

Audit Committee – 1 September 2010

Annual Report of the Audit Committee 2009/10

Summary of report

This report summarises the Audit Committee's activity for the municipal year 2009/10 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 2009/10 be approved and presented by the Chair of the Audit Committee to the next meeting of the Council.**

Rory Borealis – Executive Director

13 August 2010

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 agreed work programme for the Audit Committee as agreed at its meeting on 14 June 2010 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 2009/10

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Walsall Council

Annual Report of the Audit Committee 2009/10

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.
- 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.

The Committee received initial feedback at its October 2009 meeting on a self assessment exercise against a recognised best practice framework facilitated by the Council's external auditors, Grant Thornton. A report and action plan on this will be considered by the Committee as part of its 2010/11 work programme.

2. Member and officer attendance

The Audit Committee met 10 times during the 2009/10 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, including the Council's statutory finance officer (the assistant director – finance), the head of corporate 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 2009/10

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 2009/10 from the themes as follows:

Internal Audit

Annual report 2008/09, summary of audit activity, scrutiny of audit reports, work plan 2010/11 and benchmarking review

The chief internal auditor gave the following opinion in his annual report for 2008/09:

“In my opinion, formed solely on the basis of the work undertaken by internal audit and its partner organization in 2008/9, 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.”

During 2008/9, 119 specific audit reviews were undertaken excluding unplanned irregularity and consultancy work. Although most of the reviews, 91 (77%), received a full or significant audit opinion, 28 reviews received an opinion rating of limited (20%) or no assurance (3%). In all cases action plans were agreed with managers to address identified control weaknesses.

A total of 117 suspected frauds and irregularities were reported to internal audit during the year. While none of the cases were material in the context of the Annual Governance Statement, key themes emerging from these reviews included:

- Internet / e mail systems' misuse;
- misuse of grants, resources, equipment, car mileage and time recording; and
- allegations of inappropriate revenue contract awards.

External audit / inspection

Grants report 2007/08, use of resources 2008/09, annual audit letter 2008/09 and 2007/08(update), 2009 inspections, EU funding investigation and external audit approach memorandum 2009/10

The Committee has placed reliance upon the work undertaken by the external auditors. In the external auditors' 2008/09 annual letter, their opinion was as follows:

“We issued an unqualified audit opinion on the Council's accounts on 29 September 2009, in advance of the deadline of 30 September. Our opinion confirms that the accounts present fairly the Council's financial affairs and of the income and expenditure for the year ended 31 March 2009.” and ...

- we issued an unqualified value for money conclusion; and
- we recognised the Council was performing adequately in its use of resources.”

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.

Details were received of the activity delivered or in train to address improvements arising from the Audit Commission's annual audit and inspection letter for 2007/08, which was received in April 2009.

It was noted that an action plan had been put in place to address control weaknesses arising from external audit's review of 2007/08 grants.

Outcomes of various inspection activities in the 2009 calendar year were reported to the Committee. Principally this related to the results of the first Comprehensive Area Assessment (CAA) published on 9 December 2009, but also included other external judgements of specific services or elements of council activity which have informed the CAA but are not directly part of it. Overall the inspection judgements were broadly in line with other comparable local authorities, with some areas of strong performance and other areas where improvements are needed. A separate report was received on use of resources which concluded an overall satisfactory opinion with an agreed improvement action plan.

The Committee received a report on external audit's investigation into administration of European Structural Fund Objective 2 grant funding. It included an action plan to prevent the significant losses associated with this funding occurring in current and future projects.

Financial management

Accounting policies, statement of accounts 2008/09 and international financial reporting standards, corporate financial performance 2009/10 updates and financial health indicators

The Committee scrutinised the 2008/09 statement of accounts in some detail and also received reports on amendments to accounting policies arising from changes in accounting standards.

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

The Committee agreed a set of financial indicators for publication on the Council website which included treasury management, balance sheet information, revenue performance and management of resources,

Risk management

Review and scrutiny of risk register risks, risk management updates and corporate risk management methodology and strategy revision

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 reviewed and endorsed revisions to the corporate risk management strategy.

Corporate governance

Walsall performance framework, annual governance statement 2008/09, treasury management, corporate governance arrangements, fraud & corruption updates, whistle blowing policy, business continuity and scheme of officer delegations

The annual governance statement 2008/09 report concluded that the system of internal control and system of internal audit is satisfactory overall. There were no areas of significant internal control weakness identified, however, there were a number of controls which required improvement including:

- Contractor accounts. 16 accounts were reviewed and 10 were given a limited or no assurance rating opinion and considered to have been poorly managed. Suggestions for improvement have been agreed by managers.
- Performance against the target for implementation of internal audit agreed actions, which was set at 90%, was below 80% during the year. Improvements were made to the reporting and assurance framework during 2008/09, however performance remains below 80%. Further action was taken, including directly by CMT, to ensure improved performance in 2009/10.

