

BRECKLAND COUNCIL

Report of the Deputy Audit Manager in consultation with the Chair of the Audit Committee to the **AUDIT COMMITTEE – 24 June 2011** **FULL COUNCIL – 4 August 2011**

Annual Report of the Audit Committee

1 Purpose of Report

- 1.1 The purpose of this report is to demonstrate the valuable work performed by the Committee for the Council during the past year.

2 Recommendations

It is recommended that the Council adopts the report.

Note: In preparing this report, due regard has been had to equality of opportunity, human rights, prevention of crime and disorder, environmental and risk management considerations as appropriate. Relevant officers have been consulted in relation to any legal, financial or human resources implications and comments received are reflected in the report.

3 Information, Issues and Options

3.1 Background

3.1.1 In February 2008, Breckland Council held the first meeting of the Audit Committee, which had been developed to provide additional oversight and more specialist consideration of the Council's financial and corporate governance, and internal control matters.

3.1.2 Good Practice identified within the CIPFA "Toolkit for Local Authority Audit Committees" establishes that on an annual basis, the Audit Committee should produce an annual report to demonstrate the valuable role it provides to the Council. This report constitutes the third Annual Report of the Audit Committee.

3.2 Membership of the Committee

3.2.1 During 2010/11, the Committee met on 8 occasions. The high frequency of meetings has put pressure on member attendance, with a total of 30 out of a possible 48 (63%) appointed member attendances - representing a fall from previous years.

3.2.2 However, alternative arrangements to ensure the Committee has appropriate support and provides scrutiny have worked well. All members unable to attend meetings have given apologies, with appointed substitutes attending to provide the Committee with continuity. Councillor Paul Hewett regularly provided written questions and comments in respect of agenda items when unable to attend.

3.2.3 The Committee appointed their first independent member during 2009/10. Unfortunately, Mr Leslie Peacock stood down during 2010/11, and as a result candidates were sought to fulfil this vacancy. Following a selection Committee held in January 2011, two outstanding candidates emerged – Mr Tim Ludlow and Mr Keith Stevens. As a result, on 27 January 2011, Council voted to expand the Audit Committee membership to allow the appointment of both individuals; together, they bring a wealth of knowledge in financial and change management, and both public and private sector experience, to enhance the skill set available to the Committee.

3.2.4 The Committee has continued to benefit from strong continuity in membership, with Councillor Cliff Jordan and Councillor Robert Kybird retaining their roles as Chair and Vice-Chair respectively. There is appropriate cross-representation with the Scrutiny Committee, whilst allowing the Audit Committee to retain independence. To support

the Committee, Cabinet members have regularly been in attendance, and there has been a strong level of officer support, including representatives from the Council's external auditors.

3.2.5 In 2009, the Committee undertook its first self-assessment exercise against the expected roles and behaviours identified in the CIPFA toolkit. Having identified a number of areas for further action, work was undertaken such that in September 2010, the Committee was able to confirm that it was now fully compliant with the CIPFA self-assessment toolkit.

3.3 The Role and Remit of the Audit Committee

3.3.1 No formal requirement is placed on local authorities to have an Audit Committee. However, CIPFA recognises that there are a range of benefits that can be obtained, including raising the awareness of the need for internal control and increasing public confidence in the Council.

3.3.2 The terms of reference for Breckland's Audit Committee are firmly established within the Council Constitution, and serve to demonstrate how the Committee provides a strong scrutiny and governance function to the Council; the Terms of Reference are reviewed as part of the Council's overall Constitution review, last undertaken in April 2011.

3.3.3 Key features highlighted within the Terms of Reference include:

- Review the work of Internal Audit, and satisfy themselves that the system of internal control has operated effectively throughout the year;
- To consider the work performed by the External Auditor, and review and approve the statement of accounts;
- To monitor the effective operation of risk management, treasury management and counter-fraud arrangements within the Council;
- To review its own effectiveness, and present an annual report on its work and performance.

3.4 Work considered by the Audit Committee during the year

3.4.1 As will be identified in section 3.5 below, the operation of the Audit Committee has expanded during the year. Reports have been submitted on the following topics:

Internal Control and Assurance Processes – Internal Audit related:

- Annual Report on Internal Audit Activity, 2009/10
- 2 follow-up reports on the status of Internal Audit Recommendations
- The review of the effectiveness of Internal Audit 2009/10
- A mid-year progress report on the Internal Audit Plan, 2010/11
- Internal Audit's Terms of Reference, Code of Ethics, Strategy, and Strategic Audit Plans for 2011/12 onwards (and revised plans, to incorporate the outcomes of the Computer Audit Needs Assessment)

Internal Control and Assurance Processes – External Audit related:

- The Audit Opinion Plan, 2010/11 and 2011/12
- The Annual Audit Fee Letter, 2010/11
- The Annual Governance Report, 2009/10
- The Annual Audit Letter, 2009/10
- The Certification of Grant Claims and Returns, 2009/10

Financial Reporting Arrangements

- Draft, and final Statement of Accounts 2009/10

Risk Management

- Quarterly Risk Management Reports

- Revised Risk Management Strategy
- Risk Register for Planning and Building Control
- Service Team Plans and Strategic Risk Registers

Treasury Management

- Annual Treasury Management Reports
- A mid-year update on Treasury Management
- Treasury Management Strategy

