

BRECKLAND COUNCIL

Report of the Internal Audit Consortium Manager in consultation with the Chair of the Audit Committee to

AUDIT COMMITTEE – 28 June 2013

FULL COUNCIL – 4 July 2013

Annual Report of the Audit Committee

1 Purpose of Report

- 1.1 The Terms of Reference of the Audit Committee require a formal annual report on the Committee's work and performance during the year to be compiled and subsequently presented to Full Council.
- 1.2 The purpose of this report is therefore to summarise the work of the Audit Committee during 2012/13, confirm that it has operated in accordance with its Terms of Reference, has sought to comply with best practice as detailed in the publication 'A Toolkit for Local Authority Audit Committees' and demonstrated effective challenge during its 5 meetings in year.
- 1.3 Thus, this report looks back over 2012/13 and examines the range of reports which have been brought to the attention of the Committee by various parties, including senior management, Internal Audit and External Audit. The report also seeks to acknowledge the action taken by the Committee to review its own effectiveness.

2 Recommendations

It is recommended that Audit Committee note and approve the contents of the Annual Report, and that it is taken forward to Full Council in July 2013.

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 Breckland Council's Audit Committee has been meeting on a regular basis since 20 February 2008, following approval of original Terms of Reference for the Committee by Full Council on 6 December 2007. The Committee was established to play a pivotal role in the delivery of corporate governance at the authority, improve standards of internal control, review financial information including such items as the Annual Statement of Accounts and Treasury Management related documentation, and allow for more specialist consideration to be given to Internal and External Audit related matters, and Risk Management provisions.

3.2 This is the fifth successive year that an Annual Report has been produced, which sets out to analyse the work of the Audit Committee and in so doing, fulfil one aspect of its detailed Terms of Reference, as well as enabling it to demonstrate compliance with best practice guidance, as contained within 'A Toolkit for Local Authority Audit Committees' published by the Institute of Public Finance Ltd.

3.3 Membership of the Committee

3.3.1 During 2012/13, the Committee has met on 5 occasions. When reviewing participation by elected and independent members at Committee meetings held in the course of 2012/13, a total of 27 out of 35 (77%) possible attendances have been

recorded, equating to a decrease of 8% on 2011/12 figures. It is however noted that either one, or both, of the substitute members regularly attend the Committee meetings, thus ensuring continuity. It is further noted that elected members serving on the Committee, when unable to attend, have regularly provided apologies and as noted substitutes are often in attendance. In addition, members of the Council's Cabinet have taken part in 2 Committee meetings in year. There has been a consistently strong level of officer support too throughout the year, including regular representation from the Council's Internal and External Auditors.

- 3.3.2 Over the 12-month period, there has been a change to the composition of the Audit Committee. Councillor Lady Fisher was replaced by Councillor Nairn. There has been a certain level of stability with the Committee's two independent members, Mr Tim Ludlow and Mr Keith Stevens, maintaining a continual presence during 2012/13. These members bring a wealth of knowledge in areas encompassing financial and change management, plus expertise gleaned in both the public and private sector, all of which greatly enhance the skills pool available to the Committee.
- 3.3.3 The Committee has likewise been able to count upon the ongoing input of Councillor Cliff Jordan and Councillor Robert Kybird, who have remained in their roles as Chair and Vice-Chair respectively throughout 2012/13. The involvement of Councillor Kybird, Councillor Jermy and Councillor Carter has also ensured that there has been appropriate cross-representation with the Scrutiny Committee, whilst still allowing the Audit Committee to retain an appropriate level of independence.
- 3.3.4 There has also always been an abiding intention to ensure that the Committee operates to the highest standards, and with this in mind, annual self-assessment exercises have always been rigorously undertaken to identify the extent to which best practice operational guidance is being met. The latest exercise, conducted in November 2012, confirmed that full compliance was applicable in 2012/13. The Committee assessed itself against 66 separate elements detailed in the checklist provided in the IPF publication: 'A Toolkit for Local Authority Audit Committees'. Upon completion of the self-assessment exercise, it was 'resolved that full compliance to the checklist is confirmed; subject to appropriate induction training being given to the new Members of the Committee'. This matter was addressed on 8 February 2013, when the Internal Audit Consortium Manager and the Deputy Audit Manager provided a training session to members. The session explained the Section 151 Officer's responsibilities in relation to Internal Audit, formulation of the authority's Annual Governance Statement, External and Internal Audit's respective roles and responsibilities, how the Internal Audit Service is delivered, the development of Audit Plans through to the submission of Annual Audit Opinions, other Committee reporting requirements placed upon Internal Audit, as well as the methodology adopted when completing the annual review of the effectiveness of Internal Audit. The training given was well received and was attended by Councillor Carter, Councillor Nairn, Councillor Childerhouse, Councillor Jolly and Mr Tim Ludlow.

