’s quarterly performance reporting during the year and details of their participation in CIPFA bench marking, indicating that the service was performing well against its performance targets and peer group.

### **External audit / inspection**

#### **Grants report 2008/09 and 2009/10, annual report on the 2009/10 accounts, annual audit letter 2009/10 and 2008/09 (update), EU funding investigation, external audit approach memorandum 2010/11 and review of school balances**

The Committee has placed reliance upon the work undertaken by the external auditors. In the external auditors’ 2009/10 annual letter, their opinion was as follows:

‘We issued an unqualified opinion on the Council’s 2009/10 accounts on 28 September 2010, ahead of the statutory certification deadline. Our opinion confirms that the accounts give a true and fair view of Council’s financial affairs at 31 March 2010 and of its income and expenditure for the year’.

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.

It was noted that an action plan had been put in place to address control weaknesses arising from external audit’s review of grants for the 2008/09 and 2009/10 financial years.

Audit Committee agreed an action plan arising from external audit's investigation into administration of European Structural Fund Objective 2 grant funding in June 2010 and received an update on progress in October 2010.

The external auditor's report following their review of school balances was also received at the April 2011 meeting of the Committee.

### **Financial management**

**Accounting policies, statement of accounts 2009/10, treasury management, international financial reporting standards, corporate financial performance 2010/11 updates, scrutiny of council payments and update on the Accounts and Audit Regulations**

The Committee scrutinised the 2009/10 statement of accounts and also received reports on amendments to accounting policies arising from changes in accounting standards including International Financial Reporting Standards and the Accounts and Audit Regulations.

The Committee received regular reports on corporate financial performance, treasury management and noted ongoing year end forecasts and actions being taken by officers to manage the Council's finances.

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 risk register risks and Audit Committee risks**

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.

The Committee also reviewed its own risk register risks.

### **Corporate governance**

**Annual governance statement 2009/10, corporate governance arrangements (including value for money strategy, investigatory powers, scrutiny, working smarter programme, health & safety, partnership governance and emergency planning), fraud & corruption updates, officers' scheme of delegations, review of Audit Committee effectiveness, Audit Committee training and appointment of an independent member**

The annual governance statement 2009/10 report concluded that the system of internal control and system of internal audit is 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. However there were a number of key recommendations which required addressing, arising from the Grant Thornton European Structural Fund Objective 2 Action Plan (community regeneration in Walsall) external audit report. 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 2010/11 municipal year, being presented on 13 July 2011, the annual governance statement (AGS) and review of effectiveness for

the 2010/11 financial year, concluded that the effectiveness of the system of internal control is adequate overall.

The Committee reviewed the Council's arrangements in the areas of value for money, working smarter, health & safety, partnership governance and emergency planning and considered the outcomes from the work of scrutiny panels.

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 2009/10.

The Committee received the external auditor's report on the effectiveness of the Audit Committee and an improvement action plan was agreed, which led to a further report on identification and subsequent 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.

## **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**

### **11. AUDIT COMMITTEE**

#### **Membership**

7 Members of the authority as determined by the Council with one co-opted member (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.



**Summary of Audit Committee Work Plan 2010/11**

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
<b>14 June 2010</b>	• Audit Committee roles and responsibilities, including work plan					✓
	• Internal audit activity for 2009/10	✓				
	• Chief internal auditor's annual report for 2009/10	✓				
	• Accounting policies 2009/10			✓		
	• European structural fund objective 2 action plan		✓			
	• External audit grants report 2008/09		✓			
	• Decisions taken under delegated authority					✓
<b>21 June 2010</b>	• Treasury management annual report 2009/10			✓		
	• Findings into the effectiveness of the systems of internal audit and internal control and annual governance statement 2009/10	✓				✓
	• Approval of the 2009/10 pre-audit statement of accounts including external audit's interim annual report on the accounts		✓	✓		
<b>1 September 2010</b>	• Review of the effectiveness of the Audit Committee					✓
	• Value for money strategy					✓
	• No or limited assurance audit reports	✓				

