

Democratic Services

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Date: 13 June 2011

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To: All Members of the Corporate Audit Committee

Councillors: Andrew Furse (Chair), Gerry Curran, Barry Macrae, Will Sandry,
Kate Simmons, Brian Simmons and Geoff Ward

Independent Member: John Barker

Chief Executive and other appropriate officers
Press and Public

Dear Member

Corporate Audit Committee: Tuesday, 28th June, 2011

You are invited to attend a meeting of the **Corporate Audit Committee**, to be held on
Tuesday, 28th June, 2011 at 5.00 pm in the. **Council Chamber - Guildhall, Bath.**

The agenda is set out overleaf.

Yours sincerely

Sean O'Neill
for Chief Executive

If you need to access this agenda or any of the supporting reports in an alternative accessible format please contact Democratic Services or the relevant report author whose details are listed at the end of each report.

This Agenda and all accompanying reports are printed on recycled paper

NOTES:

- 1. Inspection of Papers:** Any person wishing to inspect minutes, reports, or a list of the background papers relating to any item on this Agenda should contact Sean O'Neill who is available by telephoning Bath 01225 395090 or by calling at the Riverside Offices Keynsham (during normal office hours).
- 2. Public Speaking at Meetings:** The Council has a scheme to encourage the public to make their views known at meetings. They may make a statement relevant to what the meeting has power to do. They may also present a petition or a deputation on behalf of a group. Advance notice is required not less than two full working days before the meeting (this means that for meetings held on Wednesdays notice must be received in Democratic Services by 4.30pm the previous Friday)

The public may also ask a question to which a written answer will be given. Questions must be submitted in writing to Democratic Services at least two full working days in advance of the meeting (this means that for meetings held on Wednesdays, notice must be received in Democratic Services by 4.30pm the previous Friday). If an answer cannot be prepared in time for the meeting it will be sent out within five days afterwards. Further details of the scheme can be obtained by contacting Sean O'Neill as above.

- 3. Details of Decisions taken at this meeting** can be found in the minutes which will be published as soon as possible after the meeting, and also circulated with the agenda for the next meeting. In the meantime details can be obtained by contacting Sean O'Neill as above.

Appendices to reports are available for inspection as follows:-

Public Access points - Riverside - Keynsham, Guildhall - Bath, Hollies - Midsomer Norton, and Bath Central, Keynsham and Midsomer Norton public libraries.

For Councillors and Officers papers may be inspected via Political Group Research Assistants and Group Rooms/Members' Rooms.

- 4. Attendance Register:** Members should sign the Register which will be circulated at the meeting.
- 5. THE APPENDED SUPPORTING DOCUMENTS ARE IDENTIFIED BY AGENDA ITEM NUMBER.**
- 6. Emergency Evacuation Procedure**

When the continuous alarm sounds, you must evacuate the building by one of the designated exits and proceed to the named assembly point. The designated exits are sign-posted.

Arrangements are in place for the safe evacuation of disabled people.

Corporate Audit Committee - Tuesday, 28th June, 2011

at 5.00 pm in the Council Chamber - Guildhall, Bath

AGENDA

1. EMERGENCY EVACUATION PROCEDURE

The Chair will draw attention to the emergency evacuation procedure as set out under Note 8.

2. ELECTION OF VICE-CHAIR

To elect a Vice-Chair (if required) for this meeting.

3. APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

4. DECLARATIONS OF INTEREST

To receive any declarations from Members/Officers of financial or other interests in respect of matters for consideration at this meeting, together with their statements on the nature of any such interests declared.

5. TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair will announce any items of urgent business.

6. ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

7. ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

To deal with any petitions, statements or questions from Councillors and, where appropriate, co-opted and added Members.

8. MINUTES: 1ST FEBRUARY 2011 (Pages 5 - 10)

9. ACCOUNTS UPDATE & POLICY RE ACCOUNTING FOR COMPONENTS (Pages 11 - 14)

10. TREASURY MANAGEMENT OUTTURN REPORT 2010/11 (Pages 15 - 26)

11. CONSULTATION - FUTURE OF LOCAL PUBLIC AUDIT (Pages 27 - 104)

12. ANNUAL GOVERNANCE REVIEW UPDATE (Pages 105 - 124)

13. INTERNAL AUDIT REPORT - (OUTTURN 2010/11 & ANNUAL PLAN 2011/12) (Pages 125 - 164)

14. EXTERNAL AUDIT REPORTS & UPDATE (Pages 165 - 172)

15. ANNUAL REPORT OF THE CORPORATE AUDIT COMMITTEE (Pages 173 - 178)

16. DATES OF FUTURE MEETINGS

Meetings of the Committee are scheduled until the end of this year as follows:

29 September 2011, Council Chamber, Guildhall, Bath

6 December 2011, Kaposvar Room, Guildhall, Bath

There are no dates set for 2012.

The Committee Administrator for this meeting is Sean O'Neill who can be contacted on 01225 395090.

CORPORATE AUDIT COMMITTEE

Minutes of the Meeting held

Tuesday, 1st February, 2011, 5.00 pm

Councillors: Tim Ball, Colin Barrett, Bryan Organ, Brian Simmons and Brian Webber

Independent Member: John Barker

Also in attendance: Andrew Pate (Strategic Director, Resources & Support Services), Jeff Wring (Head of Audit, Risk and Information), Gary Adams (Finance and Resources Manager) and Andy Cox (Risk Manager)

30 EMERGENCY EVACUATION PROCEDURE

The Chair drew attention to the procedure.

31 ELECTION OF VICE-CHAIR

RESOLVED that a Vice-Chair was not required on this occasion.

32 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

Apologies were received from Councillor Armand Edwards.

33 DECLARATIONS OF INTEREST

There were none.

34 TO ANNOUNCE ANY URGENT BUSINESS AGREED BY THE CHAIR

The Chair said that following requests from Members future meetings of the Committee would commence at 4.30pm instead of 5pm. He confirmed that the dates of the meetings for the remainder of 2011 would be 24 May, 28 June, 29 September and 6 December.

35 ITEMS FROM THE PUBLIC - TO RECEIVE DEPUTATIONS, STATEMENTS, PETITIONS OR QUESTIONS

There were none.

36 ITEMS FROM COUNCILLORS AND CO-OPTED AND ADDED MEMBERS

There were none.

37 MINUTES: 7 DECEMBER 2010

These were approved as a correct record and signed by the Chair.

38 TREASURY MANAGEMENT STRATEGY AND ANNUAL INVESTMENT STRATEGY

The Finance Resources Manager presented the report. He reminded Members that in February 2010 the Council had, in accordance with the CIPFA *Treasury Management in the Public Services: Code of Practice*, designated the Corporate Audit Committee as the required body to scrutinise the Treasury Management Strategy before the start of each financial year and to receive a mid-year report and annual report on it. The Committee was also being invited to approve the Council's Annual Investment Strategy.

A Member expressed concern about the sharp increase in the upper limit for fixed interest rate exposure from 2009/10 (£82m) to 2011/12 (£204m) recorded in the table on page 18 of the agenda. The Finance Resources Manager explained that this resulted from frontloading of funding for the capital programme. Money would be borrowed in advance to take advantage of the current low interest rates. One of the financing options being considered was a bond issue. The Council had a duty to demonstrate that it was acting prudently and that there was sufficient revenue to cover the cost of loans. The Director of Resources and Support Services said that the capital programme was funded partly by government grant and partly by borrowing. All borrowing was fully covered by revenue and the issue was to identify the most cost-effective form of borrowing. The Member responded that the Committee's duty was to focus on risks and that there appeared to have been no risk analysis of the increase in this borrowing limit; he was concerned about the potential liabilities for the Council and local taxpayers in future years. He also wondered whether government loans might not be cheaper than a bond issue. The Director of Resources and Support Services replied that there were various kinds of risk associated with the capital programme, including financial risks, impacts on services and risks relating to the management of projects. It was crucial to choose the optimum method of financing to secure the best value for the Council. The Government's decision to raise interest rates on new loans from the Public Works Loan Board meant that other sources of finance might now be more favourable. The Finance Resources Manager said that bonds could allow more flexible and efficient financial management, because they could be traded in the market. In response to a question from a Member, he explained that the figure of £35m given in the table on page 22 of the agenda referred to money already spent on the capital programme.

The Chair emphasised the concern felt by Members at a large increase in borrowing by the Council at a time when spending was being cut and the economic outlook was uncertain. The Director of Resources and Support Services replied that the Council had a clear direction of where it wanted to go; the question was whether all factors had been taken into account in planning the route ahead. He felt sure that when the budget was presented at the next Council meeting Members would see that officers had done a thorough job. There was a decision to be made about the best method of borrowing, and he would come back to the Committee when further work had been done on this.

A Member noted that the central interest forecast by Sterling Consultancy Services given in the table on page 21 of the agenda was in line with that of the majority view, namely that there would be a gentle uplift from late 2011. There could also be threats from the performance of the UK and global economy. The Director of Resources and Support Services said that the current historically low interest rates provided a window of opportunity for the Council to borrow now. This coupled with the fact that

all projects were planned to cover their costs, should ensure that future financial risks were minimised.

RESOLVED

1. That the actions proposed within the Treasury Management Strategy Statement have been scrutinised and should be submitted to February Council for approval.
2. The Investment Strategy as detailed in Appendix 2 has been scrutinised and should be submitted to the February Council for approval.
3. That the changes to the authorised lending lists detailed in Appendix 2 and highlighted in Appendix 3 have been scrutinised and should be submitted to February Council for approval.
4. To note that at the Cabinet meeting on 2nd February 2011 it is recommended to delegate authority for updating the Prudential Indicators (detailed in Appendix 1), prior to approval at Full Council on 16th February 2011, to the Divisional Director – Finance and the Cabinet Member for Resources, in light of any changes to the recommended budget as set out in the Budget Report also on the agenda for the Cabinet meeting.

39 ANNUAL GOVERNANCE STATEMENT UPDATE

The Risk Manager presented the report. He reminded Members that the Committee had suggested a number of significant issues for inclusion in the Annual Governance Statement 2009/10. After discussions within the Council the number of significant issues had been reduced to four, which were:

1. Economic downturn and financial challenge to the Council.
2. Bath Transport Package.
3. Severe weather.
4. Information security.

The Risk Manager commented on Appendix 2 of the report, which provided an update on progress with implementing the actions agreed to address these issues, and drew attention to the process and timetable for the Annual Governance Review 2010/11 outlined in paragraph 4.6 of the report. He said that the 2010/11 review would be carried out in accordance with a streamlined version of the same methodology used for the 2009/10 review.

The Chair asked about the current status of the Bath Transport Package (BTP), following the submission by the West of England Partnership of an “expression of interest” to the Department of Transport in respect of the scheme. The Director of Resources and Support Services said that a reply was awaited from the Department. The timetable was not entirely clear, but it was not likely that the funding application would be finally signed off before the summer. A Member asked how the risk issues of the scheme would be dealt with. The Director of Resources and Support Services replied that decision making for the scheme had been delegated to the relevant Cabinet Member and been reviewed by the West of England Overview and Scrutiny Committee. The Head of Audit, Risk and Information said that the role of the

Corporate Audit Committee was to review the overall framework for risk management within the Council not the individual detail within each project.

The Chair noted that the review of Comino Systems had concluded that it was a “weak” system of internal control. The Risk Manager replied that there had been good progress in implementing follow-up actions.

RESOLVED

1. To note the action taken to date in relation to the “Significant Issues” recorded in the Annual Governance Statement 2009/10.

2. To note the process and timetable for the Annual Governance Review 2010/11.

40 INTERNAL AUDIT - FUTURE SERVICE DELIVERY OPTIONS

The Head of Audit, Risk and Information presented the report. He said that the covering report was effectively an executive summary of the final project report attached as an appendix. He thanked the project manager and all staff who had contributed to the project for their excellent work.

He said that main issues were the quality of service and the availability of necessary skills. He drew attention to the scoring assessment of the different options on page 55 of the agenda. It was considered that a new internal audit partnership with neighbouring authorities was likely to deliver a better long-term outcome than outsourcing. In the shorter term however a restructure of the existing in-house service offered the best way forward. This would mean the creation of a joint audit and risk team. There were ongoing discussions with Bristol City Council (BCC) about the formation of a local internal audit partnership. What was aimed for was a genuine partnership, not a situation where one authority did the work for another, but one in which skills and resources were pooled under single management. If the plans for a local partnership did not come to fruition, then the South West Audit Partnership was a strong alternative which could be re-assessed in 12 months.

Members strongly approved of the proposal to retain an in-house service in the short term. One asked about whether accommodation issues had been taken into account in personnel planning. The Head of Audit, Risk and Information replied that a local partnership would be structured around a flexible workforce which whilst it may have a headquarters location would still retain accommodation with each partner. A Member asked about the relative performance of B&NES internal audit service compared with those of neighbouring authorities. The Head of Audit, Risk and Information replied that not all benchmarking data was reliable but that performance was not overly dissimilar between South Gloucestershire, B&NES, North Somerset and Bristol. The relative costs had still to be worked through in detail but with the planned reductions for B&NES it should appear significantly cheaper than the other surrounding authorities. A Member asked about the scoring system used for the assessment of the options. The Head of Audit, Risk and Information explained that scores had been awarded on a scale of 1 to 5.

A Member asked whether, given the Committee’s approval of the in-house option, work on other options might be discontinued. The Head of Audit, Risk and Information replied that he would be very reluctant to abandon the constructive

discussions taking place with BCC. It would be a mistake to lose momentum and it would still take some time before a final proposal would be ready to put to the Committee.

RESOLVED to note the report and the recommendations for future service delivery.

41 EXTERNAL AUDIT REPORTS

The Head of Audit, Risk and Information presented this report, to which were appended four documents from the Audit Commission, the Council's external auditor. These were:

1. The Audit Plan: Avon Pension Fund.
2. The Certification of Claims and Returns Annual Report.
3. Addendum to the Audit Plan.
4. Audit Fee update.

Mr Hackett commented on the first two documents. He drew attention to the two special risks for the Pension Fund listed in Table 1 on page 102 of the agenda. The first risk listed related to the £1.8bn unquoted pooled investment securities held by the Fund. The issue was the difficulty of getting a market valuation of these assets. It would be necessary to obtain reports from the external auditors of the fund managers. The Chair noted that the Audit Plan for the Pension Fund had not yet gone to the Avon Pension Fund Committee. Mr Hackett said that if the Pension Fund Committee raised any substantive issues, it would be brought back to the Corporate Audit Committee. He drew attention to the comments made in the Certification of Claims and Returns Annual Report about working papers being generally of a good standard and about the weakness of the control environment for Teachers Pension Returns. The Head of Audit, Risk and Information said that it was sometimes difficult to get information from schools which had contracted out their payroll to Wiltshire County Council. In response to a question from the Chair, the Director of Resources and Support Services said it was not yet clear what the pension responsibilities of the Council would be in relation to teachers employed by academies.

The District Auditor commented on the Addendum to the Audit Plan, which dealt with the Value for Money Audit, about which a presentation had been given at the previous meeting of the Committee. He drew attention to the statement of planned work contained in paragraph 4 of the document, which related to the Council's Change Programme, the development of the Council's medium-term financial plans and the partnership with the Primary Care Trust. The findings would be contained in the auditor's Annual Governance Report, which would be issued in September 2011. He commented on the Audit Fee update, drawing attention to the reduction in fees.

The Chair asked whether there was any further information about the winding up of the Audit Commission. The District Auditor replied that the Department for Communities and Local Government would announce the timetable in April. There was a great deal of work still being done on updating the audit framework for public bodies. He hoped that the Commission would have a successor that would be able to compete for external audit work.

RESOLVED to note the Audit Plan: Avon Pension Fund, the Certification of Claims and Returns Annual Report, the Addendum to the Audit Plan and the Audit Fee update.

The meeting ended at 6.33 pm

Chair(person)

Date Confirmed and Signed

Prepared by Democratic Services

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th June 2011	AGENDA ITEM NUMBER
TITLE:	ACCOUNTS UPDATE & POLICY RE ACCOUNTING FOR COMPONENTS	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report: NONE		

1 THE ISSUE

- 1.1 Due to a change in the Accounts and Audit Regulations a full set of accounts is no longer required to be presented to the Audit Committee at the end of June and will instead be presented at the end of September after being audited. However a verbal update will be given of progress in preparing the accounts and any key issues arising.
- 1.2 In addition to comply with the new International Financial Reporting Standards (IFRS) material component parts of property, plant and equipment must be accounted for separately. This report gives details of the policy for componentisation.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to –
- a) Note the update on the Accounts
 - b) Approve the Accounting Policy for Components.

3 FINANCIAL IMPLICATIONS

- 3.1 Accounting for components will affect the amount of depreciation charged to services in the statement of accounts but will have no financial impact on council spend as this is a technical adjustment.

4 POLICY FOR COMPONENTISATION

- 4.1 The Statement of Recommended Practice for local government finance requires only material component parts of property, plant and equipment which have different useful lives to the main asset to be accounted for separately.
- 4.2 An exercise carried out to assess the effect on depreciation showed that accounting separately for components of assets valued at less than £500,000 had no material impact. It is therefore proposed to only consider assets with a value in excess of £500,000.
- 4.3 For assets with a value of £500,000 or more only component parts with different useful lives from the main asset and with a value of 20% or more of the asset as a whole should be accounted for separately.

5 RISK MANAGEMENT

- 5.1 The policy to be approved in this report is an accounting adjustment and will have no effect on Council finances.

6 RATIONALE

- 6.1 The new accounting policy requires the approval of the Corporate Audit Committee.

7 OTHER OPTIONS CONSIDERED

- 7.1 None.

8 CONSULTATION

- 8.1 Consultation has been carried out with the Section 151 Finance Officer.

9 ISSUES TO CONSIDER IN REACHING THE DECISION

- 9.1 None as this is an accounting issue only.

10 ADVICE SOUGHT

- 10.1 The Council's Section 151 Officer has had the opportunity to input to this report and has cleared it for publication.

