

<b>Meeting:</b>	<b>Audit Committee Council</b>	<b>Date:</b>	<b>25<sup>th</sup> June 2012 19<sup>th</sup> July 2012</b>
<b>Subject:</b>	<b>Audit Committee Annual Report 2011-12</b>		
<b>Report Of:</b>	<b>Group Manager Audit &amp; Assurance</b>		
<b>Wards Affected:</b>	<b>N/A</b>		
<b>Key Decision:</b>	<b>No</b>	<b>Budget/Policy Framework:</b>	<b>No</b>
<b>Contact Officer:</b>	<b>Terry Rodway, Group Manager Audit &amp; Assurance</b>		
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<b>Appendices:</b>	<b>1. Appendix A – Annual Report of the Audit Committee 2011/12</b>		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 The report introduces the Annual Report of the Audit Committee. The Annual Report sets out the work and achievements of the Council's Audit Committee during 2011/12.
- 1.2 Attached to this report is the draft version of the Annual Report and, subject to any comments, the final version will be presented to Council on 19<sup>th</sup> July 2012.

### 2.0 Recommendations

- 2.1 Audit Committee is asked to **RECOMMEND** that
- (1) The contents of the Annual Report of the Audit Committee 2011-12 be agreed, and that the Annual Report be presented to Council.
- 2.2 Council is asked to **RESOLVE** that
- (1) The Annual Report of the Audit Committee 2011-12 be approved.

### 3.0 Background and Key Issues

- 3.1 As part of the review of the effectiveness of the Audit Committee carried out in December 2010, it was agreed that an annual report on the work of the Audit Committee would be produced.
- 3.2 This is the second Annual Report and details the work and achievements of the Audit Committee during 2011/12.
- 3.3 The report, when agreed, will be published and circulated to interested groups.

#### **4.0 Alternative Options Considered**

4.1 Not applicable.

#### **5.0 Reasons for Recommendations**

5.1 Best practice from both the public and private sectors indicates that the Audit Committee should report directly to the governing body of the organisation. In the case of a local authority, the full Council. This will assist in giving it independence from the executive and scrutiny functions and in addition provides status, and clarity to the role.

#### **6.0 Future Work and Conclusions**

6.1 The Annual Report, when agreed, will be presented to Council on 19<sup>th</sup> July 2012.

#### **7.0 Financial Implications**

7.1 As detailed in the report.

(Financial Services have been consulted in the preparation this report).

#### **8.0 Legal Implications**

8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report).

#### **9.0 Risk & Opportunity Management Implications**

9.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. These functions are best delivered by an Audit Committee, independent from the executive and scrutiny functions.

#### **10.0 People Impact Assessment (PIA):**

10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

#### **11.0 Other Corporate Implications**

##### Community Safety

11.1 There are no community safety implications arising out of this report.

##### Sustainability

11.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

11.3 There are no staffing and trade union implications arising out of this report.

**Background Documents:** Report on Review of Effectiveness of the Audit Committee (RMD201022)  
Report on Review of Effectiveness of the Audit Committee – Action Plan (RMD201108)

## **APPENDIX 1**

### **Audit Committee Annual Report 2011/12**

#### 1. Background

1.1 The Audit Committee was established by the Council in May 2006. Whilst there is 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 issues in governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee.

1.2 The purpose of the Council's Audit Committee is to provide:-

- Independent assurance on the adequacy of the risk management framework and the associated control environment
- Independent review 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
- Oversee the financial reporting process

1.3 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.

1.4 The Terms of Reference for the Committee are based on the CIPFA guidelines and can be found at Appendix 1 of this report.

#### 2.0 Membership & Attendance

2.1 The Committee has enjoyed the benefit of a settled membership over the last couple of years, with only a small number of changes in membership. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

2.2 The following were Members of the Audit Committee for 2011/12:-

Cllr Declan Wilson – Chair  
Cllr Fred Wood – Vice Chair  
Cllr Lise Noakes  
Cllr Mark Hobbs  
Cllr Jim Porter

During the year, Cllr Fred Wood was also nominated as the Member Champion for Risk Management.

2.3 During 2011/12, the Audit Committee met on the following dates:-

23<sup>rd</sup> June 2011  
27<sup>th</sup> September 2011  
8<sup>th</sup> December 2011  
2<sup>nd</sup> February 2012 – Joint Meeting with Standards Committee  
15<sup>th</sup> March 2012

- 2.4 The Committee only has a membership of 5, therefore, full attendance is important to ensure the Committee is quorate. During the year, there was regular attendance by all Members.
- 2.5 The Cabinet Member for Performance (Cllr Deb Llewellyn) was a regular attendee, as an observer, at Committee meetings during the year.
- 2.6 Senior Officers from the Council also attended Audit Committee meetings, with the Director of Resources, Group Manager Audit & Assurance and the Group Manager Financial Services being regular attendees. A representative from External Audit also attended every Committee, except the joint meeting with the Standards Committee.
- 2.7 The Chair and Vice Chair also attended briefing meetings with the Director of Resources, Group Manager Audit & Assurance and the Group Manager Financial Services before each Committee meeting.
- 3.0 Programme of Reports 2011/12
- 3.1 Detailed below is the programme of reports considered by the Audit Committee during 2011/12, and how they relate to the Committees Terms of Reference.