3.4 The Role and Remit of the Audit Committee

- 3.4.1 The Terms of Reference for Breckland Council's Audit Committee are firmly established within the Constitution, and emphasise how the Committee champions governance arrangements at the authority. The Terms of Reference were periodically revisited as part of the Council's overall Constitutional review; and were last re-examined in May 2011. The Constitution has not been reviewed since this date however Council has recently (11 April 2013) agreed that a 3 member working group be set up to work with South Holland to review and align the 2 Constitutions whilst maintaining each Council's distinct individuality, Councillor Bowes, Councillor Jermy and Councillor Jolly have been appointed to the working party. Councillor's Jermy and Jolly both serve on the Audit Committee, which is encouraging and will help to ensure continuity in relation to terms of reference.

3.4.2 Key features highlighted within the Terms of Reference include:

- The Council's internal control and assurance processes, as they feed into the organisation's Annual Governance Statement, looking at the full range of assurances being obtained, particularly from Internal & External Audit and any other regulatory and/or inspection bodies, as well as considering any management reviews, etc;
- Financial Reporting arrangements culminating in the review of the Draft and Final versions of the Annual Statement of Accounts;
- Treasury Management Policy and Strategy documentation, as well as mid year and end of year position statements on investment arrangements;
- Risk management provisions operating at the Council; and,
- Counter fraud and corruption activities, plus whistleblowing provisions.

3.5 Work considered by the Audit Committee during the year

3.5.1 Reports have been submitted to the Committee on a number of topics throughout 2012/13, including:

Internal Control and Assurance Processes – Internal Audit related:

- Annual Review of the Effectiveness of Internal Audit for 2011/12;
- Annual Report on Internal Activity 2011/12;
- End of Year Review of the current status of Agreed Audit Recommendations;
- Updating of Strategic and Annual Audit Plans for 2012/13;
- Progress Report of Internal Audit Activity 1 April to 5 November 2012;
- Report of the Status of Audit Recommendations due for implementation by 30 September 2012; and
- Internal Audit Terms of Reference, Code of Ethics, audit Strategy, Strategic and Annual Audit Plans and Summary of Internal Audit Coverage for 2013/14.

Internal Control and Assurance Processes – External Audit related:

- External Audit Progress Report 2011/12;
- Annual Governance Report;
- Annual Audit Letter 2011/12;
- Audit Protocol;
- Annual Audit Fee Letter; and
- 2012/13 Audit Plan.

Financial Reporting Arrangements

- Draft Annual Governance Statement;
- Draft Statement of Accounts;
- Statement of Accounts – Formal Approval; and
- Draft Estimates 2013/14 and Medium Term Plan.

Risk Management

- Quarterly Risk Governance Reports; and
- Service Team Plans and Strategic Risk Registers

Treasury Management

- Annual Report on the Treasury Management Services and Actual Prudential Indicators 2011/12;

- Treasury Management Mid Year Report; and
- Treasury Management Policy and Strategy 2013/14.

Service and Project Management

- Review of Capita Symonds Contract;
- Breckland Training Services Proposal;
- Standards Arrangements under the Localism Act; and
- Counter Fraud, Corruption and Bribery Policy and Whistleblowing Policy.

Audit Committee Related

- Annual Report of the Audit Committee 2011/12;
- Audit Committee Self Assessment Exercise 2012/13;
- Work Programme;
- Monitoring of the External Audit Situation; and
- Training.

3.6 Overview of Key Items considered and reviewed during the Year

3.6.1 *Draft and Final Statement of Accounts for 2011/12*

The Committee made a detailed examination of the draft Statement of Accounts in June 2012 and sought further clarity over a number of issues including Housing Benefit overpayment, insurance overspend, administration and miscellaneous overspend and changes to accounting policies for component accounting. At the close of the meeting, subject to a number of adjustments to wording as requested it was resolved that the draft un-audited Statement of Accounts for 2011/12 be noted.

The final Statement of Accounts were examined by Committee in September 2012 and a number of further anomalies were discussed, which would be checked and amended by management where necessary. At the close of the meeting, the Statement of Accounts for 2011/12 were approved.