Service and Project Management

- Report on the options for the future of ICT within Breckland Council
- Update on the Government's Transparency Agenda
- Presentation on the Business Continuity Exercise "Stag"
- Reviews of the Rev Active Project
- Report on the proposed acquisition of a business investment property
- Presentation on the Council's Budget for 2011/12
- Anti-Fraud and Corruption and Money Laundering Policies
- Consideration of match-funding to Diss Rugby Club
- Consideration of a contract variation within Environmental Services

Audit Committee Related

- Annual Report of the Audit Committee, 2009/10
- Audit Committee Self-Assessment
- Consideration of the appointment of a new Independent Member

3.5 Overview of key items considered and reviewed during the year

3.5.1 *Work to Develop the Effectiveness of the Committee*

With strong continuity in membership, and full compliance with the CIPFA self-assessment toolkit noted in year, it has not proved necessary to undertake extensive work to develop the Committee's effectiveness. In February 2011, training was provided by the Head of Internal Audit and Head of Finance to the new independent members, to familiarise them with the nature of work reviewed by the Committee, and the Council itself.

The Committee continues to receive periodic updates through Audit Newsletters prepared by the Audit Management Team, which highlight recent audit developments and feature articles such as fraud awareness and financial risk appraisal.

3.5.2 *Requests for review from Cabinet*

The high esteem with which the work of the Audit Committee is held has been demonstrated by a number of referrals from the Council's Cabinet for the Audit Committee to review specific items to assess their risk and implications, ahead of formal decisions being made by Cabinet.

This was first demonstrated in October 2009, where the Audit Committee was requested to review the REVactive project. Subsequent to reviewing the project at their meeting in November 2009, the Committee has continued to assess the ongoing delivery of REVactive, including a specific meeting held in August 2010, and a further monitoring report in March 2011.

Four further items have been referred to the Audit Committee for review during 2010/11, including meetings being held to review the options for the future of ICT provision at Breckland Council, and the decision to acquire a commercial property investment. In each case, the Committee has carefully considered the risks and issues at stake, ahead of advising Cabinet on their views.

3.5.3 *Risk Management*

The reviews by the Committee noted above demonstrate their strong commitment to supporting effective risk management within the Council. The Committee receive quarterly reviews on changes to the Council's risk register, as well as having scrutinised the strategic risks arising from service plans.

In addition, in September 2010, the Committee received a specific report on the risk register in relation to the Planning and Building Control service, recently externalised to Capita Symonds. Such activity helps towards the "good" assurance awarded by the Internal Audit service to the Council's risk management arrangements in both 2009/10 and 2010/11.

3.5.4 *Financial Management*

With the current uncertainties in the local government funding environment, the Committee's oversight of financial management arrangements becomes ever more critical. In addition to the review of financial risks performed within their general risk management role, the Committee continues to maintain a close oversight of the Council's Treasury Management arrangements. In November 2010, the Committee received a presentation on the organisation's budget, allowing them to challenge and scrutinise assumptions made. The Committee welcomed the prudent approach taken by the Council's finance team and the strong financial position of the Council generally within the current economic environment.

3.5.5 *The Work of External Audit*

In May 2010, the new Coalition Government announced the end of Comprehensive Area Assessments, and as part of that the Use of Resources Assessment undertaken which resulted in a reduction in both the scope of work, and fees, of the Audit Commission, as the Council's external auditors. The Committee will look forward to receiving a report from the Audit Commission on the Council's first full statement of accounts audited under IFRS in September 2011.

3.6 Looking Ahead

3.6.1 In August 2010, the Secretary of State for Local Government announced the intended abolition of the Audit Commission. In light of this decision, DCLG have recently issued a consultation draft on the future of local public audit, which sets out a vision of Audit Committees within each authority featuring a majority of independent members, whose remit will be to oversee the appointment of the Council's external auditors.

3.6.2 The Consultation document does not address the other valuable roles served by the Audit Committee at present, and how these will be addressed under the new framework. However, with a high degree of change and uncertainty both nationally and within the Council, their role becomes ever-more critical. Strong systems of governance and risk management should aid the Council as it moves forward.

3.7 Acknowledgements

3.7.1 The Committee would like to thank the Council officers and Internal and External Audit staff who have helped to support delivery of their role throughout the year.

3.2 Options

3.2.1 No other options have been presented.

3.3 Reasons for Recommendation(s)

3.3.1 This report highlights the valuable work performed by the Committee for the Council during the year. Endorsement of the report, and subsequent presentation to Full Council, will help to maintain the high profile of the Audit Committee's work within the Council.

4 Risk and Financial Implications

4.1 Risk

4.1.1 None.

4.2 Financial

4.2.1 None.

5 Legal Implications

5.1 None

6. Other Implications

a) Equalities: None

b) Section 17, Crime & Disorder Act 1998: None

c) Section 40, Natural Environment & Rural Communities Act 2006: None

d) Human Resources: None

e) Human Rights: None

f) Other: None

7. Alignment to Council Priorities

7.1 The work undertaken by the Audit Committee serves to support the Council in delivering all corporate priorities.

8. Ward/Community Affected

8.1 All

Background Papers

None

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Key Decision Status (Executive Decisions only):

Non-Key