The Committee reviewed the Walsall performance framework and gave consideration to how this framework provides effective performance management.

Consideration was given to internal audit's report on overall corporate governance arrangements which received a significant assurance rating. An improvement action plan had been endorsed by the corporate management team which will be subject to audit follow up to ensure full implementation.

Updates on fraud and corruption arrangements were received and approval was given to an updated whistle blowing policy. A report was considered detailing the Council's anti-fraud arrangements against standards in the Audit Commission publication "Protecting the Public Purse". The report outlined that the Council has satisfactory control arrangements in these areas and on issues identified nationally as key fraud risks, as follows:

- false claims for single person discount on council tax
- recruitment fraud
- housing and council tax benefit fraud being on the increase
- large value procurement frauds being identified
- social care direct payment misuse.

This report also contained details of the Council's annual fraud survey return to the Audit Commission which highlighted strong anti-fraud arrangements in the principle risk areas of housing benefits and claimants of council tax single person discounts.

The Committee reviewed the Council's business continuity arrangements, which has also been subject to recent internal audit review.

A report was considered detailing amendments to the scheme of delegation to officers which was reviewed by the Committee.

4. Annual Governance Statement 2009/10

While not presented to Committee during the 2009/10 municipal year, being presented on 21 June 2010, the annual governance statement and review of effectiveness for the 2009/10 financial year, detailed at **Appendix 3** concluded that:

Findings of the Effectiveness Reviews

The AGS was drafted, assurances were evaluated and supporting evidence gathered. The outcome of this process was a conclusion that the effectiveness of the system of internal control and system of internal audit is adequate overall. This is supported by external audit view that the council is operating at an adequate level in regards to its internal control framework. However there are a number of key recommendations which require 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 are referred to within the Annual Governance Statement and have played an integral part in the review of the effectiveness of the current governance arrangements.

5. 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 and 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 2009/10

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
25 June 2009	• Walsall Performance Framework					✓
	• Accounting policies			✓		
	• Audit Committee roles and responsibilities, including workplan					✓
	• Internal audit activity for 2008/09	✓				
	• Chief internal auditor's annual report for 2008/09	✓				
	• Annual Governance Statement 2008/09					✓
29 June 2009	• Financial statements 2008/09 presentation			✓		
	• Treasury management update					✓
	• Statement of accounts (pre-audit)			✓		
2 September 2009	• Scrutiny of risk register risks (partnership governance)				✓	
	• EU Funding position		✓			
	• Corporate financial performance 2009/10			✓		
	• Scrutiny of internal audit reports (catering service and a building contract project)	✓				
	• Risk management update				✓	
29 September 2009	• Statement of accounts (post-audit)			✓		

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
27 October 2009	• Internal audit activity to 30/9/10	✓				
	• Audit Committee self assessment					✓
	• Financial health indicators			✓		
	• Corporate governance arrangements					✓
	• Tackling fraud and corruption					✓
8 December 2009	• Scrutiny of risk register risks (building schools for the future)				✓	
	• Scrutiny of internal audit reports (regional housing pot and scrutiny)	✓				
	• Grants report 2007/08		✓			
	• Corporate financial performance 2009/10			✓		
	• Whistle blowing policy					✓
	• Risk management - review of strategic risks				✓	
	• Internal audit workplan 2010/11	✓				
	• Internal audit benchmarking	✓				
19 January 2010	• Risk management methodology presentation				✓	
	• Corporate risk management strategy revision				✓	
	• Use of resources 2008/09		✓			
	• Annual audit letter 2008/09		✓			
	• 2009 Inspections and Annual audit letter update 2007/08		✓			
	• Internal audit activity to 31/12/09	✓				
	• Regional housing pot – internal audit	✓				

Meeting Date	Report Subject	Assurance Theme				
		Internal Audit	External Audit / Inspection	Financial Management	Risk Management	Corporate Governance
	report					
1 March 2010	<ul style="list-style-type: none"> Scrutiny of risk register risks (operating model for support services and grant funding exit strategy) 				✓	
	<ul style="list-style-type: none"> Corporate financial performance 2009/10 			✓		
	<ul style="list-style-type: none"> Scrutiny of internal audit reports (strategic regeneration framework and links to work) 	✓				
	<ul style="list-style-type: none"> Protecting the public purse – fraud update 					✓
	<ul style="list-style-type: none"> Internal audit workplan 2010/11 	✓				
24 March 2010	<ul style="list-style-type: none"> Investigation into EU funding 		✓			
13 April 2010	<ul style="list-style-type: none"> International financial reporting standards 			✓		
	<ul style="list-style-type: none"> Business continuity 					✓
	<ul style="list-style-type: none"> Scheme of delegation to officers 					✓
	<ul style="list-style-type: none"> External audit approach memorandum 2009/10 		✓	✓		
	<ul style="list-style-type: none"> Risk management - review of strategic risks 				✓	