

## Appendix 1

### **CORPORATE AUDIT COMMITTEE**

#### **ANNUAL REPORT TO COUNCIL 2011/12**

##### **1. INTRODUCTION**

This is the seventh annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year September 2011 to June 2012.

##### **2. REVIEW OF WORK DONE IN 2011/12**

###### **a. Annual Accounts –**

- i. The Committee approved on behalf of the Council an unqualified set of draft accounts for the year ended 31 March 2011 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports for the Council and Pension Fund submitted by the external auditors on their audit of the accounts. The reports highlighted some presentational and technical changes to the accounts, but no changes to the General Fund Balances and Reserves. The auditors also noted an improvement in the quality of financial statements and associated working papers since last year. The Committee had kept this area under review throughout the year and was pleased to see the progress made by officers in improving standards.
- iii. The report on the Pension Fund Accounts highlighted some presentational and technical changes and one small error which had been corrected. The Governance reports were therefore noted and the audit of the Pension accounts formally completed.

###### **b. Corporate Governance –**

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.
- ii. In addition there was a review of progress against actions identified in the 2010/11 review, which included a more in-depth assessment of progress to improve controls within the Payroll system. The Committee received a presentation from the Head of Human Resources and following discussion were satisfied that progress was being made and agreed to support the planned investment in improving the effectiveness of the Payroll Client.
- iii. In relation to the 2011/12 review, two reports were received to both introduce the Committee to their role and also debate a long list of potentially significant issues in relation to the 2011/12 statement.

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- iv. All of these views were fed back to senior management and the statement was signed by the Leader of Council and Chief Executive prior to the 30<sup>th</sup> June deadline.

### **c. Financial Governance -**

- i. The Committee considered the latest Treasury Management monitoring report to 31<sup>st</sup> December 2011 and Treasury Management Strategy Statement and Annual Investment Strategy for 2012/13. In addition to reviewing the annual strategy the Committee will continue to receive a mid year update report and annual review covering treasury management activities to support the Cabinet Member for Resources.
- ii. Currently performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and scrutiny will continue to be important to ensure Council resources are invested wisely.
- iii. All local authorities have now adopted International Financial Reporting Standards (IFRS) and the Committee was updated on progress towards this target including approving the policy for componentisation. Feedback from the external auditors is positive with regard to Council compliance with these new standards and the committee will continue to monitor progress.
- iv. During 2011 the Bribery Act had come into force and with it, had introduced four new offences of which a key one was a new organisational offence of 'failure to prevent bribery'. Consequently a review and risk assessment was undertaken and the results reported to the Committee on whether the Council was fully compliant. It was pleasing to note that the Council had considered the risks carefully and was well prepared to meet the obligations contained within the Act. It would however need to remain vigilant to ensure it continued to apply the appropriate controls to mitigate associated risks.

### **d. Internal Audit –**

- i. The Committee considered the Service's work plan and monitored its progress during the year. The Committee was satisfied with the balance of the plan between planned projects, unplanned commissions and follow-up of previous reports. 84% of the work planned for 2011/12 had been completed, compared with 81% in the previous year.
- ii. Benchmarking results were again solid, with costs below Unitary average in nearly all categories whilst quality assurance indicators continue to be at a high level with 99% customer satisfaction. Concern was expressed however at the level of sickness and number of audit recommendations failing to be implemented and these areas will be monitored more closely during 2012/13.
- iii. The Committee also considered the results of a biennial review of the Council's Counter Fraud and Corruption arrangements. This includes the

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review of associated policies and procedures as well as assessing the impacts of fraud and misuse of Council resources on the Authority.