Contact person	Tim Richens; Irene Draper (01225) 477325
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th June 2011	AGENDA ITEM NUMBER
TITLE:	Treasury Management Outturn Report 2010/11	
WARD:	All	
AN OPEN PUBLIC ITEM		
<p>List of attachments to this report:</p> <p>Appendix 1 – Performance Against Prudential Indicators Appendix 2 - The Council's Investment Position at 31st March 2011 Appendix 3 – Average monthly rate of return for 2010/2011 Appendix 4 – The Council's External Borrowing Position at 31st March 2011 Appendix 5 – Sterling Consultant's Economic & Market Review of 2010/11 Appendix 6 – Interest & Capital Financing Budget Monitoring 2010/11</p>		

1 THE ISSUE

- 1.1 In February 2010 the Council adopted the 2009 edition of the CIPFA Treasury Management in the Public Services: Code of Practice, which requires the Council to approve a Treasury Management Strategy before the start of each financial year, and to receive a mid year report and an annual report after the end of each financial year.
- 1.2 This report gives details of performance against the Council's Treasury Management Strategy and Annual Investment Plan for 2010/11.

2 RECOMMENDATION

The Corporate Audit Committee agrees that:

- 2.1 the 2010/11 Treasury Management Annual Report to 31st March 2011, prepared in accordance with the CIPFA Treasury Code of Practice, is noted
- 2.2 the 2010/11 actual Treasury Management Indicators are noted.

3 FINANCIAL IMPLICATIONS

3.1 The financial implications are contained within the body of the report.

4 CORPORATE PRIORITIES

4.1 This report is for information only and is therefore there are no proposals relating to the Council's Corporate Priorities.

5 THE REPORT

Summary

5.1 Performance against the Treasury Management & Prudential Indicators agreed as part of the annual Treasury Management Strategy is provided in Appendix 1. The outturn position and all treasury activity undertaken during the financial year is within the limits agreed by Council in February 2010, as shown in Appendix 1, as well as the CIPFA Code of Practice and the relevant legislative provisions.

5.2 The average rate of investment return for the 2010/11 financial year is 0.51% above the benchmark rate.

Summary of Returns 2010/11

5.3 The Council's investment position as at 31st March 2011 is given in Appendix 2. In line with the Annual Investment Strategy, investments undertaken were temporary short term investments made with reference to the core balance and cash flow requirements.

5.4 Gross interest earned from investments for 2010/11 totalled £910k. Net interest received, after deduction of amounts due to Schools, the West of England Growth Points, PCT and other internal balances, is £760k. Appendix 3 details the investment performance, the average rate of interest earned on investments over this period was 1.00%, which is 0.51% above the benchmark rate of average 7 day LIBID + 0.05% (0.49%).

Summary of Borrowings 2010/11

5.5 The Council's external borrowing as at 31st March 2011 is detailed in Appendix 4.

5.6 New loans totalling £10 million were taken from the Public Works Loan Board on 12th May 2010. One of the loans was £5 million for 25 years at a rate of 4.55%, and the other for a further £5 million for 50 years at a rate of 4.53%. It was decided to take a portion of the Council's borrowing requirement at this stage of the financial year so as to lock in at an interest rate below the rate of 4.75% included in the 2010/11 budget.

5.7 At the time of the decision, long term rates had fallen from a high in April 2010 of 4.74%, and there were concerns that rates could increase again if the general election failed to produce a clear direction in tackling the public sector budget deficit, making UK sovereign debt and therefore long term borrowing more expensive

5.8 The new borrowing took the Council's total borrowing to £90 million. The Council's Capital Financing Requirement (CFR) as at 31st March 2010 was £93.6 million. This represents the Council's need to borrow to finance capital expenditure, and demonstrates that the borrowing taken relates to funding historical capital spend relating to 2009/10 and prior years.

Strategic & Tactical Decisions

5.9 We have continued to place a significant proportion of our funds with highly-rated major financial institutions, primarily with UK banks, where we assess there is implicit or explicit Government support. During the year the amount invested with the Debt Management Office has gradually reduced to between 0-10% of total investments. Some short term investments of have been made with UK Building Societies from the Council's counterparty list that was approved by Council in February 2010. This has resulted in earning a more favourable return than the 0.25% paid by the Debt Management Office.

5.10 In line with recent years, the Council continued to take a pro-active risk management approach to its investment decisions during 2009/10 due to the continued volatility of the financial markets and banking sector. This approach included the following actions.

Budget Implications

5.11 A breakdown of the revenue budget for interest and capital financing and the actual year end position is included in **Appendix 6**. This shows an underspend of £330k in 2010/11. During the year, the Council tightened controls on expenditure where doubts over funding existed. This caused a slowing down of capital expenditure reducing capital financing costs in the short term. The Council's cash balances were higher than anticipated at budget setting generating higher investment interest income.

5.12 A Capital Financing Smoothing Reserve has been created from the underspend which arises in capital financing costs (Debt charges & MRP) in 2010/11, due to the profiling of the borrowing costs compared to the Capital Programme spend. This timing difference is caused where a Service starts to repay its borrowing costs when capital spending begins, but the spend is initially funded by internal borrowing until the Council's cash balances require the planned external funding to be taken.

6 RISK MANAGEMENT

6.1 The Council's lending & borrowing list has been regularly reviewed during the financial year and credit ratings are monitored throughout the year. All lending/borrowing transactions are within approved limits and with approved institutions. Investment & Borrowing advice is provided by our Treasury Management consultants Sterling.

6.2 The 2009 edition of the CIPFA Treasury Management in the Public Services: Code of Practice requires the Council nominate a committee to be responsible for ensuring effective scrutiny of the Treasury Management Strategy and policies. In May 2010, the Council's treasury advisors provided training to the Corporate Audit Committee to carry out this scrutiny.

6.3 In addition, the Council maintain a risk register for Treasury Management activities, which is regularly reviewed and updated where applicable during the year.

7 EQUALITIES

7.1 This report provides information about the financial performance of the Council and therefore no specific equalities impact assessment has been carried out on the report.

8 RATIONALE

8.1 The Prudential Code and CIPFA's Code of Practice on Treasury Management requires regular monitoring and reporting of Treasury Management activities.

9 OTHER OPTIONS CONSIDERED

9.1 None

10 CONSULTATION

10.1 Consultation has been carried out with the Cabinet Member for Community Resources and the Section 151 Finance Officer.

10.2 Consultation was carried out via e-mail.

11 ISSUES TO CONSIDER IN REACHING THE DECISION

11.1 This report deals with issues of a corporate nature.

12 ADVICE SOUGHT

12.1 The Council's Section 151 Officer (Divisional Director - Finance) has had the opportunity to input to this report and have cleared it for publication.

Contact person	<i>Tim Richens - 01225 477468 ; Jamie Whittard - 01225 477213</i> Tim.Richens@bathnes.gov.uk Jamie.Whittard@bathnes.gov.uk
Sponsoring Cabinet Member	<i>Councillor David Bellotti</i>
Background papers	<i>20010/11 Treasury Management & Investment Strategy</i> <i>1st & 3rd Quarter Treasury Performance Reports (Single Member Decisions)</i> <i>Half yearly Treasury Performance Report (Cabinet & Council)</i>
Please contact the report author if you need to access this report in an alternative format	

APPENDIX 1

Performance against Treasury Management Indicators agreed in Treasury Management Strategy Statement

1. Authorised limit for external debt

These limits include current commitments and proposals in the budget report for capital expenditure, plus additional headroom over & above the operational limit for unusual cash movements.

	2010/11 Prudential Indicator	2010/11 Actual as at 31 st Mar 2011
	£'000	£'000
Borrowing	115,000	90,000
Other long term liabilities	3,000	0
Cumulative Total	118,000	90,000

2. Operational limit for external debt

The operational boundary for external debt is based on the same estimates as the authorised limit but without the additional headroom for unusual cash movements.

	2010/11 Prudential Indicator	2010/11 Actual as at 31 st Mar 2011
	£'000	£'000
Borrowing	105,000	90,000
Other long term liabilities	2,000	0
Cumulative Total	107,000	90,000

3. Upper limit for fixed interest rate exposure

This is the maximum amount of total borrowing which can be at fixed interest rate, less any investments for a period greater than 12 months which has a fixed interest rate.

	2010/11 Prudential Indicator	2010/11 Actual as at 31 st Mar 2011
	£'000	£'000
Fixed interest rate exposure	107,000	70,000*

* The £20m of LOBO's are quoted as variable rate in this analysis as the Lender has the option to change the rate at 6 monthly intervals (the Council has the option to repay the loan should the rate increase)

4. Upper limit for variable interest rate exposure

While fixed rate borrowing contributes significantly to reducing uncertainty surrounding interest rate changes, the pursuit of optimum performance levels may justify keeping flexibility through the use of variable interest rates. This is the maximum amount of total borrowing which can be at variable interest rates less any investments at variable interest rates (this includes any investments that have a fixed rate for less than 12 months).

	2010/11 Prudential Indicator	2010/11 Actual as at 31 st Mar 2011
	£'000	£'000
Variable interest rate exposure	20,000	-44,000

5. Upper limit for total principal sums invested for over 364 days

This is the maximum % of total investments which can be over 364 days.

	2010/11 Prudential Indicator	2010/11 Actual as at 31st Mar 2011
	%	%
Investments over 364 days	25	0

6. Maturity Structure of new fixed rate borrowing during 2010/11

	Upper Limit	Lower Limit	2010/11 Actual as at 31st Mar 2011
	%	%	%
Under 12 months	50	Nil	0
12 months and within 24 months	50	Nil	0
24 months and within 5 years	50	Nil	0
5 years and within 10 years	50	Nil	0
10 years and above	100	Nil	100

£10 million of new borrowing was undertaken from the PWLB (Public Works Loan Board) during 2010/11 all of which had a maturity of greater than 10 years. The borrowing portfolio is shown in Appendix 4.

APPENDIX 2

The Council's Investment position at 31st March 2011

	Balance at 31 st March 2011
	£'000's
Notice (instant access funds)	24,000
Up to 1 month	10,000
1 month to 3 months	15,000
Over 3 months	15,000
Total	64,000

The investment figure of £64 million is made up as follows:

	£'000's
B&NES Council	48,434
West of England Growth Points	3,787
Schools	11,779
Total	64,000

The Council had an average net positive balance of £75.9m (including Growth Points Funding) during the period April 2010 to March 2011.

The following fixed term investments were undertaken during 2010/11 with a maturity date in the following financial year:

Institution	Amount	Rate	Start Date	Maturity Date	Long Term Credit Rating*
Barclays Bank	£5m	1.55%	15/04/10	14/04/11	AA-
Barclays Bank	£5m	1.00%	08/11/10	09/05/11	AA-
Barclays Bank	£5m	1.10%	10/12/10	10/06/11	AA-
Bank of Scotland	£5m	1.84%	01/06/10	01/06/11	A+
Bank of Scotland	£5m	2.10%	12/07/10	12/07/11	A+
Lloyds Banking Group	£5m	1.60%	26/11/10	26/08/11	A+
Oversea Chinese Banking Corporation	£5m	1.07%	31/03/11	30/09/11	A+
Total	£35m	-	-	-	

* The credit rating shown is the lowest equivalent rating from Fitch, Standard & Poors and Moody's credit rating agencies

The balance of £29m was held in call accounts at 31st March 2011.

Chart 1: Investments as at 31st March 2011 (£64m)

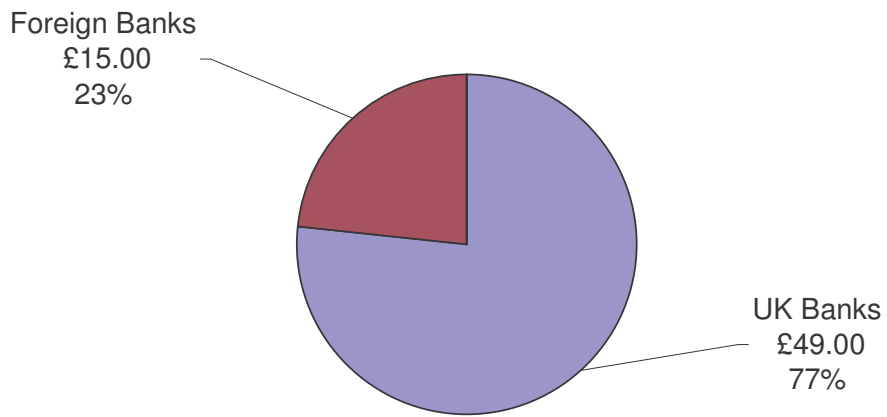
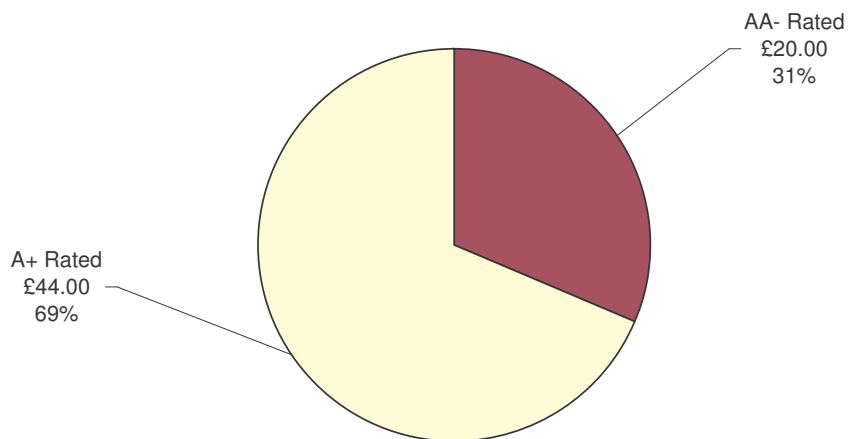


Chart 2: Investments - Lowest Equivalent Credit Ratings (£64m) - 31st March 2011



APPENDIX 3

Average rate of return for 2010/11

	Apr %	May %	Jun %	Jul %	Aug %	Sep %
Average rate of interest earned	0.97%	0.94%	0.98%	1.00%	1.03%	1.03%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)	0.47%	0.48%	0.48%	0.48%	0.48%	0.48%
Performance against Benchmark %	+0.50%	+0.46%	+0.50%	+0.52%	+0.55%	+0.55%

	Oct %	Nov %	Dec %	Jan %	Feb %	Mar %	Average for Period
Average rate of interest earned	1.01%	1.04%	1.05%	0.99%	0.97%	1.05%	1.00%
Benchmark = Average 7 Day LIBID rate +0.05% (source: Sterling)	0.48%	0.48%	0.49%	0.50%	0.50%	0.50%	0.49%
Performance against Benchmark %	+0.53%	+0.58%	+0.58%	+0.49%	+0.47%	+0.55%	+0.51%

APPENDIX 4

Councils External Borrowing at 31st March 2011

LONG TERM	Amount	Start Date	Maturity Date	Interest Rate
PWLB	10,000,000	15/10/04	15/10/35	4.75%
PWLB	20,000,000	02/10/06	20/05/54	4.10%
PWLB	10,000,000	21/12/06	20/11/52	4.25%
PWLB	10,000,000	15/02/06	15/02/56	3.85%
PWLB	10,000,000	19/07/06	15/04/53	4.25%
PWLB	5,000,000	12/05/10	15/08/35	4.55%
PWLB	5,000,000	12/05/10	15/08/60	4.53%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
KBC Bank N.V*	5,000,000	08/10/04	08/10/54	4.50%
Eurohypo Bank*	10,000,000	27/04/05	27/04/55	4.50%
TOTAL	90,000,000			
TEMPORARY	NIL			
TOTAL	90,000,000			

- All LOBO's (Lender Option / Borrower Option) have reached the end of their fixed interest period and have reverted to the variable rate of 4.5%. The lender has the option to change the interest rate at 6 monthly intervals, however at this point the borrower also has the option to repay the loan without penalty.

APPENDIX 5

Annual Review 2010/11 – (provided by Sterling Treasury Advisors)

Following recession in 2009, global economic activity rebounded in 2010. Traditional exporters like Germany benefited from rising consumer demand worldwide, although economies more reliant on domestic consumption, including the UK, faced a weaker outlook. The government and household sectors of these countries were burdened by excessive debt, ultimately resulting in weaker domestic spending.

The absence of a quick economic recovery led to rising government budget deficits, especially in the European periphery, and prompted some concern among bond investors and credit rating agencies. This loss of confidence in the ability of some governments to repay their debts saw bond yields rise and the markets effectively closed to certain countries. Greece, Ireland and Portugal were all forced to seek financial assistance from the European Union and the International Monetary Fund.

The UK's deteriorating financial position was also a concern. The UK had the highest budget deficit in the EU in 2009/10 and the economic outlook was weak. However, the new Conservative-Liberal Democrat coalition government, formed following the inconclusive General Election in May 2010, outlined what was perceived by investors and credit rating agencies to be a credible fiscal consolidation plan. With financial problems continuing elsewhere in Europe, the UK was perceived to be a relative "safe haven", and strong appetite for UK government debt kept gilt yields low.

While the UK government focused on tightening fiscal policy, the Bank of England maintained loose monetary policy. Bank Rate remained at 0.5% throughout the financial year, despite inflation rising to over double the 2% target as the price of raw materials increased. With inflation expected to test 5% during 2011, heightening the risk that raised inflation expectations would feed into wages and prices, three members of the Monetary Policy Committee voted for a rise in Bank Rate in February. The remaining six members, however, were more concerned that higher interest rates could choke off the economic recovery, which was already showing signs of slowing in response to fiscal tightening. The MPC remains divided on when to raise Bank Rate.

APPENDIX 6

Capital Financing Costs – Budget Monitoring 2010/11 (Outturn)

April 2009 to March 2010	YEAR END POSITION			ADV/FAV
	Budgeted Spend or (Income) £'000	Actual Spend or (Income) £'000	Actual over or (under) spend £'000	
Interest & Capital Financing				
- Debt Costs	2,025	2,025	0	
- Ex Avon Debt Costs	1,606	1,476	(130)	FAV
- Minimum Revenue Provision (MRP)	2,146	2,146	0	
- Interest on Balances	(560)	(760)	(200)	FAV
Sub Total - Capital Financing	5,217	4,887	(330)	FAV

Debt Costs shown net of Service Supported Borrowing income and includes transfers to capital financing reserve.