3.6.2 *Draft Annual Governance Statement*

The Committee also closely examined the draft Annual Governance Statement in June 2012 and highlighted a number of typographical and grammatical errors. The Vice-Chairman also felt that it would be important for the members to know ahead of next year's report how the new Standards arrangements would affect the Governance structure. The Annual Governance Statement was approved for inclusion in the Council's Financial Accounts for 2011/12.

At its meeting in February 2013, the Committee then received a report in relation to the aforementioned Standards arrangements. Clarity was sought over the volume of complaints and the level of action taken, the level of involvement of the independent person and the appeal process. At this meeting it was agreed that the Committee would receive a report in June and annually thereafter to highlight the number and nature of complaints received and processed.

3.6.3 *Risk Management*

Quarterly Risk Governance reports containing changes to the Council's Corporate Risk Register and the Strategic Risks arising from Service Plans have been examined by the Committee throughout the year and subject to considerable questioning by members. For example, in September 2012, the Committee raised concerns around Breckland Leisure Centre, Business Rates collection and rental forecasts. Thereafter, in November 2012, the Committee focused on risks relating to the transfer of IT staff to Norfolk County, rental income, S106 Agreements and advisory services provided by Norfolk County Council. Then, in February 2013,

topics queried included how new risks were identified and tracked and the processes that are followed. The Committee has consistently challenged the quality of risk management arrangements in wide ranging areas at the Council, to ensure the appropriateness and effectiveness of provisions in place.

Further, in June 2012, the Committee received the Service Team Plans and Strategic Risk Registers. A series of questions were put forward by Mr Ludlow before the meeting and a detailed response was provided by the Governance and Performance Accountant in relation to the following areas: Strategic, Communications, Community Development, Customer Services, Environmental Health, Environmental Services, Finance, Housing and Human Resources. At the close of the meeting the report was noted.

3.6.4 *External Audit*

Throughout 2012/13 the Audit Committee has received regular updates from the Council's External Auditors. There were regular debriefs from the Audit Commission auditors about close down and transitional arrangements up until November 2012. This ensured that the Committee were kept fully up-to-date throughout the process of the External Audit responsibility being passed from the Audit Commission to Ernst & Young. This proactive approach ensured there was an opportunity for continual dialogue with the subsequent transfer being seamless and the External Audit Manager under the new arrangements being introduced to the Committee at the earliest opportunity.

Ernst & Young have been the Council's External Auditors since 1 November 2012, and in February 2013, a briefing paper was presented to the Committee setting out the new External Auditors sampling requirements. It was also confirmed that once their initial financial testing work has been completed, their key controls will be identified and incorporated into an Audit Joint Working Protocol with Internal Audit. The Committee were also further advised that Ernst & Young would be unveiling their new working practices in due course, having already mentioned that they intend to use data analytics in the roll out of their work.

Also at this meeting the External Auditor presented the Annual Audit Fee Letter and the 2012/13 Audit Plan. Members asked for clarification over the value of the new auditing arrangements and both documents were duly noted.

3.6.5 *Member Training*

As mentioned at paragraph 3.3.4, the Committee has received training this year from the Internal Audit Service, and at its meeting in November 2012 after consideration of the self assessment exercise the Committee agreed to have training as a standing agenda item. This is a positive step and ensures that the Committee keeps up-to-date with all the latest developments and that refresher training can be made available as and when required.

3.6.6 *Counter Fraud, Corruption and Bribery Policy and Whistleblowing Policy*

The Committee received updated policies in February 2013; changes had been made to reflect changes in legislation and changes in working practices. Committee asked for clarity in relation to whether the documents were public, the treatment of investigations in the event of criminal activities being identified and how the policies will be enforced. Subject to a minor amendment in relation to wording used in the Whistleblowing Policy, the two policies were recommended to Council for approval.

3.7 Looking Ahead

3.7.1 Now the new External Auditors have been appointed the Committee looks forward to working closely with the new External Audit providers - Ernst & Young during

2013/14. Internal Audit is similarly keen to forge close ties with its new External Audit colleagues, after enjoying positive working relationships with the Audit Commission's auditors. This joined up working inevitably maximises the benefits of a fully integrated audit approach for the Council.

3.8 Acknowledgements

3.8.1 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.

3.9 Options

3.9.1 No other options have been presented.

3.10 Reasons for Recommendation(s)

3.10.1 This report highlights that the Committee continues to operate in accordance with best practice requirements, and plays an important role in the Council's scrutiny and governance framework. It remains an active Committee, conscientious in the delivery of its remit and in so doing, processes a diverse range of items, bringing to bear substantial challenge to items presented for its consideration.

3 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