- iv. It was pleasing to note the positive results of the review with an improving culture and firm action being action where necessary. An Action Plan of areas for improvement was approved
- v. The Committee also noted the decision by the government to remove the management assessment process for all schools (FMSiS) and replace this with the Financial Value standard which no longer required external assessment by audit. Previously B&NES had recorded excellent results with all secondary schools and primary schools achieving the accredited financial management standards. The Committee commended Internal Audit for their contribution to this success by providing training and support to all schools, as well as carrying out the formal external assessments and their involvement in helping the Department for Education develop the new standards.
- vi. Finally a long term project had been ongoing since 2010/11 reviewing future service delivery models for Internal Audit. This project was necessary to review the future provision of the service in light of the severe budget cuts required by all services, risks facing the organisation and skills necessary to carry out the audit role.
- vii. The Committee had received a report in 2011 which recommended an immediate internal restructure to prepare it for a potential shared service with neighbouring authorities. This restructure included an amalgamation of all audit and risk management resources and a recommendation that service delivery to be retained in-house for at least 2 years pending the results of further negotiation with neighbouring authorities.
- viii. Progress remained positive in 2011/12 with a 25% gross budget saving now fully achieved without materially affecting service delivery. The committee noted that progress to a shared service had however become delayed following a change in senior management at a neighbouring authority and updates on progress will be monitored through 2012/13.

### **e. External Audit -**

- i. In addition to the Governance Reports detailed above the Committee also considered the Annual Audit Letter for 2010/11 which summarised the work carried out by the Audit Commission.
- ii. The previous assessment and inspection framework had been removed during 2010 following the change in government and announcement to abolish the Audit Commission. Therefore there continued a much reduced regime of coverage during 2011/12 with no formal reviews being completed outside of the audit of the accounts. This consequently also led to a reduction in audit fees which was welcomed by the Committee.

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- iii. Overall the Council comfortably demonstrated a satisfactory VFM opinion and had previously been assessed as 'good' within the previous inspection regime which was endorsed by the Committee. The Council was also commended for successfully implementing International Financial Reporting Standards and improving the quality of their accounts.
- iv. Finally, the future of the external audit regime and implications from the announcement to abolish the Audit Commission in August 2010 were a continual topic of significant interest to the Committee with regular updates at each committee meeting.
- v. The committee had previously received a report on the proposals from the Department for Local Communities and Local Government (DCLG) on the future of local public audit and submitted its comments in June 2011.
- vi. During the year DCLG issued an update report which had made some material changes to their original proposals although a full and final proposal had not yet materialised at the time of writing this report.
- vii. Progress had however been made in continuing to dismantle the existing external audit regime and a national procurement exercise had taken place which had seen the existing District Audit Service unsuccessful in attempting to establish itself in the market place.
- viii. The results of this procurement exercise were that the Audit Commission will cease to provide an external audit service as from September 2012 and Grant Thornton have been successful in the South West in obtaining the new contract from this date, with again much reduced fees.
- ix. The draft local Audit Bill was published for consultation on 6<sup>th</sup> July 2012 and is expected to be scrutinised by Parliament later this year before becoming law during 2013. It provides for the future appointment arrangements of external auditors and the implications of the Bill will remain an area of high priority for the Audit Committee during 2012/13.

### **g. Review of Terms of Reference**

- i. As part of good practice the Committee reviewed itself against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
- ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and it is recommended to retain the current role for at least a further 12 months pending the new proposals on the future of the local audit regime.

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- iii. In relation to training and development a full programme was developed and briefings and presentations have been received on the following areas –
  - Future of the Audit Commission
  - Treasury Management
  - Understanding the Accounts
  - Internal Audit
  - External Audit
  - Fraud & Corruption
- iv. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas. The approach will therefore continue to be developed for the following year.

### 3. **WORK PLAN FOR 2012/13**

- i. Whilst the Committee's work in 2012/13 will be broadly similar to the year recently ended it will need to continue to review the impacts of recent proposals around the future of the external audit regime.

### 4. **MEMBERSHIP AND SUPPORT**

- i. The Committee appointed for 2011/12 comprised 3 Liberal Democrats (including the Chairman Councillor Andrew Furse), 4 Conservatives and 1 independent co-opted member. This was altered for the meeting in May 2012 when one independent councillor replaced one of the conservative members.
- ii. 4 meetings were held during 2011/12 with at least 7 out of the 8 members attending each meeting, and two meetings where at least where one substitute was necessary.
- iii. The Committee's lead officer is the Divisional Director for Risk and Assurance. Other officers attend, notably the Strategic Director for Resources, Divisional Director (Finance) who leads on financial issues through his S151 role and Group Manager for Audit & Risk. The external auditors are represented by a District Auditor and Audit Manager from the Audit Commission who attended all 4 meetings.