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th June 2011	AGENDA ITEM NUMBER
TITLE:	Consultation – Future of Local Public Audit	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – DCLG Consultation Paper		
Appendix 2 – B&NES Response to Consultation		

1 THE ISSUE

- 1.1 On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.
- 1.2 In order to do this the Department for Communities and Local Government has set out its proposals for the future of local audit in Appendix 1 and we have an opportunity to respond to this agenda by 30th June 2011.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to endorse the proposed response outlined in Appendix 2 subject to any further comments.

3 FINANCIAL IMPLICATIONS

- 3.1 There are a number of direct and indirect financial implications as a result of these proposals which whilst not costed in detail would cost a significant sum and introduce additional bureaucracy.

4 THE REPORT

- 4.1 On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local

audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.

- 4.2 This consultation paper (Appendix 1) discusses the Government's proposals for how a new local audit framework could work and seeks your views.
- 4.3 For information a number of functions currently undertaken by the Audit Commission are not included within this consultation and it is not clear yet what proposals will be forthcoming for these areas which include –
- a) Grant Certification
 - b) National Fraud Initiative (NFI)
 - c) Reporting on the whole of Government Accounts returns
- 4.4 Senior Management have reviewed all the proposals and have serious and significant concerns about the proposals made which not only introduce additional cost and bureaucracy but also set about changing some of the essential tenets of good corporate governance by altering the makeup and terms of reference of the Audit Committee. It is believed the proposals are trying to tackle a bigger problem than replacing the Audit Commission as commissioner of external audit services.
- 4.5 Key concerns include –
- a) Increased costs and risks in imposing a commissioner role for external audit on the Council for which it currently has no role;
 - b) The imposition of independent but unelected chair, vice-chair and members of the Audit Committee;
 - c) Impact on existing scrutiny arrangements;
 - d) Potential for over-prescriptive and onerous external audit requirements;
 - e) The imposition of the role of commissioner of independent examinations and de facto regulator of smaller public bodies operating within the area of the Council, i.e. Parish & Town Councils.
- 4.6 It could easily be interpreted that the proposals contradict the principles of local choice and even weaken democratic accountability and therefore a robust approach is considered necessary in replying to the consultation. We have grouped our comments under a number of key headings rather than replying in detail to every one of the 50 questions detailed in the proposal which would be impractical.
- 4.7 Appendix 2 outlines these comments and members are invited to discuss these and endorse our proposed response.

5 RISK MANAGEMENT

- 5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are significant risks from the proposals outlined which would undermine sound corporate governance and weaken democratic accountability. They would also raise risks of increased financial pressures and provide real risks of key senior managers being diverted away from the key challenges in delivering local services.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

8 ADVICE SOUGHT

8.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Jeff Wring (01225 47323)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	



Future of local public audit Consultation



Future of local public audit

Consultation

March 2011
Department for Communities and Local Government

Department for Communities and Local Government
Eland House
Bressenden Place
London
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Telephone: 030 3444 0000
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Ministerial foreword

“...The Audit Commission has lost its way. Rather than being a watchdog that champions taxpayers' interests, it has become the creature of the Whitehall state. We need to redress this balance.”

Secretary of State for Communities and Local Government 13 August 2010

On 13 August, the Secretary of State for Communities and Local Government announced our plans to disband the Audit Commission and re-focus audit on helping local people hold their councils and other local public bodies to account for local spending decisions.

We want to drive power downwards to people. We want local public bodies to be more accountable to their citizens, to you the taxpayer, rather than upwards to Whitehall. That is what localism is all about.

The current arrangements for local audit, whereby a single organisation - the Audit Commission - is the regulator, commissioner and provider of local audit services are inefficient and unnecessarily centralised. The Audit Commission has increased the professionalism and the quality of local government audit, but, it has also become too focused on reporting to central Government and supporting the previous era of a target driven Government.

We are clear that centralised inspection and supervision have no part in localism and that they can be an unnecessary burden on frontline services at a time when they must be tightening their belts and focusing on service delivery; they also drive a culture of compliance rather than initiative and problem solving. If our local services are going to be genuinely responsive, tailored to the needs of local people, then they must be accountable to those same people. This is why we want to put in place a new locally focused audit regime, which is open and transparent but retains the high quality of audit that we expect.

This consultation sets out our vision for the future of local audit. This vision is firmly based on four principles. The first of these is localism. When reforms are complete local public bodies will be free to appoint their own independent external auditors from a more competitive and open market. The second is transparency; local public bodies will become increasingly accountable for their spending decisions to the people who ultimately provide their resources. The third is to remove the overheads charged by the Audit Commission to service the central government machine. At a time when we are taking decisive action to reduce the deficit, we think it is important that we deliver a framework which sees a reduction in the overall cost of audit to local bodies. The fourth principle is high standards of auditing. Make no mistake, we are determined that audit will remain both robust and efficient and that the new framework will follow the established principles of public audit.

To meet these principles, the consultation sets out proposals which would see all local public bodies with a turnover of over £6.5m appointing their own independent auditor. This appointment would be made on the advice of an independent audit committee.

Auditors would be regulated under a system which mirrors that of the audit of companies with a role for the Financial Reporting Council and the professional audit bodies. We envisage that the National Audit Office will set the code of audit practice and we have put forward options for the scope of audit in the new framework. The consultation document also sets out how transparency will be increased in the new framework and our proposals for auditing smaller bodies with a turnover below £6.5m in a proportionate way.

Alongside these proposals, the consultation asks a number of questions, to which I would welcome your responses. Your contribution will help us to further develop the framework before publishing legislation in draft in the autumn.

We look forward to hearing your comments on how we can make the future of local audit robust and efficient while ensuring that local public bodies are truly accountable to those they serve.

A handwritten signature in black ink, appearing to read 'Grant Shapps'.

Rt. Hon Grant Shapps MP

Glossary

Accountancy and Actuarial Disciplinary Board

An independent board which has the ability to investigate and discipline accountants and actuaries who are members of the following professional bodies: the Association of Chartered Certified Accountants; the Chartered Institute of Management Accountants; the Chartered Institute of Public Finance and Accountancy and the Institute of Chartered Accountants in England and Wales; the Institute of Chartered Accountants of Ireland and the Institute of Chartered Accountants of Scotland.

<http://www.frc.org.uk/aadb/>

Charities Act 1993

The Charities Act 1993 sets out the regulatory framework in which charities operate.

http://www.charity-commission.gov.uk/About_us/Regulation/default.aspx

CIPFA

Chartered Institute of Public Finance and Accountancy is the professional body for people in public finance.

www.cipfa.org.uk

Companies Act 2006

The Companies Act 2006 forms the primary source of UK company law.

<http://www.companieshouse.gov.uk/companiesAct/companiesAct.shtml>

Comptroller and Auditor General

Created by the Exchequer and Audit Departments Act 1866 to authorise funding to Government departments and examine departmental accounts, reporting the results to Parliament.

Drainage Boards

An operating authority, established in areas of England and Wales with particular drainage needs. The Board is responsible for work to secure clean water drainage and water level management.

<http://www.ada.org.uk/>

Financial Reporting Council

The Financial Reporting Council is the UK's independent regulator responsible for promoting high quality corporate governance and reporting to foster investment.

They also oversee the regulatory activities of the professional accountancy bodies and operate independent disciplinary arrangements for public interest cases involving accountants and actuaries.

<http://frc.org.uk/>

Freedom of Information Act 2000

Legislation which enables any member of the public to request information from a public body.

Grant Certification

The Audit Commission is required by the Audit Commission Act 1998 to make arrangements for the certification of grant claims when requested to do so by public bodies in receipt of grant funds.

Health and Social Care Bill

The Bill takes forward the areas of Equity and Excellence: *Liberating the NHS* (July 2010) and the subsequent Government response *Liberating the NHS: legislative framework and next steps* (December 2010). It also includes provision to strengthen public health services and reform the Department's arm's length bodies.

International Financial Reporting Standards

IFRS is an independent, not for profit private sector organisation which works on behalf of the public sector to develop standardised financial reporting standards.

<http://www.ifrs.org/>

LASAAC

The Local Authority (Scotland) Accounts Advisory Committee (LASAAC) develops and promotes proper accounting practice for local government in Scotland in line with legislation, International Financial Reporting Standards (overseen by the International Accounting Standards Board) and the work of the Financial Reporting Advisory Board.

<http://www.cipfa.org.uk/pt/cipfalasaac/index.cfm>

Lord Sharman

Liberal Democrat peer, previously the spokesman for Business, Enterprise and Regulatory Reform and former chairman of KMPG. Lord Sharman's review of audit and accountability for central government, *Holding to Account: the Review of Audit and Accountability in Central Government* was published in February 2001.

http://archive.treasury.gov.uk/docs/2001/sharman_1302.html

Management Commentary

A narrative report which provides the context or background to the financial position, performance and cash flow of an authority or public body.

National Fraud Initiative

Since 1996 the Audit Commission has run the National Fraud Initiative (NFI), an exercise that matches electronic data within and between audited bodies to prevent

and detect fraud. This includes police authorities, local probation boards and fire and rescue authorities as well as local councils.

www.audit-commission.gov.uk/nfi

Police Reform and Social Responsibility Bill

The Bill will make the police service more accountable to local people by replacing police authorities with directly elected police and crime commissioners to be introduced from May 2012.

Professional Oversight Board

The Professional Oversight Board (POB), formerly known as the Professional Oversight Board for Accountancy, is a UK regulatory body specialising in the accounting, auditing and actuarial professions.

www.frc.org.uk/pob

Public Audit Forum

The public audit agencies, the National Audit Office, the Northern Ireland Audit Office, the Audit Commission for Local Authorities and the National Health Service in England, the Wales Audit Office and Audit Scotland have established the Public Audit Forum to provide a focus for developmental thinking in relation to public audit.

<http://www.public-audit-forum.gov.uk>

Public Interest Reports

Under Section 8 of the Audit Commission Act 1998, the appointed auditor is required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public.

Public Interest Disclosure Act 1998

The Public Interest Disclosure Act 1998 is an Act that protects whistleblowers from detrimental treatment by their employer.

Remuneration report

Companies produce a report containing certain information concerning director's remuneration, governed by the Directors' Remuneration Report Regulations 2002,

Section 151 officer

Section 151 of the Local Government Act 1972 requires every local authority to make arrangements for the proper administration of their financial affairs and requires one officer to be nominated to take responsibility for the administration of those affairs.

Special Health Authorities

Special health authorities are health authorities that provide a health service to the whole of England, not just to a local community. They have been set up to provide a national service to the NHS or the public under section 9 of the NHS Act 1977. They are independent, but can be subject to ministerial direction in the same way as other NHS bodies.

Unitary Authority

Since 1996 the two-tier structure of local government has ceased to exist in Scotland and Wales, and in some parts of England, and has been replaced by single-tier unitary authorities, responsible for all local government services.

Whole of Government Accounts

Whole of Government Accounts (WGA) are full accruals based accounts covering the whole public sector and audited by the National Audit Office. WGA is a consolidation of the accounts of about 1500 bodies from central government, devolved administrations, the health service, local government and public corporations.

Section 1

1. Introduction

- 1.1. On 13 August 2010, the Secretary of State for Communities and Local Government announced plans to disband the Audit Commission, transfer the work of the Audit Commission's in-house practice into the private sector and put in place a new local audit framework. Local authorities would be free to appoint their own independent external auditors and there would be a new audit framework for local health bodies. A new decentralised audit regime would be established and councils and local health bodies would still be subject to robust auditing.
- 1.2. The Secretary of State was clear that safeguards would be developed to ensure independence, competence and quality, regulated within a statutory framework.
- 1.3. This consultation paper discusses the Government's proposals for how a new local audit framework could work and seeks your views.
- 1.4. This document has been developed by the Department for Communities and Local Government. Our proposals have been discussed with a wide range of partners and bodies which will be affected by the changes. These include the Audit Commission, the National Audit Office, the Financial Reporting Council, accountancy professional bodies, local government, other local public bodies and Government departments with an interest.

What is audit and why is it important?

- 1.5. An audit is the review of financial statements, resulting in the publication of an independent opinion on whether those statements have been prepared, in all material respects, in accordance with the applicable financial reporting framework and present a true and fair view. A summary of accounting arrangements for local bodies other than those in the health sector is at appendix A.
- 1.6. The audit of public bodies plays a key role in ensuring that those responsible for handling public money are held accountable for the use of that money. Public audit strengthens accountability, both upwards to the elected or appointed members who make decisions about the allocation of resources, and outwards to the consumers and beneficiaries, taxpayers and the wider community. Regular public audit also provides assurance on bodies' arrangements for managing their finances properly, including their arrangements for value for money and to safeguard public money.

Current arrangements for the audit of local public bodies in England

- 1.7. There are approximately 11,000 local public bodies which, together, are responsible for some £200bn of public money. Of these, there are 353 local authorities; 268 NHS bodies (in addition to Special Health Authorities audited by the National Audit Office, and Foundation Trusts); 38 police authorities; and 215 other bodies, including fire and rescue authorities; national park authorities; conservation boards; larger internal drainage boards, joint committees; and probation trusts. The remaining 9,800 bodies, with income or expenditure ranging from £1m down to £1,000 or less, comprise: 9,400 parish and town councils; 150 internal drainage boards; and 250 other bodies (for example, charter trustees and port health authorities). A list of the categories of bodies audited by the Audit Commission is set out in Appendix B.
- 1.8. The current system for the audit of local public bodies is operated and overseen by the Audit Commission under the provisions of the Audit Commission Act 1998 (as amended). Since its inception in 1983, the Audit Commission has acted as the regulator, commissioner and provider of local audit services.
- 1.9. Acting as the overall regulator, the Audit Commission publishes two statutory Codes of audit practice - one for local government bodies and one for health bodies - which are approved by Parliament. These set the standards for audit and require auditors to comply with the auditing and ethical standards issued by the Auditing Practices Board¹ (which is part of the Financial Reporting Council)². The Commission monitors the quality of audit, although the professional accountancy bodies also monitor their members.
- 1.10. Acting as the commissioner, the Audit Commission appoints auditors, either from its in-house practice or from firms contracted to the Commission, to local public bodies.
- 1.11. The Audit Commission also acts as the main provider in the current system, with 70 per cent of local public audits undertaken by its in-house practice.

Proposals for a new audit framework for local public bodies

- 1.12. The Government believes that the current arrangements for local public audit, whereby a single organisation is the regulator, commissioner and provider of local audit services are unnecessarily centralised. There is a lack of transparency and clarity as well as potential conflicts between the roles.
- 1.13. The proposals set out in this consultation build on the statutory arrangements and professional ethical and technical standards that currently apply to companies. However, those arrangements have been adapted to ensure that the principles of public sector audit are maintained.

¹ <http://www.frc.org.uk/apb/>

² <http://www.frc.org.uk/>

- 1.14. The proposed new local audit regime would continue to provide Parliament with the assurances it needs on public spending. The National Audit Office would prepare the Codes of audit practice, which prescribe the way in which auditors are to carry out their functions, and which would continue to be approved by Parliament, and associated guidance. The National Audit Office would also continue to audit Government departments providing funding to local public bodies and will continue to receive Whole of Government Accounts returns. Registration of audit firms and auditors, as well as monitoring and enforcement of audit standards, would be undertaken by the accountancy professional bodies, under the supervision of the Financial Reporting Council (as this builds on their existing role in the regulation of private sector auditors) and its operating bodies.
- 1.15. Principal local authorities would appoint their own auditors, with decisions made by full council, taking into account advice from an independently chaired audit committee. Different arrangements would apply for some other local public bodies and these are explained in section 3.
- 1.16. Localism and decentralisation can only work if central government is prepared to trust local bodies, communities and citizens. We have aimed to design a local audit system which provides the rigour needed for Parliament, but allows local public bodies to take more responsibility in the way they procure audit services. These changes go hand in hand with the Government's actions to increase transparency in local government and will help enable local people and local organisations to hold their local public bodies to account for the way that their money is spent.

Design principles

- 1.17. In proposing a new framework for local public audit, we have followed a set of design principles:
- **localism and decentralisation** – freeing up local public bodies, subject to appropriate safeguards, to appoint their own independent external auditors from a more competitive and open market, while ensuring a proportionate approach for smaller bodies
 - **transparency** – ensuring that the results of audit work are easily accessible to the public, helping local people to hold councils and other local public bodies to account for local spending decisions
 - **lower audit fees** – achieving a reduction in the overall cost of audit
 - **high standards of auditing** – ensuring that there is effective and transparent regulation of public audit, and conformity to the principles of public audit
- 1.18. These principles are not wholly independent. For instance, there is a clear relationship between the quality and scope of the audit and the level of audit fees. We wish to find the right balance to ensure an effective, robust, quality audit for local bodies while keeping fees as low as possible.

1.19. We have also had regard to the principles of local public audit, which were codified in 1998 by the Public Audit Forum, but have deep historical roots. They are:

- **Independence of public sector auditors from the organisations being audited.** Auditors must be independent, to avoid improper influence and allow work to be carried out freely. Independence encompasses the methods of appointment of auditors; the financial relationship between auditor and audited bodies, discretion in the amount of work necessary, the ability to follow up the implementation of recommendations, and the ability to have access to information necessary for audit work.
- **The wide scope of public audit, covering the audit of financial statements, regularity, propriety and value for money.** Public audit involves more than an opinion on accounts. It also covers issues such as regularity, propriety and value for money. In this way, it helps to contribute to corporate governance arrangements of public bodies.
- **The ability of public auditors to make the results of their audits available to the public, to democratically elected representatives and other key stakeholders.** To be effective, there must be appropriate reporting arrangements, under which auditors report the results of their work both to the bodies responsible for funding and to the public.

Q1: Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?

What this consultation covers

1.20. This consultation focuses on the audit of local public bodies that currently have auditors appointed by the Audit Commission. It sets out, in sections 2 and 3, our proposals for the regulation and commissioning of audit, including the various elements of the new regulatory framework and the role local public bodies will have when appointing an auditor. Section 4 covers the scope of local public audit and the work of auditors, while section 5 deals with the way that the proposed framework would apply to smaller local bodies, such as parish councils.