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	• Chair's annual report to Council					✓
	• Scrutiny of corporate risk register risks (single status; the economic downturn)				✓	
<b>28 September 2010</b>	• Approval of 2009/10 statement of accounts including external audit's annual report on the accounts		✓	✓		
	• Scrutiny of Audit Committee risk register risks				✓	
	• Review of Audit Committee effectiveness					✓
	• Corporate financial performance 2010/11 – quarter 1			✓		
	• Regulation of Investigatory Power Act (RIPA)					✓
<b>12 October 2010</b>	• No and limited assurance reports for scrutiny	✓				
<b>25 October 2010</b>	• Summary of outcomes from scrutiny panel reviews					✓
	• Scrutiny of corporate risk register risks (impact of HR policies)				✓	
	• Options for scrutiny of council payments			✓		
	• Review of Audit Committee effectiveness – approval of action plan					✓
	• Annual external audit and inspection letter 2008/09 – action plan progress		✓			
	• European structural fund objective 2		✓			

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	action plan – progress update					
	• International financial reporting standards			✓		
	• Annual governance statement 2009/10 – implementation progress					✓
	• Internal audit activity to 30/09/10	✓				
<b>7 December 2010</b>	• Emergency planning and Civil Contingency Act arrangements					✓
	• Review of governance framework and effectiveness, including local code of governance					✓
	• No or limited assurance audit reports	✓				
	• Arrangements for auditing in schools	✓				
	• Audit Committee training needs assessment and plan					✓
	• Options for appointment of independent member to Audit Committee					✓
	• Corporate financial performance 2010/11 – quarter 2			✓		
	• Risk management - review of strategic risks				✓	
<b>18 January 2011</b>	• Risk management – training presentation				✓	
	• Programme and project management / 'working smarter' - presentation					✓
	• International Financial Reporting Standards			✓		

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	• Regulation of Investigatory Power Act (RIPA)					✓
	• Annual external audit and inspection letter 2009/10		✓			
	• Internal audit 2010/11 (revised plan)	✓				
	• Internal audit work plan 2011/12 (proposed)	✓				
3 February 2011	• No or limited assurance audit reports	✓				
	• Appointment of an independent member to Audit Committee					✓
28 February 2011	• Protecting the public purse - fraud update					✓
	• Summary of outcomes from scrutiny panel reviews					✓
	• Health and safety performance report - 2010					✓
	• External audit approach memorandum - final accounts 2010/11		✓			
	• Options for scrutiny of Council payments: Findings of the Working Group			✓		
	• Partnership governance					✓
	• Corporate financial performance 2010/11 - quarter 3			✓		
	• Internal audit activity for period ending 31 December 2010	✓				
	• Revision and consolidation of the Accounts and Audit Regulations			✓		

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	<ul style="list-style-type: none"> <li>Internal audit work plan 2011/12 (final)</li> </ul>	✓				
12 April 2011	<ul style="list-style-type: none"> <li>Over £500 payments list – queries and responses</li> </ul>			✓		
	<ul style="list-style-type: none"> <li>Training - the roles of internal audit and external audit</li> </ul>	✓	✓			
	<ul style="list-style-type: none"> <li>Scheme of delegations</li> </ul>					✓
	<ul style="list-style-type: none"> <li>No or limited assurance audit reports</li> </ul>	✓				
	<ul style="list-style-type: none"> <li>Appointment of an independent member to Audit Committee</li> </ul>					✓
	<ul style="list-style-type: none"> <li>External audit grants report 2009/10</li> </ul>		✓			
	<ul style="list-style-type: none"> <li>External audit review of school balances</li> </ul>		✓			
	<ul style="list-style-type: none"> <li>Internal audit benchmarking</li> </ul>	✓				
	<ul style="list-style-type: none"> <li>Risk management - review of strategic risks</li> </ul>				✓	