#### **Audit Activity**

- External Audit report – Maximising the Use of Fees and Charges
- External Audit Fee letter 2011/12
- External Audit – Interim Audit Report 2010/11
- Head of Internal Audit Annual Report 2010/11
- Internal Audit Plan Quarterly Monitoring Reports
- Review of Effectiveness of Internal Audit 2010/11
- Review of Internal Audit Strategy
- External Audit report - ISA 260 (Update on 2010/11 Items)
- External Audit report – Review of Energy Efficiency
- External Audit report – Certification of Grants and Returns 2010/11
- External Audit Plan 2011/12
- Internal Audit Annual Plan 2012-13

#### **Regulatory Framework**

- Annual Governance Statement 2010/11
- Treasury Management Performance 2010/11
- Treasury Management Performance 2011/12 – Quarters 1 - 3
- Annual Governance Statement – Action Plan 2011/12
- Localism Act and the Future of Standards\*
- Review of Anti-Fraud & Corruption policies\*
- Treasury Management Strategy
- Risk Management Strategy

\*Joint meeting with Standards Committee

### **Accounts**

- Draft Statement of Accounts 2010-11
- External Auditor Report to Those Charged with Governance (ISA 260) 2010/11
- Audited Statement of Accounts 2010/11

#### 4.0 Annual Report

- 4.1 The Committee is assured on the integrity and reliability of data held in the financial statements. It receives clear, concise reports and actions are dealt with in an appropriate timescale. The Members of the Committee receive specific training in order to assist them in their role in receiving comprehensive assurance from the Corporate Director of Finance/Group Manager Financial Services.
- 4.2 The work of internal and external audit provides detailed assurance on the reliability and integrity of the information held in the financial statements as well as on the key control framework in operation across the Council.
- 4.3 The assurances from the Director of Resources and the Group Manager Financial Services, and, the work of internal and external audit, together support the Committee in forming their opinion of the financial statements, enabling them to agree to sign them off in accordance with regulations.
- 4.4 The Committee receives a six monthly report on agreed actions from the Annual Governance Statement process.
- 4.5 The Committee reviews the Risk Management Strategy on an annual basis and considers the effectiveness of the risk management process both through the work of internal audit and through receiving half-yearly risk management reports.
- 4.6 The Committee considers the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Director of Resources, the view of external audit and the quality of reports, actions and follow ups through the quarterly reports submitted throughout the year to Committee.
- 4.7 The Committee is able to request Group Managers and/or Service Managers to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve the existing control environment.

#### 5.0 Future Challenges

- 5.1 The Localism Act 2011 makes fundamental changes to the system of regulation of standards of conduct for elected and co-opted Councillors. The Council has agreed to combine the roles of the Standards Committee and the Audit Committee and establish an Audit and Governance Committee. The transfer of responsibility from the Standards Committee to the Audit and Governance Committee has necessitated changes to the Terms of Reference for the Audit and Governance Committee.
- 5.2 The Audit & Governance Committee will continue with the existing aim of continually striving to achieve best practice where this is feasible and affordable.

## APPENDIX A

### AUDIT COMMITTEE – TERMS OF REFERENCE 2011/12

- (i) To consider the Group Manager Audit & Assurance's annual report and a summary of the internal audit activity (actual and proposed) and the level of assurance it can give over the Council's corporate governance arrangements, including an opinion on the overall adequacy and effectiveness of the Council's internal control environment.
- (ii) To consider summaries of specific internal audit reports, quarterly.
- (iii) To consider an annual report on the performance of the internal audit service and review the effectiveness of the service in accordance with the Accounts and Audit Regulations.
- (iv) To consider a report from internal audit on agreed recommendations not implemented within a reasonable timescale.
- (v) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.
- (vi) To consider specific reports as agreed with the external auditor.
- (vii) To comment on the scope and depth of external audit work and to ensure it gives value for money.
- (viii) To liaise with the Audit Commission over the appointment of the Council's external auditor.
- (ix) To consider and review changes to the Council's Constitution in respect of Contract Standing Orders, Financial Regulations, and Codes of Conduct and behaviour.
- (x) To monitor the effective development and operation of risk management and corporate governance.
- (xi) To consider summaries of specific risk management reports, quarterly.
- (xii) To monitor Council policies on Whistleblowing, the anti-fraud and anti-corruption strategy and the Council's complaint process.
- (xiii) To oversee the production of the authority's Annual Governance Statement and recommend its adoption.
- (xiv) To consider the Council's arrangements for corporate governance and recommend the necessary action to ensure compliance with best practice.
- (xv) To consider the Council's compliance with its own published standards and controls.
- (xvi) To approve the Statement of Accounts and the Annual Governance Statement.
- (xvii) To review the annual Statement of Accounts. 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.
- (xviii) To consider the external auditor's report on issues arising from the audit of the accounts.
- (xix) To commission work from internal and external audit.
- (xx) To review any issues referred to it by the Chief Executive or a Corporate Director or any Council body.