LOCAL BODIES COVERED BY THIS CONSULTATION

1.21. This document sets out proposals for a new framework for most bodies currently audited by the Audit Commission and listed in appendix B.

1.22. However, the Police Reform and Social Responsibility Bill, which is currently before Parliament, aims to make a number of significant reforms to the policing system. This includes provisions to abolish police authorities (excluding the City of London) and replace them with directly elected Police and Crime Commissioners for each police force outside London, and the Mayor's Office for Policing and Crime for the Metropolitan Police.

- 1.23. Police and Crime Commissioners (and Mayor's Office for Policing and Crime) will be responsible for holding the Chief Constable (and Commissioner for London) of their police force to account for the full range of their responsibilities.
- 1.24. Probation services, which used to be part of Local Government's remit, have been a responsibility of central government since consolidation into the Home Office in 2000-01. The financial results of probation trusts have been consolidated into the National Offender Management Service accounts, which are audited by the Comptroller and Auditor General. We believe, therefore, that probation trusts should in future be audited by the Comptroller and Auditor General.

Q2: Do you agree that the audit of probation trusts should fall within the Comptroller and Auditor General's regime?

- 1.25. Pension funds are not statutorily subject to a full audit separate from that of the local authority. However, the Audit Commission has used its regulatory powers to require pension funds to be audited separately. We propose to include pension funds on the list of local public bodies subject to the new local audit framework.
- 1.26. We consider that Joint Committees should remain subject to audit, but it will be for the constituent authorities making up the Joint Committee to decide whether the Joint Committee is audited separately or as part of one of the authorities' own audits.
- 1.27. The abolition of the Audit Commission will also impact on the audit arrangements for local health bodies. Currently, the Strategic Health Authorities, Primary Care Trusts and NHS Trusts are audited under the Audit Commission framework. The Health and Social Care Bill, currently before Parliament, aims to abolish Strategic Health Authorities and Primary Care Trusts and provides for all NHS Trusts to become Foundation Trusts by 2014. The Department of Health is considering the governance and accountability arrangements for the new health landscape and these will help determine the appropriate audit arrangements. The local public bodies referred to in this consultation paper do not therefore include local health bodies. However, health bodies will be included in draft legislation on the proposals for the new local audit framework. The Department of Health will publish a paper summarising its proposals at the same time.

Audit Commission functions excluded from this consultation

- 1.28. There are a number of functions that are or have been carried out by the Audit Commission that are not considered as part of this consultation. The Secretary of State has announced that the Commission's inspection and research activities would cease. In general, local government and others outside of central Government are well-placed to decide when and where research should

be undertaken. In addition, the National Audit Office, following confirmation of its existing powers, will be able, when reporting to Parliament on the activities of central Government departments, to examine the impact of policies administered by local bodies. As well as contributing to parliamentary accountability, this will provide useful insights for local communities by drawing out examples of what works successfully in different circumstances and how barriers to good value for money are being overcome.

1.29. It will also be possible for an auditor to undertake value for money studies connected to audit work, with the agreement of the audited body. In addition, the National Audit Office would be able to identify and report on wider issues of concern about local bodies' use of resources or common themes of interest, should such issues be identified by the audit process. They could do this, in part, by drawing upon the work of local auditors.

1.30. Other functions, such as grant certification, operation of the National Fraud Initiative and the auditor function of reporting on Whole of Government Accounts returns will continue in some form, but are not considered in detail here. These issues will be covered in the forthcoming draft bill and accompanying consultation.

1.31. The Audit Commission appoints auditors to all local public bodies in England. It appoints its own auditors from the in-house practice to 70 per cent of local public bodies, with the remaining 30 per cent of auditors employed by accountancy firms under contract to the Commission. We are considering a range of options for transferring the Commission's in-house audit practice into the private sector. We expect that an announcement on our preferred option for privatisation of the Commission's audit work will be made ahead of publication of a draft audit bill.

Timing and how to get involved

1.32. This initial consultation will run for 12 weeks with responses invited by 30 June. Following this period, we will consider the responses we receive and will publish a summary and a Government response.

1.33. We then propose to publish draft legislation on the proposals for a new local audit framework which will be subject to pre-legislative scrutiny by Parliament and other interested parties. As part of this process, we will consult again on our proposals, and will publish a consultation stage impact assessment. Following pre-legislative scrutiny, we will prepare for final legislation to be introduced at the earliest opportunity.

Costs

1.34. We are developing an impact assessment which will be published alongside the draft Bill. We would therefore be interested in your views on the costs and benefits of the proposals and options set out in this consultation. This evidence will inform the draft bill proposals and help refine the impact assessment.

Who are we consulting?

1.35. We would welcome comments from organisations affected by the change to the audit of local public bodies, and any other bodies or individuals. This document is available on the Department for Communities and Local Government website (www.communities.gov.uk) and we will be drawing it to the attention of all public bodies currently audited by the Audit Commission, to professional bodies and those involved in regulating audit in England. It is open to all to make representations on the proposed new system of local audit and all submissions will be carefully considered.

How to respond

1.36. Your response must be received by 30 June 2011 to:

foia@communities.gsi.gov.uk

Or to:

Luke Scofield
The Department for Communities and Local Government
Zone 3/G6
Eland House
Bressenden Place
London SW1E 5DU

1.37. Please use the title 'Response to future of local audit consultation'.

1.38. It would be helpful if you could make clear in your response whether you represent an organisation or group, and in what capacity you are responding.

Publication of responses – confidentiality and data protection

1.39. Information provided in response to this consultation, including personal information, may be published, or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000, the Data Protection Act 1998 and the Environmental Information Regulations 2004).

1.40. If you want any information you provide to be treated as confidential you should be aware that under the Freedom of Information Act, there is a statutory Code of Practice with which public authorities must comply, and which deals, amongst other things, with obligations of confidence. In view of this, it would be helpful if you could explain to us why you regard the information you have provided as confidential.

1.41. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give any assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer

generated by your IT system will not, of itself, be regarded as binding on the Department.

- 1.42. The Department will process your personal data in accordance with the Data Protection Act and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties.

Section 2

2. Regulation of local public audit

2.1. Audit systems in the UK for both the public and private sector follow the International Standards on Auditing. These include the following common elements of regulation:

- **standards** – setting out what comprises the audit and the quality standards that apply
- **registration** – determining who can audit and ensuring that auditors have the necessary skills, expertise and qualifications in order that there can be confidence in the auditors' work
- **monitoring and enforcement** – ensuring that standards are met and that appropriate action is taken in the case of failure

2.2. The Government believes that having a specific regulator for the local government and the local health sectors in England - less than 10% of the audit market – risks duplication. We therefore consider that, to the extent possible, there should be a consistent regulatory regime for audit, covering the private sector and the local government and local health sectors. This local public audit regime should be focused on local accountability, in the way that the commercial sector is tailored to accountability to shareholders.

Standards and codes of practice

CURRENT SYSTEM

2.3. Under the current system the Audit Commission sets audit standards through Codes of audit practice for the local government and health sectors, which are approved by Parliament. These Codes build on the ethical, auditing and other standards issued by the Auditing Practices Board and are therefore broadly consistent with audit standards applied in other sectors.

2.4. However, the Commission's Codes contain additional standards to reflect the principles of public audit and its wider scope, particularly in terms of regularity and propriety and value for money. They specify the approach to audit for areas not already covered by professional audit standards (such as the 'value for money' conclusion). The Commission also publishes guidance and statements of responsibilities of auditors and audited bodies.

OTHER SECTORS

2.5. Standards for the audit of companies are set by the Auditing Practices Board (part of the Financial Reporting Council), which sets standards and issues guidance for the performance of external audit and in relation to the independence, objectivity and integrity of external auditors. The Auditing Practices Board is also responsible for setting ethical standards for auditors in the private and public sectors.

The Audit Commission's Codes of audit practice

The Commission has a statutory duty to prepare, keep under review and publish statutory Codes of audit practice. There are currently two Codes: one for local government bodies and one for health bodies. The Codes, which are approved by Parliament and must be reviewed at least every five years, set out best professional practice with respect to the standards, procedures and techniques to be adopted by auditors. The latest versions of the Codes of practice were published in 2010.

The Codes are high level documents, which focus on the Audit Commission's core requirements and aspects of audit specific to its regime. Each Code:

- sets out the general principles to be followed by auditors in delivering their objectives
- outlines auditors' responsibilities regarding the audit of financial statements and use of resources and
- sets out the range of outputs through which the results of audit are reported

OUR PROPOSALS

2.6. Under our proposals, auditors of local public bodies would continue to follow the auditing and ethical standards set by the Auditing Practices Board. We have considered which body would be best placed to produce the audit Codes of practice and supporting guidance. While this is a role that could possibly be undertaken by the Financial Reporting Council or the profession, we believe that the National Audit Office, given its role in providing Parliament with assurance on public spending, would be best placed to develop and maintain the audit Codes, which would continue to be approved by Parliament. The National Audit Office would also produce any supporting guidance.

Q3: Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?

Registration of auditors

CURRENT SYSTEM

2.7. The Audit Commission Act 1998 stipulates that for an individual or a firm to be appointed as an auditor, the person/s conducting the audit must be a member of one of the specified professional bodies and has such qualifications as may be approved by the Secretary of State (none have been so approved). The Audit Commission regulates the quality of the work of auditors by setting minimum qualifications a public sector auditor must have in conjunction with standards set by the professional bodies for membership.

OTHER SECTORS

- 2.8. As part of the statutory framework for the audit of companies under the Companies Act 2006, the Professional Oversight Board (part of the Financial Reporting Council), essentially acts as the main regulator, with statutory powers delegated to it by Government for the recognition and supervision of those professional accountancy bodies responsible for supervising the work of auditors or offering an audit qualification – recognised qualifying body and recognised supervisory body e.g. Institute of Chartered Accountants in England and Wales.
- 2.9. Recognised supervisory bodies are responsible for putting rules and arrangements in place which their members must fulfil before they can be registered auditors, both as regards eligibility for appointment as a statutory auditor and the conduct of statutory audit work. A list of recognised supervisory bodies and recognised qualifying bodies for the purposes of the Companies Act is at annex C. The Institute of Chartered Accountants for Scotland maintains the list of registered auditors for the whole of the UK on behalf of the recognised supervisory bodies.
- 2.10. People with responsibility for company audit work at the firm must also hold a recognised qualification, awarded by a recognised qualifying body.
- 2.11. Looking elsewhere, in Finland, auditors who are eligible to audit municipal authorities are included in a register of eligible auditors maintained by the Finnish Board of Chartered Public Finance Auditing. In Italy, auditors who can carry out local public audit are included on a register of auditors managed by the Ministry of Justice.

OUR PROPOSALS

- 2.12. We propose that, as under the Companies Act 2006 (“the Companies Act”), an overall regulator would have responsibility for authorising professional accountancy bodies to act as recognised supervisory bodies for local public audit. Any such body would need to comply with the statutory requirements set out in the proposed primary legislation. It would have the roles of registration, monitoring, and discipline in relation to local public audit.
- 2.13. The Financial Reporting Council is the regulator for Companies Act audit and we propose that it takes on a similar role for the local public audit regulatory regime in England, provided that it can assure the Government that it has both the resources and the expertise to undertake the role, and wishes to do so. It is likely that setting up a separate regulator for local public audit would lead to duplication of work as entirely new systems and procedures would need to be developed.
- 2.14. Recognised supervisory bodies for local public audit could include supervisory bodies recognised under the Companies Act 2006 and any other bodies with sufficient expertise and capacity.
- 2.15. A recognised supervisory body for local public audit could have rules and practices covering:

- the eligibility of firms to be appointed as local public auditors and
- the qualifications, experience and other criteria individuals must reach before being permitted to lead a local public audit engagement and/or sign off an audit report

2.16. We propose to set out, in primary legislation, certain high level criteria that specify that the auditor must be:

- a member of a recognised supervisory body and
- eligible for appointment under the rules of that body

2.17. The legislation will include provisions enabling the supervisory body to develop appropriate detailed rules and practices on other criteria.

2.18. The eligibility criteria will be based on those for the audit of companies as we would like to ensure enough flexibility in the criteria to enable new firms to enter the local public audit market. However, there will need to be additional criteria to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body.

2.19. We propose that all eligible local public auditors would be placed on a public register. This register could be kept by the recognised supervisory bodies for local public audit, or it could be kept by another body.

Q4: Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?

Q5: Who should be responsible for maintaining and reviewing the register of statutory local public auditors?

Q6: How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?

Q7: What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?

Monitoring and enforcement

CURRENT SYSTEM

2.20. The Audit Commission currently monitors the quality of auditors' performance through its annual quality review programme. The Audit Inspection Unit of the Financial Reporting Council reviews the quality of the financial statements audits carried out by the Commission's own audit practice and by private firms on behalf of the Commission.

OTHER SECTORS

2.21. Under the Companies Act, the recognised supervisory bodies are responsible for monitoring the quality of the statutory audits undertaken by their members and for disciplining their members where this is appropriate.

2.22. Some companies that are of public significance because of the nature of their business, their size, or their number of employees can be designated as "public interest entities". In the case of these bodies, the Professional Oversight Board has an additional role in monitoring the quality of the auditing function and the Accountancy and Actuarial Disciplinary Board has a role in investigating significant public interest disciplinary cases and imposing sanctions to those found guilty of misconduct.

OUR PROPOSALS

2.23. We propose that recognised supervisory bodies for local public audit would have responsibility for monitoring the quality of audits undertaken by their members, as they do in the private sector. This work would fall under the monitoring units of these bodies, and would include:

- reviews of individual audit engagements
- reviews of the policies, procedures and internal controls of those firms licensed to carry out the public sector audits
- reporting on the quality of audit to the registration body

2.24. The recognised supervisory bodies for local public audit would investigate complaints or disciplinary cases, as well as issues identified during their monitoring process. They would also be able to stop a firm being eligible for appointment as a statutory local public auditor and remove them from the register of eligible local public auditors.

2.25. We are considering whether the overall regulator (i.e. the body that authorises the recognised supervisory bodies) should have a role in assuring the quality, and undertaking independent investigation of the audit of local public bodies that might be considered analogous to public interest entities for the public sector. The overall regulator would have powers to investigate and discipline in these cases. The process undertaken would be similar to that above, but would provide an additional level of assurance in respect of those bodies.

However, the costs that would fall on the Financial Reporting Council from undertaking this role would be passed on to the audit firms and therefore could be reflected in fees.

Q8: What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?

Q9: There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?

Q10: What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?

Section 3

3. Commissioning local public audit services

- 3.1. The Government believes that a localist approach, without an independent central body having a role in appointing an auditor, is an important element of driving accountability to local people rather than to central government. However, maintaining the independence of the auditor in the new system is central to the principles of public audit. Our proposals therefore need to include measures to safeguard the independence of the auditor.

Duty to appoint an auditor

CURRENT SYSTEM

- 3.2. Under the current system, all auditors of local public bodies included in Schedule 2 of the Audit Commission Act are appointed by the Audit Commission. Before making appointments of auditors to local government bodies, the Commission has a statutory duty to consult the body. The Commission has voluntarily extended this practice to health bodies.

OTHER SECTORS

- 3.3. Commissioning takes different forms in different sectors. Under the Companies Act the annual general meeting must agree a resolution on the appointment of the auditor, although this will be based on a recommendation from directors and input from an audit committee.
- 3.4. Looking elsewhere, it is clear that there are different systems for commissioning audit services. However, in the USA local authorities procure their own auditors: an audit committee often appoints 'internal auditors' for their local authority, who then procure the external auditor.

OUR PROPOSALS

- 3.5. We propose that all larger local public bodies (those with income/expenditure over £6.5m) will be under a duty to appoint an auditor. The auditor would need to be on the register of local public statutory auditors, which should help to ensure that the quality of auditors is maintained.
- 3.6. It is equally important as it is in other sectors that those to whom audit is directed have influence but that the independence of the auditor remains paramount. Therefore, for larger public bodies, we propose an approach whereby appointment is made by full council or equivalent, on the advice of an audit committee with opportunities for the electorate to make an input.
- 3.7. We consider that local public bodies will wish to co-operate to ensure that there is wide competition for external audit contracts, and that local public bodies will want to work together to procure an external auditor. We propose to ensure that legislation provides for both joint procurement and joint audit committees.

Q11: Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?

- 3.8. Lord Sharman, in his report, *Holding to Account: the Review of Audit and Accountability in Central Government*, was clear that, to maintain confidence, auditors must be independent to avoid improper influence and allow work to be carried out freely. Independence includes the way auditors are appointed. We consider that, as part of a new local audit regime, each larger local public body should have an audit committee with a majority of members independent of the local public body and, with some elected members to strike a balance between objectivity and in-depth understanding of the issues.
- 3.9. A possible structure is set out below. However, there could be alternative arrangements, for example:
- a) only the chair and perhaps a minority of members are independent of the local public body
 - b) a chair and a majority of members independent of the local public body, as described below
 - c) as for (b), but with independent selection of the members independent of the local authorities
- 3.10. We are keen to ensure that local public bodies have flexibility in the way that they constitute and run audit committees. But we need to balance this with ensuring that the minimum requirements for an audit committee set out in legislation provide for an independent audit appointment. We set out below a possible structure and role for the audit committee, some of which may be prescribed in legislation and some of which we would put forward as best practice.

Structure of audit committees

We envisage that in the new system, an audit committee could be structured in the following way:

- The chair should be independent of the local public body. The vice-chair would also be independent, to allow for the possible absence of the chair.
- The elected members on the audit committee should be non-executive, non-cabinet members, sourced from the audited body and at least one should have recent and relevant financial experience (it is recommended that a third of members have recent and relevant financial experience where possible).
- There would be a majority of members of the committee who were independent of the local public body.

Independent members of the committee

When choosing an independent member of the committee, a person can only be considered for the position if:

- he or she has not been a member nor an officer of the local authority/public body within five years before the date of the appointment
- is not a member nor an officer of that or any other relevant authority
- is not a relative nor a close friend of a member or an officer of the body/authority
- has applied for the appointment
- has been approved by a majority of the members of the council
- the position has been advertised in at least one newspaper distributed in the local area and in other similar publications or websites that the body/local authority considered appropriate

Q12: Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

Q13: How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?

Q14: Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?

Role of the Audit Committee

CURRENT SYSTEM

3.11. As auditors are currently appointed by the Audit Commission there is no role for an audit committee in the appointment of auditors, although the Audit Commission always consults local public bodies before it confirms an audit appointment. However, some local public bodies do have Audit Committees (some of which are independent) with roles in relation to both internal and external audit.

3.12. Health bodies currently have their own form of audit committees following the Financial Reporting Council best practice guidance, comprising of independently appointed non-executive directors governed by their own rules and requirements.

OTHER SECTORS

3.13. The Financial Reporting Council currently produces guidance for the establishment of audit committees for companies, stating that they should be made up of at least three, or in the case of smaller companies two, independent non-executive directors.

3.14. The main role and responsibilities of a company's audit committee are set out in written terms of reference and can include a number of roles, including:

- providing advice to the board in relation to the appointment of external auditors
- approving the remuneration and terms of engagement of the external auditor
- reviewing and monitoring the external auditor's independence and objectivity and the effectiveness of the audit process
- developing and implementing policy on the engagement of the external auditor to supply non-audit services

3.15. Looking elsewhere, audit committees are statutory bodies in each municipality in Finland. Their remit includes preparing the choice and appointment of external auditors. In Canada, the local authority's audit committee also commissions audit services.

OUR PROPOSALS

3.16. It is likely that we would want to specify in legislation some responsibilities that the audit committee should have in relation to the engagement of an auditor and monitoring the independence and quality of the external audit. However, we would not wish to limit the scope of an audit committee so that a local body had no flexibility in designing its role.

3.17. The expanded role of the audit committee would include the provision of advice and guidance to the full council or equivalent (the audit committee may wish to have regard to advice from the section 151 officer) on appropriate criteria for engaging an auditor and advice as to how these criteria could be weighted. The audit committee would be given copies of the bids to evaluate in order that they

may advise the full council or equivalent on the selection process and may, if they wish, indicate which auditor, in their view, presents the best choice.

- 3.18. The full council or equivalent would need to have regard to the advice of the audit committee but would not need to follow its advice. The full council or equivalent would be responsible for selecting an auditor and engaging that auditor on a contractual basis.
- 3.19. Advice provided by the audit committee to the full council or equivalent would be published, although consideration will need to be given to the treatment of commercially confidential material.
- 3.20. If the full council or equivalent did not follow the advice of the audit committee, then it would need to publish on its website a statement from the audit committee explaining its advice and a statement from the full council or equivalent setting out the reasons why the council or equivalent has taken a different position.

Option 1

- 3.21. We could specify only one mandatory duty for the local public body's audit committee, i.e. to provide advice to the local public body on the engagement of the auditor and the resignation or removal of an auditor.
- 3.22. It would then be left up to the local public body and the audit committee to decide whether the audit committee should have a wider role in other issues, e.g. setting a policy on the provision of non-audit services by the statutory auditor or reviewing the relationship between the auditor and the audited body.
- 3.23. This option would ensure that the audit committee provided advice to the local public body at crucial moments, but would allow the local public body and the audit committee flexibility to decide on any other functions it may carry out. However, if only the minimum was followed, this may not provide an adequate check on ongoing independence through the auditor's term.

Option 2

- 3.24. We could specify a much more detailed mandatory role for the audit committee which could include, but may not be restricted to the following:
- providing advice to the full council on the procurement and selection of their external auditor
 - setting a policy on the provision of non-audit work by the statutory auditor
 - overseeing issues around the possible resignation or removal of the auditor
 - seeking assurances that action is being taken on issues identified at audit
 - considering auditors' reports
 - ensuring that there is an effective relationship between internal and external audit
 - reviewing the financial statements, external auditor's opinions/conclusions and reports to members and monitor management action in response to the issues raised by external audit
 - providing advice to the full council on the quality of service they are receiving

- reporting annually to the full council on its activities for the previous year

3.25. This option would provide more assurance about the independence of the relationship between the audited body and its auditor, it would also ensure that the audit committee had a wider role in reviewing the financial arrangements of the local public body.

Q15: Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?

Q16: Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?

Q17: Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?

Q18: Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?

Involvement of the public in the appointment of an auditor

CURRENT SYSTEM

3.26. There is no involvement of the public in the appointment of auditors by the Audit Commission to audited bodies.

OUR PROPOSALS

3.27. We envisage that the appointment of an auditor by the local public body should be as transparent as possible so that local people are able to hold their local public bodies to account for the appointment.

Pre-appointment

3.28. The audited body could ask for expressions of interest from audit firms for the audit contract one month prior to the publication of the invitation to tender. The list of those firms that have expressed an interest would then be published on the audited body's website. The public would then be able to make representations to the audited body's audit committee about any of these firms. The audit committee would consider these representations when providing advice to the full council or equivalent.

Post - appointment

3.29. The public would be able to make representations at any time to the local public body's audit committee. If a representation identified a significant, or potentially significant, issue relating to the auditor, then the audit committee would be able to provide advice to the audited body on that issue and investigate as appropriate. If the issue identified was material to the ongoing work of the auditor (such as an undisclosed material conflict of interest) then the audited body would need to take such steps as appeared necessary, in accordance with the terms of the contract with the auditor, to address that issue. We may also wish to specify in legislation some statutory requirements relating to conflicts of interest.

Q19: Is this a proportionate approach to public involvement in the selection and work of auditors?

Applicability to other sectors

3.30. The policy of audit committees acting as a safeguard to independent appointment is applicable to all larger local public bodies covered by this framework. The approach may differ depending on the constitution and governance arrangements of those bodies.

3.31. For Police and Crime Commissioners (and Mayor's Office for Policing and Crime) and Chief Constables (and Commissioner for London) we are considering whether the Police and Crime Panel should have a role similar to that of the audit committee. Arrangements for the audit of these policing bodies will be finalised once the Police Reform and Social Responsibility Bill has completed its passage.

Q20: How can this process be adapted for bodies without elected members?

Failure to appoint an auditor

CURRENT SYSTEM

3.32. As the Audit Commission is responsible for appointing the auditors for all audited bodies specified in the Audit Commission Act 1998, the situation where an audited body fails to appoint an auditor does not arise.

OTHER SECTORS

3.33. The Companies Act 2006 provides a default power for the Secretary of State, so that if a private company fails to appoint an auditor or auditors, the Secretary of State may appoint one or more persons to fill the vacancy. If the company fails to make the necessary appointment, the company is required to give notice to the Secretary of State that his power has become exercisable and if the

company fails to give this notice then the company has committed an offence and can be liable for a fine.

OUR PROPOSALS

3.34. The audited body would be under a duty to appoint an auditor. However, there could be some instances under the new system where a body does not fulfil this duty.

Option 1

3.35. In these circumstances we propose that the Secretary of State would be able to direct the local public body to appoint an auditor.

Option 2

3.36. Alternatively, where a local public body does not fulfil its duty to appoint an auditor the Secretary of State could be provided with the power to make the auditor appointment. In addition to meeting the cost of the appointment the local public body could be subject to a sanction for failing to make the appointment.

Q21: Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?

3.37. It would clearly be against our design principles for the new local audit framework for the Secretary of State to make the auditor appointment for local public bodies. However, some form of assurance will be required that local public bodies have fulfilled their duty to appoint an auditor.

Q22: Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?

3.38. Given that we envisage that the Recognised Supervisory Bodies will hold the register of eligible local public auditors there is an argument that they should be notified if a local public body has appointed or failed to appoint an auditor. However, this could involve a significant cost.

3.39. As the Secretary of State would be able to direct the local public body to appoint an auditor, or could be provided with the power to make the auditor appointment where a local public body does not fulfil its duty to appoint an auditor, an alternative option would be for the local public body to notify the appropriate government department, or a body that the government department specifies, of the auditor appointment. The cost of doing this could be met by the appropriate department, and would provide an effective route for the Secretary of State to exercise his powers to direct the local public body to appoint an auditor, or to make the auditor appointment where the body did not fulfil its duty to appoint an auditor.

Q23: If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?

Rotation of audit firms and audit staff

CURRENT SYSTEM

3.40. The Auditing Practices Board's ethical standards, which apply to the audit of both private and public entities, require an audit firm to establish policies and procedures to monitor the length of time that audit engagement partners and other key staff serve as members of the engagement team for each audit. These procedures are in place to help ensure the independence and objectivity of auditors.

3.41. The Audit Commission appoints audit firms or its own staff for an initial period of five years. The audit engagement partner can then be appointed for an additional period of up to two years in accordance with the Auditing Practices Board's Ethical Standards (i.e. a maximum of seven years, provided there are no threats to the auditor's independence). The audit manager (the second in command to the audit engagement partner) can be appointed for a maximum of ten years. After this period individuals should then have no further direct relationship with or involvement in work relating to the body concerned until a further period of five years has elapsed.

OTHER SYSTEMS

3.42. In the case of listed companies, the audit firm must have policies and procedures so that:

- no-one shall act as audit engagement partner for more than seven years and
- anyone who has acted as the audit engagement partner for a particular entity for a period of seven years, shall not subsequently participate in the audit engagement with that entity until a further period of five years has elapsed

3.43. The audit committee of a company assesses the independence and objectivity of the external auditor annually, taking into consideration regulatory and professional requirements. This assessment involves a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee seeks from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.

OUR PROPOSALS

3.44. We envisage that the new audit framework would be in line with the current ethical standards regarding the rotation of staff within the audit firm.

3.45. The audited body's audit committee would have a role in monitoring the independence and objectivity of the body's external auditor.

- 3.46. In relation to the rotation of the firm, an audit firm would be reappointed annually by the full council on the advice of the audit committee (who may want to provide advice on the quality of service received in the previous year) but the audited body could be required to undertake a competitive appointment process within five years. The audited body would be able to re-appoint the same firm for a second consecutive five year period, following competition.
- 3.47. To preserve independence, we propose that the audited body would need to procure a different audit firm at the end of the second five year period. This will help to ensure that in carrying out their responsibilities auditors are not influenced by their desire to secure re-appointment.

Q24: Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?

Q25: Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

Q26: Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?

Resignation or removal of an auditor

CURRENT SYSTEM

- 3.48. In the current situation there is not a direct contractual relationship between the auditor and the audited body - the relationship is with the Audit Commission. It is therefore not possible for the audited body to remove the auditor and the auditor does not need to resign because of issues arising with the audit.
- 3.49. In the event that there was a breakdown in the relationship between the auditor and audited body the Audit Commission can consider rotating suppliers.
- 3.50. The audit engagement partner or audit team may change during the appointment and the Audit Commission can and does rotate between firms and its in-house practice undertaking the audit, including if the audited body requests it.

OTHER SECTORS

Resignation

3.51. In the companies sector, if an auditor ceases for any reason to hold office, he must deposit a statement at the company's registered office which will usually set out the circumstances connected with his ceasing to hold office. If the circumstances are set out in the statement (in the case of a quoted company), the company must send a copy of the statement to all members of the company unless it makes a successful application to the court to stop this.

3.52. If (in the case of an unquoted company) the circumstances are not set out in the statement, the auditor must deposit a statement with the company to that effect but the company does not have to circulate this statement to its members.

3.53. When an external auditor resigns, the audit committee of the company will investigate the issues giving rise to such resignation and consider whether any action is required.

Removal

3.54. The members of a company may remove an auditor from office at any time during their term of office. They, or the directors, must give 28 days notice of their intention to put to a general meeting a resolution to remove the auditor. The company must send a copy of the notice to the auditor, who then sends it to the company's members. The auditor may speak at the meeting where the resolution is to be considered. Although a company may remove an auditor from office at any time, the auditor may be entitled to compensation or damages for termination of appointment.

OUR PROPOSALS

3.55. We envisage that a body might wish to remove its auditor, or an auditor might wish to resign, only in exceptional circumstances, for example, an auditor being in breach of the ethical standards, or a complete breakdown in the relationship between the auditor and audited body.

3.56. However, we recognise the importance of having stringent safeguards in place for the resignation and removal of an auditor to protect the independence of the auditor and the quality of the audit. These safeguards would broadly mirror those in the Companies Act, but would be adapted to reflect the principles of public audit. The process would be designed to ensure that auditors are not removed, or do not resign, without serious consideration.

Resignation

3.57. We envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the auditor still wished to resign he should give 28 days written notice of his intention to the audit committee and the audited body, setting out his intention to resign. The audited body should then make a written response, which it should send with the auditor's written notice, to its members and the audit committee. The auditor will then be required to deposit a statement at the audited body's main office and with the audit committee, which should be published on its website. The statement

would set out the circumstances connected with the resignation of the office that are relevant to the business of the audited body.

3.58. The audited body would need to notify the body responsible for maintaining the register of appointed auditors, and the auditor will need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the resignation and considering whether any action is required.

Removal

3.59. Again, we envisage that in the first instance, the audited body and the auditor should discuss and seek to resolve any concerns. If the audited body still wished to remove its auditor, it should give 28 days written notice of its intention to the audit committee and to the auditor. The audited body should put to a public meeting, or full council meeting, a resolution to remove the auditor. The audited body would also send a copy of this notice to the auditor.

3.60. The auditor would then have the right to make a written response, which the body would need to send to its members and the audit committee, and to speak at the meeting where the resolution is to be considered. A representative from the audit committee should also be able to speak at the meeting. The auditor would be required to deposit a statement at the audited body's main office and with the audit committee, which would need to be published on its website. This statement would set out the circumstances connected with the cessation of their office that are relevant to the business of the audited body.

3.61. The audited body would need to notify the appropriate regulatory supervisory body. We envisage a role for the audit committee and the regulatory supervisory body in investigating the issues that have led to the removal and considering whether any action is required.

3.62. A right of access to the previous auditor's audit working papers (from the previous year and/or current) should be provided to incoming auditors in cases of resignation or removal or any other instances where the audit firm changes. This right should extend to all aspects of the previous auditor's responsibilities and not just to work on the audit of the financial statements.

Q27: Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?

Auditor liability

3.63. In the private sector, auditors are concerned about the consequences of the risks of litigation, as a result of actual or perceived failing by auditors. These concerns have been fuelled by legal judgments about the extent of auditors' duty of care to third parties, such as potential investors and the banks. They have increasingly caused auditors to caveat their audit opinions by explicitly limiting their duty of care and by seeking to limit their liability. Case law has established that the duty of care of auditors appointed by the Commission is to the audited body itself and not to third parties. Public authorities can sue their auditor for breach of duty.

CURRENT SYSTEM

3.64. There are particular issues in the public sector where auditors may exercise special powers. The Audit Commission currently indemnifies auditors for the costs they incur where they are engaged in litigation arising from the exercise of such powers. This ensures that auditors are able to exercise their functions with the certainty that their costs will be met.

OTHER SECTORS

3.65. In the companies sector, the Companies Act provides that general provisions that protect auditors from liability for negligence, default, breach of duty or breach of trust in relation to the company, or provide an indemnity against liability are void, but:

- does not prevent a company from indemnifying an auditor against any costs incurred by him in defending proceedings in which judgment is given in his favour or in the granting of relief by the court in the case of honest and reasonable conduct
- allows for a "liability limitation agreement" to be put in place if it is authorised by the members of the company, provided it complies with the content permitted in the Companies Act

OUR PROPOSALS

3.66. In the absence of a central body providing indemnity to audit firms, it could be possible for audited bodies and auditors to deal with auditor liability as part of their contractual negotiations. A legislative framework, similar to that in the companies sector, could set out the process for setting and agreeing liability limitation agreements. Without a liability agreement, audit firms may increase their fees to match the increased risk they face in undertaking their work.

Q28: Do you think the new framework should put in place similar provision as that in place in the companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?

Section 4

4. Scope of audit and the work of auditors

4.1. In this chapter, we look at the scope of the audit and the options for the elements of local public bodies' finance and the arrangements that auditors should assess. The duty for the auditor to issue a report in the public interest is also considered. This section asks whether auditors should be able to carry out additional, non-audit, work for the audited body, and considers the various safeguards that could be introduced to ensure that auditor independence is not compromised.

Scope of local public audit

4.2. The starting point is the principles of public audit, in particular the wide scope of the audit covering the audit of financial statements, regularity and propriety and value for money.

CURRENT SYSTEM

4.3. Public sector accounting in the UK has recently moved to adopt International Financial Reporting Standards adapted as necessary for the public sector (for local government audits from 2010-11).

4.4. Currently, the auditor of larger local public bodies is required to:

- give an opinion on whether the accounting statements give a true and fair view of the audited body's financial position and of its income and expenditure
- provide a conclusion as to whether the body has proper arrangements for securing value for money, having regard to specified criteria (such as financial resilience and to regularity and propriety) and in accordance with guidance issued by the Commission
- review and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement and the remuneration report and
- (for local government) review and report on the Whole of Government Accounts return

4.5. Smaller local public bodies are currently subject to a limited assurance regime. We believe that it is important for smaller bodies to continue to be dealt with proportionately under the new framework and discuss this in more detail at Section 5.

OTHER SECTORS

Companies

4.6. The scope of audit for companies is based around the financial statements produced by the company and a report that the directors are required to produce which must describe the company's principal activities, a review of the business and an indication of future developments.

4.7. Statutory auditors of companies include in their report, statements as to whether, in their opinion:

- the accounts have been prepared in accordance with the Companies Act 2006
- the accounts give a “true and fair “ view of the company’s financial statements
- the director’s report is consistent with the accounts
- the remuneration report is properly prepared

Charities

4.8. Any charity which has income above the audit threshold in the financial year must have an audit of its financial statements undertaken by a registered auditor. This is in line with the treatment of companies.

4.9. The Charities Act 1993 also requires all registered charities to prepare a Trustees’ Annual Report. The length of the report and the amount of detail included in it can be in proportion to the charity’s size so for small charities it can be a very simple report.

Central government

4.10. The Comptroller and Auditor General, with the support of the National Audit Office, is responsible for auditing the financial statements of all central Government departments, executive agencies and a wide range of other public sector bodies.

4.11. When certifying the accounts of central government departments, the Comptroller and Auditor General states whether, in his opinion:

- the financial statements give a “true and fair” view of the financial position of the body
- the financial statements have been properly prepared in accordance with underpinning legislation
- in all material respects the transactions recorded in the financial statements are in accordance with Parliamentary or other authority (regularity)
- information given in the Management Commentary/Annual Report is consistent with the financial statements
- the audited part of the Remuneration Report has been properly prepared in accordance with relevant guidance

4.12. The Comptroller and Auditor General also has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

OUR PROPOSALS

4.13. When looking at the future scope of audit for local public bodies we have considered whether we should move to a more transparent model, such as that followed by companies and charities which must produce a director or trustee’s report. Central Government departments are also required to prepare an Annual Report along similar lines. However, we recognise that public money

must be accounted for in a certain way, including assuring regularity and propriety and with the necessary focus on value for money. With this in mind, for larger public bodies we have identified the following three options to deliver effective audit that conforms to the principles of public audit.

Option 1

4.14. The scope of audit could be reduced to be more in line with that for companies, with no assessment of value for money. The auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure and
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.15. This option would reduce the information available to local citizens on how local bodies are spending their money or on whether bodies are securing value for money.

Option 2

4.16. As under the current system, the auditor would:

- give an **opinion** on whether the financial statements give a true and fair view of the audited body's financial position and of its income and expenditure; and
- provide a **conclusion** as to whether it has the proper arrangements in place to secure value for money (based on locally defined policy priorities) having regard to specified criteria (including financial resilience and regulatory and propriety)
- review, and report on as appropriate, other information published with the financial statements, including the statement on internal control/annual governance statement, the remuneration report and the whole of government accounting summarisation schedules

4.17. This option would maintain the current scope of audit. However, this option would not provide any additional information to local citizens on how local public bodies are spending their money or on whether bodies are securing value for money.

Option 3

4.18. New arrangements could provide stronger assurances on the way local public bodies spend money. Under this option, the auditor would still give an **opinion** on the financial statements, but would provide **conclusions** on:

- regularity and propriety – a conclusion on compliance with relevant laws and regulations and the audited body's governance and control regime

- financial resilience – a conclusion about the future financial sustainability of the audited body and
- value for money – in addition to proper arrangements in place to secure value for money, a conclusion about the achievement of economy, efficiency and effectiveness within the audited body

4.19. We will need to consider carefully how a stronger value for money element to the audit would fit with other sectors, such as policing, who already have alternative systems for examining and reporting value for money publicly.

4.20. We believe that, compared to option 1 and 2, option 3 could lead to greater transparency for local citizens, and would help deliver the wide scope of public audit. It would also require a separate conclusion on regularity and propriety and financial resilience, rather than having regard to these aspects within a conclusion on value for money (as in option 2). However, the volume of work undertaken by the auditor would be significantly greater than for option 1. It is also possible that auditors would have difficulties in reaching a robust conclusion on value for money, regularity and propriety. We expect that reaching a conclusion on the achievement for value for money would involve more work for auditors, particularly in the case of complex organisations such as principal local authorities.

Option 4

4.21. Local public spending should be transparent so that citizens can hold bodies to account. Companies are required, by law, to produce and publish an annual report, including the principal activities of the company during the year, and a business review which includes risks and uncertainties. Most public bodies also produce such a report, although local authorities are not currently required to do so.

4.22. Under this option, all local public bodies would be required to produce an annual report and to publish this report on their website. The report would set out the arrangements the audited body had put in place to secure value for money, whether they had achieved economy, efficiency and effectiveness, regularity and propriety and financial resilience.

4.23. The auditor would be required to:

- give an opinion on the financial statements
- review the audited body's annual report and
- provide reasonable assurance on the annual report

4.24. The annual report could be written in an accessible way and would be published. This option could therefore substantially increase the transparency of the local public bodies, compared to options 1 and 2. Citizens' increased knowledge of the local public body's financial performance could help drive greater local accountability. We would need to consider whether producing an annual report in an appropriate format would be a new burden for local authorities that do not currently produce an annual report in an appropriate format.

4.25. Another possible benefit of this option, is that it brings the format of audit for local public bodies (financial statements and reviewing a report) more in-line with that of other sectors.

Q29: Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provide sufficient assurance and transparency to the electorate? Are there other options?

Q30: Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?

Q31: Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?

Q32: Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?

Q33: What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?

Public interest reporting

CURRENT SYSTEM

4.26. Under Section 8 of the Audit Commission Act 1998, the auditor is currently required to consider whether to issue a report in the public interest on any significant matter coming to his or her notice in the course of an audit, and to bring it to the attention of the audited body and the public. The auditor can also make written recommendations to the audited body as part of this report. The audited body has a corresponding duty to consider and respond to these reports and any recommendations that might be made. The costs of the report fall on the audited body.

4.27. Appointed auditors have issued 131 public interest reports since 2002, of which 13 have related to principal local authorities, 85 to parish councils, 30 to health bodies and one each to a passenger transport authority (now an integrated transport authority), a passenger transport executive, and an internal drainage board.

4.28. In addition to the auditor's duties to report in the public interest, they also have the power to make a recommendation requiring a public response and can issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

OTHER SECTORS

4.29. Although public interest reporting is a consequence of the principles of public audit, there are some similarities with processes in place in other sectors.

4.30. The auditor of a regulated entity generally has special reporting responsibilities in addition to the responsibility to report on financial statements. One of these special reporting responsibilities is a statutory duty to report certain information, relevant to the regulators' functions that come to the auditor's attention in the course of the audit work. This form of report is derivative in nature and is initiated by the auditor on discovery of a reportable matter.

OUR PROPOSALS

4.31. We consider it is important that the duty on an auditor to consider whether to make a report in the public interest should be retained. Public interest reports are a key part of the current audit system and provide a vehicle through which the public are made aware of issues of significant interest to them. This is consistent with the design principles of localism and transparency.

4.32. We envisage that the current publication requirements for public interest reports would be retained, as would the audited body's responsibilities to consider the report at a meeting within one month of receipt and to publish a summary of the meeting's decision.

4.33. The costs of public interest reports will fall on the audited body. It has been suggested that the new direct contractual relationship between the audited bodies and their auditors could have, if unchecked, an impact on the ability or willingness of the auditor to issue a public interest report. However, we believe that if suitable safeguards are put in place for the resignation or removal of auditors, this will mitigate the risk.

4.34. We also propose to retain the power of an auditor to make a recommendation requiring a public response and to issue an advisory notice to the body if they have reason to believe the body is about to or has made a decision involving the unlawful incurring of expenditure.

<p>Q34: Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?</p>
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Provision of non-audit services

CURRENT SYSTEM

4.35. The auditor may be best placed to carry out certain types of additional work for the audited body. Therefore, the Audit Commission allows additional work to be undertaken without prior approval from the Commission, if the auditor is satisfied that:

- performance of such work will not compromise, nor be reasonably perceived by the public to compromise, his independence and
- the value of the work in total, in any audit year, does not exceed a de minimis amount (set by the Audit Commission as the higher of £30,000 or 20 per cent of the total audit fee, excluding fees for the certification of grant claims and returns)

4.36. Auditors are required to establish procedures to identify and address any potential breaches of these requirements.

4.37. All such work must be:

- agreed in advance with the audited body, on the understanding that such work is discretionary and is not required to meet the auditors' statutory responsibilities and
- billed separately from the audit work

The Commission requires applications for approval to carry out work exceeding the de minimis threshold at least ten days before the start of the work.

OTHER SECTORS

4.38. In other sectors, such as the companies sector, statutory auditors are allowed to provide other non-audit services to the company.

4.39. However, the audit committee of the company has a role in considering all relationships between the company and the audit firm, including the provision of non-audit services and whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.

4.40. The audit committee should also develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor, and keep the policy under review. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity.

OUR PROPOSALS

4.41. We propose that auditors will be able to provide non-audit services to the audited body, but safeguards will be built into the system to prevent any actual or perceived threats to the auditor's independence. We recognise that by adding a number of safeguards into the system we could reduce the number of auditors eligible for appointment to an audited body, which would in turn affect competition.

4.42. We propose that auditors should continue to adhere to the ethical standards produced by the Auditing Practices Board and permission should be sought from the audit committee who would provide advice to the body on whether non-audit work should be undertaken as well as continuing to monitor the relationship between the auditor and the audited body.

Q35: Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?

Q36: Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?

Public interest disclosure

CURRENT SYSTEM

4.43. Under the current framework, the Audit Commission and appointed auditors are prescribed persons under the Public Interest Disclosure Act 1998 for disclosures relating to “the proper conduct of public business, value for money, fraud and corruption in local government and health service bodies”. The Audit Commission and appointed auditors consider information they receive as a result of a disclosure and determine what action, if any, to take in the context of their existing statutory and professional powers and duties.

4.44. We recognise the importance of the roles undertaken by prescribed persons including the Audit Commission and appointed auditors. It provides reassurance to workers that it is safe and acceptable for them to raise concerns internally and sets out the circumstances where the disclosure of the malpractice outside of the organisation is in the public interest and should be protected.

The Audit Commission’s role in public interest disclosure

The Audit Commission is a ‘prescribed person’ as set out in the Schedule to the Public Interest Disclosure Act. It exercises this role by:

- receiving the facts of a disclosure
- supporting the discloser by referring them to Public Concern at Work for further advice and guidance if subjected to victimisation or harassment;
- acknowledging receipt of the disclosure and stating in general terms what the procedures are
- forwarding information to the auditor and inform the discloser

The current role of the appointed auditor

The auditor’s role includes:

- evaluating the information provided by the Commission
- acknowledging receipt to the discloser, and providing an indication of the likely response, with an explanation for the decision
- undertaking appropriate audit work in response to the disclosure
- reporting the outcome of any work to the discloser and the Commission

OTHER SECTORS

4.45. The Financial Reporting Council's guidance for the audit committees of companies sets out a role for the audit committee in reviewing arrangements under which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective is to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

OUR PROPOSALS

4.46. We believe it is important that a similar system operates in the new framework. We propose that the Audit Commission's role (receiving, acknowledging receipt of and forwarding the facts of disclosure) should be broadly transferred to the audit committee of the local public body. The audit committee may choose to designate one of its independent members as a point of contact. As this role is an administrative role, which involves no need to consider the issue they are transferring, we do not see this as an additional burden on audit committees.

4.47. We envisage that the statutory auditor of the local public body would continue to be a prescribed person and would continue with his/her role with no change from the current system.

Q37: Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?

Transparency

CURRENT SYSTEM

4.48. Members of the public currently have rights to question the auditor of an audited body about its accounts and raise objections, if the audited body is not a health body, in respect of unlawful items of account or matters on which the auditor can make a report in the public interest. The auditor may also apply for a declaration to the Court. Objectors have the right to appeal to the Courts about an auditor's decision.

4.49. Auditors have only limited discretion to refuse to investigate objections, but the costs of investigating objections, which are recovered from the local public body and, therefore, funded by council taxpayers, can be disproportionate to the sums involved in the complaint, or to the normal audit costs of the local public body.

4.50. The right to object to the accounts was first introduced more than 150 years ago, at a time when the auditor was the only individual to whom an elector could raise issues of concern.

OUR PROPOSALS

- 4.51. The public can now raise concerns through a wide variety of appropriate avenues for redress, including the Local Government Ombudsman (in relation to maladministration) and the Information Commissioner (on matters concerning the rights that individuals have under the Freedom of Information and Data Protection Acts). Publication of all expenditure over £500 also makes spending more transparent and more readily available to the public.
- 4.52. With this in mind, we consider that the rights for local government electors to object to the accounts are both outdated and over-burdensome on auditors, local public bodies and council tax payers.
- 4.53. Under the new local audit framework, members of the public would retain the right to make representations to the auditor, raise issues with the auditor and to ask the auditor questions about the accounts.
- 4.54. While the right to make formal objections would be removed, the local public body would still be required to advertise that its accounts had been prepared and there will be increased publicity requirements for audited bodies. The auditor would still be open and transparent about the audit, and would consider any relevant representations from the public. The auditor would have discretion to decide whether to follow-up any issues raised by local citizens, having regard to the significance of the issue, the amounts of public money involved and the wider public interest. If the auditor decided not to consider a representation further, the decision would be amenable to judicial review, should the citizen who made the representation be dissatisfied with the decision.
- 4.55. We propose that auditors should also be brought within the remit of the Freedom of Information Act to the extent that they are carrying out their functions as public office holders. Therefore, only information in connection with a public audit would be within the remit of a freedom of information request. However, we recognise that there are costs associated with responding to freedom of information requests which could have an impact on audit fees. We would also need to consider whether this could be detrimental to the auditor and audited body's relationship.
- 4.56. We also envisage that local public bodies should be required to publish their accounts and the auditor's report on the website.
- 4.57. We consider that these proposals would provide a balance between transparency and disproportionate cost.

Q38: Do you agree that we should modernise the right to object to the accounts? If not, why?

Q39: Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?

Q40: Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?

Q41: What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?

Section 5

5. Arrangements for smaller bodies

Current system

The limited assurance audit regime

The limited assurance audit regime was first introduced in 2001-02 for local councils (parish meetings and parish and town councils) where neither income nor expenditure exceeded £500,000. This threshold was increased to £1m in 2006.

The regime is designed specifically to minimise the audit requirement upon, and cost to, these small bodies. The audits are based on the submission by the body to the auditor of an annual return that is subject to a desk review. The audit report provides a limited level of assurance to the body commensurate with the amount of work undertaken.

The basic audit approach is common to all smaller bodies. However, for those bodies with annual income or expenditure over £200,000, auditors are required to carry out additional testing as part of their audit approach to reflect the higher risk to public funds; this is referred to as the intermediate audit. In addition, on a random sample basis, 5 per cent of those bodies operating below the £200,000 threshold will also be selected annually for intermediate audit at no extra cost.

- 5.1. Under the current legislation, the statutory audit requirements for smaller bodies are the same as those for larger bodies. However, since 2002, the Audit Commission has ensured that these are met proportionately through a separate “limited assurance” framework for bodies with an income or expenditure less than £1m. The smallest bodies currently do not pay any fees for their annual audit.
- 5.2. To bring this into line with the framework under the Companies Act the £1m threshold for local public bodies is being increased to not more than £6.5m.

OTHER SECTORS

- 5.3. The companies and charities sector, both have arrangements in place to ensure a more proportionate level of audit for smaller bodies.

Charities

- 5.4. The Charities Act 1993 put in place a system by which some small charities could be subject to independent examination rather than a full audit.

Independent Examination v Audit (Charity Sector)

The two main differences between independent examination and audit relate to:

- Who can act
- The nature of the report.

	Who can act	The nature of the Report
Independent Examination	An independent person who is reasonably believed by the body to have the requisite knowledge and practical experience to carry out a competent examination of the accounts. No specific qualification is necessarily required but the person must have a good understanding of accounts.	Provides a "negative assurance" on the accounts. The independent examiner declares that no evidence was found of lack of accounting records, of accounts failing to comply with the records, nor of other matters that need to be disclosed.
Audit	Must be a registered auditor	An audit report will need to provide an opinion on the financial statements

5.5. The level of independent examination is dictated by the level of gross income of the charity.

Level of Gross Income	External scrutiny	Annual Report
Not exceeding £10,000	There is no requirement to have the accounts independently examined or audited	The trustees must prepare an annual report but it may be simplified.
Over £10,000 but not exceeding £100,000	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor	An Annual Report must be prepared but it may be simplified
Over £100,000 but not exceeding £500,000 (total assets not exceeding £2.8m)	Accounts must be subject to outside scrutiny but trustees may choose either independent examination or audit by a registered auditor. If an independent examination is chosen and gross income exceeds £250,000 then the independent examiner appointed must be a member of a body specified under the 2006 Act.	An Annual Report must be prepared but it may be simplified
Exceeds £500,000 (or a charity whose gross assets exceed £2.8m and gross income exceeds £100,000)	A statutory audit is required (subject to specified exceptions) and the accounts must be audited by a registered auditor.	A full Annual Report must be prepared

- 5.6. Company charities used to be dealt with under the Companies Act 2006 system. However, from the financial year beginning on or after 1 April 2008 all charities (including company charities) are subject to the Charities Act 1993 system. The purpose of this change was to ensure that the scrutiny of small company charities was consistent with charity law requirements and in particular allowed for the independent examination of eligible small company charities.
- 5.7. Company charities which meet the Companies Act definition of a small company may elect for exemption from audit under the Companies Act and opt to have their accounts audited or independently examined under the Charities Act 1993.
- 5.8. Independent examination offers a lower cost alternative to charities that do not require the higher level of assurance that audit can provide. Changes effective from this date also result in new requirements for the audit of small groups when their accounts are prepared by parent company charities.

Companies

- 5.9. The Companies Act 2006 sets out the thresholds which must be met for a company to be deemed a small company. These are, at least two of the following three conditions:
- annual income or expenditure (gross income for charities) not exceeding - £6,500,000
 - balance sheet total not exceeding - £3,260,000
 - average numbers of employers not exceeding – 50
- 5.10. These thresholds are subject to periodic amendment.
- 5.11. There is exemption from audit for **certain** small companies if they are eligible and wish to take advantage of it. To qualify for audit exemption, a company must:
- qualify as small (per paragraph 5.9) **and**
 - have an income or expenditure of not more than £6.5m **and**
 - have a balance sheet total of not more than £3.26m
- 5.12. Even if a small company meets these criteria, it must still have its accounts audited if this is demanded by a member or members holding at least 10 per cent of the nominal value of issued share capital or holding 10 per cent of any class of shares. Public companies are not eligible for exemption.

OUR PROPOSALS

- 5.13. Both the limited assurance and independent examination regimes outlined above provide a simpler, more proportionate, form of external scrutiny than a full audit, but still provide assurance that the accounts of the bodies involved have been reviewed by an independent person.

- 5.14. We aim to bring arrangements for smaller local public bodies into line with other sectors. We are therefore considering a process under which the income and expenditure of a body determines what 'level' of audit or scrutiny is required; the greater the income/expenditure, the more scrutiny is required.
- 5.15. We propose that the 1,200 or so bodies with income or expenditure less than £1,000 would not be subject to an external examination or audit, as the risk to public funds is low and any external examination or audit fees would be disproportionate to their income or expenditure. These bodies do not currently pay a fee for an audit or examination, and requiring them to now do so would clearly increase their costs.
- 5.16. Bodies with an income or expenditure between £1,000 and the upper threshold of £6.5m would be subject to an independent examination rather than a full audit.
- 5.17. Examiners of small bodies should act for a maximum period of 10 years (which is in line with the current practices of the Audit Commission).
- 5.18. We propose that the independent examination of smaller bodies should be similar to that followed in the charities sector. As we have set out above, the charities sector provides for a reduced audit for bodies with income or expenditure below £500,000. However, the Audit Commission has provided limited assurance to all bodies with income or expenditure under £1m recently raised to not more than £6.5m. We are keen to ensure that smaller bodies are not disproportionately affected by our proposals. Therefore we propose a staged model such as the model followed in the charities sector, where the level of examination and the qualifications that the independent examiner must have are based on the income or expenditure of the body. However, this staged model would reflect the current £6.5m threshold used by the Audit Commission for their limited assurance regime. The independent examination of smaller bodies might therefore look as follows:

	Number	% small bodies market	Income/Expenditure	Scrutiny
Level 1	1,200	12%	Public bodies with expenditure less than £1,000	<ul style="list-style-type: none"> Existing governance and accounting arrangements Annual accounts published Positive confirmation that annual accounts have been produced and published via the precept request (or equivalent) No external audit/scrutiny
Level 2	Approx 6,400 bodies	64%	Public bodies with expenditure between £1,000 and £50,000	<p>As level 1, but</p> <ul style="list-style-type: none"> (Under option 1 below) the county or unitary council to appoint an independent examiner (no specific qualifications needed, but County or unitary council should assure itself that the relevant person has the requisite experience and expertise) to assess its accounts. In practice the Section 151 officer or full council, having regard to advice provided by the audit committee, would make this appointment. The independent examiner might be an officer of the county or unitary council. The body must also publish the details of the examiner.
Level 3	Approx 1,625 bodies	16%	Public bodies with expenditure between £50,000 and £250,000	<p>As level 2, but:</p> <ul style="list-style-type: none"> Existing internal audit arrangements Independent examiner must hold a professional qualification to assess its accounts.
Level 4	Approx 675 bodies	7%	Public bodies with expenditure between £250,000 and £6.5m	<p>As level 3, but</p> <ul style="list-style-type: none"> Independent examiner must hold a professional qualification and be registered as a public auditor.

Appointing the examiner

OPTION 1

5.19. We consider that the appointment process for the independent examiner should be proportionate. An audit committee could be a significant cost for a smaller body. Instead, where an independent examiner is required, we propose that the county or unitary authority should be responsible for appointing the independent examiner (see table above). If smaller bodies were responsible for appointing their own examiner in the absence of an audit committee there would be a lack of independence in the appointment process. In addition, they may not achieve a good price for this service.

5.20. If the county or unitary authority was responsible for the appointment this would provide a degree of independence to the appointment process for smaller bodies, and they would have the ability to appoint independent examiners for all of the smaller bodies in their areas, providing the opportunity to make savings through economies of scale.

OPTION 2

5.21. The small body would be required to make arrangements for the appointment of the independent examiner, **including** the involvement of an audit committee. This would give the body the freedom to make the necessary arrangements which might include joining up with other small bodies, either locally or providing similar services. The smaller bodies would be able to arrange a joint audit committee, with safeguards to provide for independence. Alternatively, the small body would be able to join with a larger local public body and utilise their audit committee. Under this option the scope of the examination would still be as set out in the table above.

Q42: Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?

Q43: Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?

Q44: What guidance would be required to enable county/unitary authorities to:

- a.) Appoint independent examiners for the smaller bodies in their areas?**
- b.) Outline the annual return requirements for independent examiners?**

Who should produce and maintain this guidance?

Q45: Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?

Q46: Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?

Q47: Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?

Public interest reporting for smaller bodies

5.22. There would be no auditor to receive queries or objections from the public, and there would be no public interest reporting. However, if the examiner identified issues giving cause for concern we propose that these could be raised with the audited body, or the county or unitary authority. The county or unitary authority could be given the power to appoint an auditor to then carry out a public interest report on the matters raised with the audited body. Sanctions could include a power to make the next precept (partly or wholly) conditional on the matters raised being addressed.

Q48: Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?

Objections to accounts of smaller bodies

5.23. For bodies with an income or expenditure greater than £6.5 million we are proposing to modernise the system for dealing with objections to accounts.

5.24. In the case of smaller bodies, we propose that the independent examiner would be able to consider whether to refer issues raised by citizens to the proper officer (possibly the s151 officer) of the county or unitary authority. That authority would be provided with powers to take action, which might include appointing an auditor to consider those issues and report in public to the examined body. The costs for dealing with the representation would fall to the smaller body.

Q49: Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?

Regulatory regime for smaller bodies

5.25. For smaller bodies the more proportionate approach described of independent examination would not give rise to the same level of scrutiny as an external audit.

5.26. However, if appointing the independent examiner to the smaller body, or if provided with powers to take action, which might include appointing an auditor to carry out a public interest report, the county or unitary council would, essentially, be the regulator for this sector.

Q50: Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Section 6

6. List of consultation questions

1. Have we identified the correct design principles? If not what other principles should be considered? Do the proposals in this document meet these design principles?
2. Do you agree that the audit probation trusts should fall within the Comptroller and Auditor General's regime?
3. Do you think that the National Audit Office would be best placed to produce the Code of audit practice and the supporting guidance?
4. Do you agree that we should replicate the system for approving and controlling statutory auditors under the Companies Act 2006 for statutory local public auditors?
5. Who should be responsible for maintaining and reviewing the register of statutory local public auditors?
6. How can we ensure that the right balance is struck between requiring audit firms eligible for statutory local public audit to have the right level of experience, while allowing new firms to enter the market?
7. What additional criteria are required to ensure that auditors have the necessary experience to be able to undertake a robust audit of a local public body, without restricting the market?
8. What should constitute a public interest entity (i.e. a body for which audits are directly monitored by the overall regulator) for the purposes of local audit regulation? How should these be defined?
9. There is an argument that by their very nature all local public bodies could be categorised as 'public interest entities.' Does the overall regulator need to undertake any additional regulation or monitoring of these bodies? If so, should these bodies be categorised by the key services they perform, or by their income or expenditure? If the latter, what should the threshold be?
10. What should the role of the regulator be in relation to any local bodies treated in a manner similar to public interest entities?
11. Do you think the arrangements we set out are sufficiently flexible to allow councils to cooperate and jointly appoint auditors? If not, how would you make the appointment process more flexible, whilst ensuring independence?
12. Do you think we have identified the correct criteria to ensure the quality of independent members? If not, what criteria would you suggest?

13. How do we balance the requirements for independence with the need for skills and experience of independent members? Is it necessary for independent members to have financial expertise?
14. Do you think that sourcing suitable independent members will be difficult? Will remuneration be necessary and, if so, at what level?
15. Do you think that our proposals for audit committees provide the necessary safeguards to ensure the independence of the auditor appointment? If so, which of the options described in paragraph 3.9 seems most appropriate and proportionate? If not, how would you ensure independence while also ensuring a decentralised approach?
16. Which option do you consider would strike the best balance between a localist approach and a robust role for the audit committee in ensuring independence of the auditor?
17. Are these appropriate roles and responsibilities for the Audit Committee? To what extent should the role be specified in legislation?
18. Should the process for the appointment of an auditor be set out in a statutory code of practice or guidance? If the latter, who should produce and maintain this?
19. Is this a proportionate approach to public involvement in the selection and work of auditors?
20. How can this process be adapted for bodies without elected members?
21. Which option do you consider provides a sufficient safeguard to ensure that local public bodies appoint an auditor? How would you ensure that the audited body fulfils its duty?
22. Should local public bodies be under a duty to inform a body when they have appointed an auditor, or only if they have failed to appoint an auditor by the required date?
23. If notification of auditor appointment is required, which body should be notified of the auditor appointment/failure to appoint an auditor?
24. Should any firm's term of appointment be limited to a maximum of two consecutive five-year periods?
25. Do the ethical standards provide sufficient safeguards for the rotation of the engagement lead and the audit team for local public bodies? If not, what additional safeguards are required?

26. Do the proposals regarding the reappointment of an audit firm strike the right balance between allowing the auditor and audited body to build a relationship based on trust whilst ensuring the correct degree of independence?
27. Do you think this proposed process provides sufficient safeguard to ensure that auditors are not removed, or resign, without serious consideration, and to maintain independence and audit quality? If not, what additional safeguards should be in place?
28. Do you think the new framework should put in place similar provision as that in place in the Companies sector, to prevent auditors from seeking to limit their liability in an unreasonable way?
29. Which option would provide the best balance between costs for local public bodies, a robust assessment of value for money for the local taxpayer and provides sufficient assurance and transparency to the electorate? Are there other options?
30. Do you think local public bodies should be required to set out their performance and plans in an annual report? If so, why?
31. Would an annual report be a useful basis for reporting on financial resilience, regularity and propriety, as well as value for money, provided by local public bodies?
32. Should the assurance provided by the auditor on the annual report be 'limited' or 'reasonable'?
33. What guidance would be required for local public bodies to produce an annual report? Who should produce and maintain the guidance?
34. Do these safeguards also allow the auditor to carry out a public interest report without his independence or the quality of the public interest report being compromised?
35. Do you agree that auditors appointed to a local public body should also be able to provide additional audit-related or other services to that body?
36. Have we identified the correct balance between safeguarding auditor independence and increasing competition? If not, what safeguards do you think would be appropriate?
37. Do you agree that it would be sensible for the auditor and the audit committee of the local public body to be designated prescribed persons under the Public Interest Disclosure Act? If not, who do you think would be best placed to undertake this role?
38. Do you agree that we should modernise the right to object to the accounts? If not, why?

39. Is the process set out above the most effective way for modernising the procedures for objections to accounts? If not, what system would you introduce?
40. Do you think it is sensible for auditors to be brought within the remit of the Freedom of Information Act to the extent of their functions as public office holders? If not, why?
41. What will be the impact on (i) the auditor/audited body relationship, and (ii) audit fees by bringing auditors within the remit of the Freedom of Information Act (to the extent of their functions as public office holders only)?
42. Which option provides the most proportionate approach for smaller bodies? What could happen to the fees for smaller bodies under our proposals?
43. Do you think the county or unitary authority should have the role of commissioner for the independent examiners for smaller bodies in their areas? Should this be the section 151 officer, or the full council having regard to advice provided by the audit committee? What additional costs could this mean for county or unitary authorities?
44. What guidance would be required to enable county/unitary authorities to:
- a.) Appoint independent examiners for the smaller bodies in their areas?
 - b.) Outline the annual return requirements for independent examiners?
- Who should produce and maintain this guidance?
45. Would option 2 ensure that smaller bodies appoint an external examiner, whilst maintaining independence in the appointment?
46. Are there other options given the need to ensure independence in the appointment process? How would this work where the smaller body, e.g. a port health authority, straddles more than one county/unitary authority?
47. Is the four-level approach for the scope of the examination too complex? If so, how would you simplify it? Should the threshold for smaller bodies be not more than £6.5m or £500,000? Are there other ways of dealing with small bodies, e.g. a narrower scope of audit?
48. Does this provide a proportionate, but appropriate method for addressing issues that give cause for concern in the independent examination of smaller bodies? How would this work where the county council is not the precepting authority?
49. Is the process set out above the most appropriate way to deal with issues raised in relation to accounts for smaller bodies? If not, what system would you propose?
50. Does this provide a proportionate but appropriate system of regulation for smaller bodies? If not, how should the audit for this market be regulated?

Appendix A

Audited bodies' published accounts – current arrangements

The annual accounting statements that audited bodies, other than NHS bodies and probation bodies, are currently required to publish are prescribed in Accounts and Audit Regulations made under section 27 of the Audit Commission Act 1998. A new consolidated set of the regulations has recently been issued. The accounting statements for all the bodies must cover the year ending on 31 March.

The larger bodies (broadly those with annual income or expenditure of more than £6.5m) must produce a “statement of accounts”, based, as from the 2010-11 financial year, on International Financial Reporting Standards as those standards are applied by the *Code of Practice on Local Authority Accounting in the United Kingdom*, published by CIPFA/LASAAC. The statement must also conform to specific requirements set out in the Accounts and Audit Regulations and other legislation. A statement of accounts includes all the elements that would be expected in a comprehensive set of accounts, including:

- movement in reserves statement
- comprehensive income and expenditure account
- balance sheet
- cash flow statement, and
- supporting notes, including a summary of significant accounting policies

Where the body has significant subsidiaries or associates Group Accounts must also be included. The statement of accounts is accompanied by a statement of internal control or annual governance statement, setting out the body's annual assessment of how it is managing and controlling the risks it faces in achieving its aims and legal obligations.

The smaller bodies are given a choice on the form of their annual accounting statements. They can prepare either:

- a statement of accounts on the same basis as a larger body or
- an income and expenditure account and statement of balances or
- where the body's annual income or expenditure is no more than £200,000, a record of receipts and payments

For the second and third options the requirements are specified in an Annual Return that the body is required to present to the auditor and publish. The form of the Annual Return is laid out in *Governance and Accountability for Local Councils, a Practitioners' Guide*, available from the National Association of Local Councils.

The accounting statements for both the larger and smaller bodies must be audited (for smaller bodies the audit is a 'limited assurance' - a simpler, more proportionate, form of external scrutiny than a full audit). The statements, together with the auditor's opinion on them, must then be published, and this should be done by 30 September following the financial year end. The larger bodies are required to publish the statements on their websites, and the smaller bodies by displaying them within their area, though both are free to use other means of publication in addition.

Appendix B

List of bodies to which the Audit Commission appoints auditors in England

The audit bodies which are specified in primary legislation are³:

- A local authority (meaning a county council, district council, London borough council and a parish council).
- A joint authority (which means an authority established by Part 4 of the Local Government Act 1985, includes metropolitan county fire and rescue authorities).
- The Greater London Authority.
- Passenger Transport Executive.
- A functional body (meaning Transport for London, the London Development Agency, the Metropolitan Police Authority and the London Fire and Emergency Planning Authority).
- The London Pensions Fund Authority.
- The London Waste and Recycling Board.
- A parish meeting of a parish not having a separate parish council.
- A committee of a local authority, including a joint committee of two or more such authorities.
- The Council of the Isles of Scilly.
- Any Charter Trustees constituted under section 246 of the Local Government Act 1972.
- A Health Service Body prepared under paragraph 3(1) of Schedule 15 to the National Health Service Act 2006.
- A Port Health Authority constituted under section 2 of the Public Health (Control of Disease) Act 1984.
- The Broads Authority.
- A national park authority.
- A conservation board established by order under section 86 of the Countryside and Rights of Way Act 2000.
- A police authority established under section 3 of the Police Act 1996.
- A fire and rescue authority constituted by a scheme under Section 2 of the Fire and Rescue Services Act 2004 or a scheme to which section 4 of that Act applies.
- An authority established for an area in England by an order under section 207 of the Local Government and Public Involvement in Health Act 2007 (joint waste authorities).
- A licensing planning committee.
- An internal drainage board.
- A local probation board established under section 4 of the Criminal Justice and Court Services Act.

³ It is proposed through the Police Reform and Social Responsibility Bill that police and crime commissioners and chief constables will be added to schedule 2 of the Audit Commission Act 1998 and thereby become a body for which the Audit Commission will appoint auditors to. In addition, the Health Bill refers to GP Consortia being brought within the Audit Commission Act 1998.

- A probation trust.
- An economic prosperity board established under section 88 of the Local Democracy, Economic Development and Construction Act 2009.
- A combined authority established under section 103 of that Act.
- The accounts of the collection fund of the Common Council and the accounts of the City fund.
- The accounts relating to the superannuation fund maintained and administered by the Common Council under the Local Government Pension Scheme Regulations 1995.

Appendix C

Recognised supervisory bodies and recognised qualifying bodies in England

In the companies sector, audit firms must be registered with, and subject to supervision by a recognised supervisory body and persons responsible for company audit work at a firm must hold a recognised qualification awarded by a recognised qualifying body.

There are currently five recognised supervisory bodies:

- Association of Authorised Public Accountants
- Association of Chartered Certified Accountants
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

and six recognised qualifying bodies:

- Association of Chartered Certified Accountants
- Association of International Accountants
- Chartered Institute of Public Finance and Accountancy
- Institute of Chartered Accountants in England and Wales
- Institute of Chartered Accountants in Ireland
- Institute of Chartered Accountants in Scotland

DCLG – Consultation on Future of Local Public Audit

GENERAL OVERVIEW		B&NES COMMENT
		<p>B&NES Council welcomes the opportunity to comment on the proposed future arrangements for the audit of local public bodies. A response to some of the specific questions follows, although we have grouped together our comments as many of the issues are interlinked.</p> <p>First however we wish to give our view on a key area of concern which is the composition and structure of the audit committee.</p> <p>The proposals appear to be trying to fix a bigger problem than replacing the Audit Commission as commissioner of external audit services. There is a presumption of a lack of independence of auditors and incapability of an authority to select its own independent auditors that this Council does not recognise.</p> <p>Furthermore, it is a matter of concern that the proposals intend to secure independence and transparency of external audit through the recruitment of unelected chairs and members of audit committees.</p> <p>Additionally there appears to be a very narrow view of the role of the Audit Committee which does not acknowledge existing arrangements which are of a much broader and significant nature and have served our Council well.</p> <p>If the required role of the future Audit Committee is limited to the minimum activities proposed, then it is doubtful whether it will attract members of the right calibre to serve any useful purpose.</p>

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THEME	DCLG QUESTIONS	B&NES COMMENT
1. Principles for Local Public Audit	Sections 1 & 2 – Questions 1 - 10	<p>B&NES Council does not dispute the principles laid out in question 1, however we believe they have not been applied to the options laid out in the remainder of the paper and it is clear if the proposals were to be implemented then –</p> <ul style="list-style-type: none"> - Local Authorities would not be ‘freed up’ but bogged down in bureaucracy and additional costs which it does not welcome through being made responsible for a range of existing Audit Commission responsibilities; - There would be a lack of transparency through the proposals to appoint independent members who are neither accountable to the community or even required to be part of that same community; - There are options laid out in the scope of audit work that would lead to higher audit fees and higher costs in administration and management of the arrangements; - There is little guarantee of higher standards of auditing when quality and monitoring is left to existing bodies who have not exhibited a track record of evidence in this practice and any regulatory framework will have a cost attached to it, which will inevitably be passed onto to councils in audit fees; <p>We would as a general point strongly urge a complete re-think to these proposals as they stand and not throw away the good elements of the existing framework which have stood the test of time.</p>

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<p>2. New Role for Local Authorities in Procuring their External Auditor</p>	<p>Section 3 – Question 11</p>	<p>B&NES Council welcomes local choice but in this respect believe the existing system of national frameworks established by the Audit Commission should be continued in some form.</p> <p>The key reasons for retaining a national or single approach are –</p> <ul style="list-style-type: none">- It enables a consistent approach to the market;- It considerably reduces costs for the providers (private sector), one procurement process not hundreds;- It ensures limited procurement capacity in Councils is not diverted from properly focussing on supporting front line service delivery;- It ensures commonality of standards and evaluation;- It does not introduce unnecessary and expensive costs;- It does not divert senior management capacity;- It ensures complex procurement risk is managed and reduced;- It retains public faith in good governance. <p>Our preferred option is therefore either a residual role for the Audit Commission or a role for the NAO in establishing frameworks at a national level to save on the considerable time, effort and cost that a locally managed procurement exercise will undoubtedly lead to.</p> <p>An alternative would be that if it is not possible to do this at a national level then ‘super regions’ i.e. South West be established to let contracts across a wide geographic region and councils establish a consortia approach to the procurement process</p>
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		<p>Finally we would strongly advise that any timetable should reflect the complexity of the process and the cost and risk involved and adequate time should be allowed to change to any new arrangement</p>
<p>3. New Proposals for Changing the Membership and Scope of the Audit Committee</p>	<p>Section 3 – Questions 12 – 14 & Questions 15 - 18</p>	<p>B&NES Council strongly objects to all the various options laid out for altering the structure and terms of reference for the audit committee. The current system is neither broken, failing or in decline.</p> <p>Audit Committee’s in local government have been working widely for at least five to ten years as a result of many of the corporate governance failures in the private not public sector.</p> <p>The effectiveness of this regime has grown during this time with the support of CIPFA who have laid out a clear code of practice for the operation of such committee’s.</p> <p>We believe that the existing system should remain and prescribing an approach based on the private sector does not reflect either the principles of ‘localism’ or hold democratically accountable members to account.</p> <p>Further reasons to support our position include –</p> <ul style="list-style-type: none"> - There is a clear and active Code of Practice devised by CIPFA which has the full support of this and other Councils, it does not appear to have been acknowledged or taken into account; - The system is based on ‘localism’ i.e. local Members entrusted by

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		<p>and accountable to the public to hold the Council ‘in check’;</p> <ul style="list-style-type: none">- Proposing all or most of the committee to be ‘Independent’ does not make them either accountable to the community or conform to a local approach, it is likely they will not even live in that community;- Based on experience there is no market for quality independent members, therefore identifying a suitable number is also unlikely;- Independent Members already exists and are recommended through the CIPFA Code of practice, they provide a valuable external insight to support the committee’s work but not to manage and operate it or be able to represent the local perspective;- The terms of reference of the committee go much wider than the narrow view taken of the committee’s role in the consultation paper, i.e. no mention of Internal Audit, Risk Management, Corporate Governance (i.e. Annual Governance review) and many other areas which currently receive scrutiny;- We do not believe it is a valuable use of Members time in overseeing or being involved in the detail of the appointment process, in fact it presents a conflict of interest when they are also responsible for assessing the effectiveness of the same provider. <p>Finally local choice based on an accepted Code of Practice is our recommended way forward, not a prescribed formula which is based on a different sector.</p>
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<p>4. Options on Scope of Audit Work</p>	<p>Section 4 Questions 29 - 33</p>	<p>B&NES Council believes that if a consistent base level is not agreed upon it could lead to an inconsistent approach being taken across the country to external audit and an uneven playing field in terms of quality, standards and wider assessment of VFM.</p> <p>Whilst option 3 recognises the status quo and is acceptable, a single base option should be chosen as a minimum, i.e. option 2 for everyone with only local choice being allowed to select more not less.</p> <p>Further concerns persist on the way the market may be manipulated by existing external providers – the big four – as they also currently provide a range of valuable non-audit services to the public sector.</p> <p>There is a very real risk therefore of having little if any choice in the provision of local audit and thereby increased costs as those same providers decide that non-audit work is more valuable to them and their rates and approach reflect this.</p> <p>It is already clear from informal discussions with these providers that they will be in competition with different arms of their own firms and this is only likely to lead to a poorer quality product in terms of audit as non-audit services traditionally form a larger part of the market.</p> <p>This could place Councils at significant risk and we urge a rethink regarding the residual or continuing role of the Audit Commission as it can if given the opportunity, provide a way to address these concerns by being allowed to either retain or bid for this work.</p>
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DCLG – Consultation on Future of Local Public Audit

<p>5. New Roles for S151 Officer in relation to smaller public bodies, i.e. town and parish councils</p>	<p>Section 5 Questions 42 - 50</p>	<p>B&NES Council strongly rejects the proposals outlined in this section.</p> <p>Effectively delegating this substantial work from the Commission to S151 Officers will only introduce significant cost, waste and unnecessary bureaucracy and distraction from the essential role of the S151 Officer.</p> <p>One of the good elements of existing Audit Commission work is their ability to provide a VFM approach to smaller bodies and we would strongly urge that decisions are continued to be taken at a local level, i.e. by the respective District or Town Council.</p> <p>This can be supported by either a residual role for the Audit Commission through their existing work or is let and managed through a national framework overseen by the NAO.</p> <p>There is little acknowledgement of responsibility for quality, standards and ultimate accountability and we would also be concerned about the Councils liabilities in this sector.</p> <p>We can see no advantages in any of the proposals to transfer responsibilities to the S151 Officer of the Local Authority and believe this will only add cost and divert vital management capacity away from dealing with the highly challenging financial management horizon in local government and supporting front line service delivery</p>

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th June 2011	AGENDA ITEM NUMBER
TITLE:	Annual Governance Statement	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Annual Governance Review Framework		
Appendix 2 – Draft Annual Governance Statement 2010/11		

1 THE ISSUE

- 1.1 In 2006 the Accounts and Audit Regulations were updated and in 2007 CIPFA / SOLACE published revised guidance 'Delivering Good Governance in Local Government'. This requires all Authority's to carry out an 'Annual Governance Review' and to publish an 'Annual Governance Statement' as part of the Council's Statutory Statement of Accounts.
- 1.2 The aim of this report is to update the Committee on the outcome of the Annual Governance Review for 2010/11 and present a draft of the Council's Annual Governance Statement 2010/11 prior to it being signed by the Leader of the Council and Chief Executive for publication in the Council's Statement of Accounts.
- 1.3 Due to the consultation process being 'live' throughout June, a final list of issues and agreed actions will be presented to the committee at the meeting itself to ensure that it is meaningful and is therefore not included within the papers.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to confirm it has considered the Statement and recommend that the Leader of the Council and Chief Executive sign the Annual Governance Statement 2010/11 (Appendix 2)

3 FINANCIAL IMPLICATIONS

3.1 A robust review of the Council's internal control and governance framework and the subsequent implementation of action plans form an essential part of the financial management framework.

4 THE REPORT

4.1 In England, the preparation and publication of an Annual Governance Statement in accordance with the CIPFA / SOLACE 'Delivering Good Governance in Local Government' Framework is necessary to meet the statutory requirement set out in Regulation 4(2) of the Accounts and Audit Regulations 2006 for authorities to prepare a statement of internal control in accordance with "proper practices".

4.2 On an annual basis the Council has to:

- Review governance arrangements against the Framework.
- Develop and maintain an up-to date local code of governance, including arrangements for ensuring its ongoing application and effectiveness.
- Prepare a governance statement in order to report publicly on the extent to which the Council complies with the local code including how the Council has monitored the effectiveness of the governance arrangements in the year, and on any planned changes in the coming period.

4.2 The review of governance – see Appendix 1 - covers all significant corporate systems, processes and controls, spanning the whole range of Council activities, including in particular those designed to ensure:

- Council policies are implemented;
- Quality services are delivered efficiently and effectively;
- Council's values and ethical standards are met;
- Compliance with laws and regulations;
- Financial statements and other published performance information are accurate and reliable;
- Human, financial, environmental and other resources are managed efficiently and effectively

4.3 The Risk & Assurance Service (Audit & Risk Team) carry out the review of governance on behalf of the Council and the following methodology was adopted for the 2010/11 Review:-

- A representative of Audit & Risk met key Council Officers to consider issues and review evidence with relation to :-
 - Performance Management
 - Finance
 - Legal
 - Information Governance
 - Human Resources

- Health & Safety
 - Environmental Impact & Sustainability
 - Equalities & Diversity
- A representative of Audit & Risk met each Divisional Director to obtain their input using a standard questionnaire. Evidence was collected if an issue was identified.
- 4.4 Normally the Audit Committee is consulted in April when a long list of issues is being prepared in order to inform the process and assist senior management in deciding on the significant issues. However due to the election it was not possible to arrange a formal meeting of the committee and consultation has occurred through the Chair of the Committee and Independent Member during June.
- 4.6 The governance review carried out has resulted in the production of an Annual Governance Statement 2010/11 (see Appendix 2).

Content of the Annual Governance Statement

- 4.7 The Statement records the:
- 1) Scope of responsibility of the Council;
 - 2) Purpose of the governance framework;
 - 3) An explanation of the key elements of the Council's governance arrangements;
 - 4) Process that has been applied in reviewing the effectiveness of the governance framework and the sources of assurance for the Annual Governance Statement;
 - 5) Corporate involvement in its production;
 - 6) Up-dated position on the 2009/10 significant issues;
 - 7) Significant governance issues 2010/11.
- 4.8 The 2010/11 governance review documentation is available for inspection by the Council's External Auditors, as part of their audit of the Council's Statutory Statement of Accounts.

5. RISK MANAGEMENT

- 5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

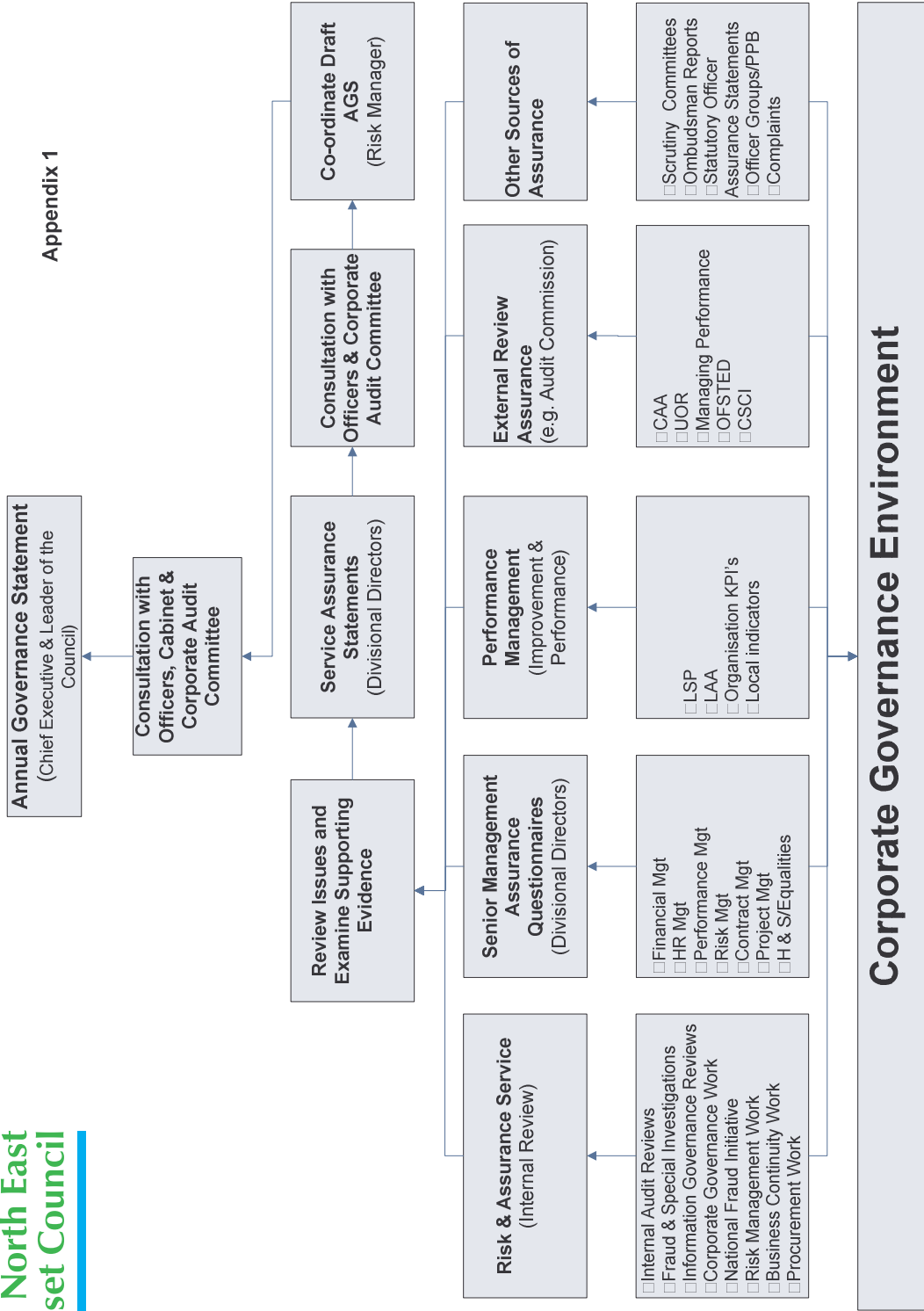
6. EQUALITIES

- 6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7. CONSULTATION

- 7.1 A copy of this report was presented to the Strategic Director Resources & Support Services for comment.

Contact person	<i>Andy Cox (01225 477316) Jeff Wring (01225 477323)</i>
Background papers	<i>Report to Council – 8th May 2008 – Local Code of Corporate Governance</i>
Please contact the report author if you need to access this report in an alternative format	



Everyone is a risk manager

ANNUAL GOVERNANCE STATEMENT 2010/11

1. SCOPE OF RESPONSIBILITY

Bath & North East Somerset Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way its services are delivered in terms of economy, efficiency and effectiveness in order to demonstrate 'Best Value'.

In meeting its responsibilities, the Council must ensure that there is a sound system of internal control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk. The Council's system of internal control is designed to manage risk to a reasonable level rather than eliminate the risk of failure to achieve organisational objectives. Therefore the Annual Governance Statement only provides reasonable assurance around effectiveness.

The Council has adopted a Code of Corporate Governance, which is consistent with the principles and reflects the requirements of the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government'. A copy of the Code is accessible through the Council's website at www.bathnes.gov.uk or can be obtained from the Head of Risk & Assurance, Guildhall, High Street, Bath BA1 5AW.

This Statement explains how the Council has complied with the Code and also meets the requirements of regulation 4[2] of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit [Amendment] [England] Regulations 2006 in relation to the publication of a statement on internal control.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

Our definition of Corporate Governance is –

'Ensuring the organisation is doing the right things, in the right way, for the right people, in an open, honest, inclusive and timely manner'

This definition is underpinned by our internal values of Integrity, Making a Difference and Innovation. The purpose of the governance framework is to allow the Authority to -

- Focus on the outcomes for the area and its community and create a vision for the local area which it can play a leadership role in helping to implement;
- Engage with local people and its other stakeholders to ensure robust public accountability;
- Foster a leadership community that sees Members and Officers working together to achieve a common purpose with clearly defined roles and responsibilities;
- Promote values and behaviours for the Authority that will demonstrate how it will uphold good governance and high standards of conduct;
- Take informed and transparent decisions which manage risk and opportunity and are subject to effective scrutiny;
- Develop the capacity and capability of its Members and Officers to be effective and innovative

The governance framework has been in place at B&NES Council for the year ended 31 March 2011 and up to the date of approval of the Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

The key elements of the systems and processes that comprise the Council's governance framework are described below. Further details in relation to each element can be viewed through the Council's website <http://www.bathnes.gov.uk> or can be requested from the Council, e- mail: councilconnect@bathnes.gov.uk

a) Sustainable Community Strategy – The Sustainable Community Strategy 2009 – 2026 has been created by the Local Strategic Partnership (LSP) to provide a framework for the long-term economic, social and environmental wellbeing of the area as a whole. It contains six drivers for change: –

- Climate Change
- Demographic Change
- Growth
- Inequalities
- Locality
- The economy

The strategy provides a starting point for the Council and it's partners in building a better place to live and work and a direction for the future. It will be regularly reviewed to ensure it is up to date by reflecting what is currently happening in the area.

b) Corporate Plan – The Corporate Plan was adopted in 2008 at full Council and was refreshed in February 2010 and 2011. The Plan represents the Council's high level strategic plan and encapsulates the activity that will contribute to the achievement of the Sustainable Community Strategy and the Local Area Agreement. The plan is divided in terms of :–

- A Story of Place – Community, Economic and Environmental issues affecting the district.
- Our Vision – A distinctive place, with vibrant communities and where everyone fulfils their potential.
- Our Priorities – Improving Transport and the public realm; Building communities where people feel safe and secure; Addressing the causes and effects of climate change; Improving the availability of affordable housing; Promoting the independence of older people; Improving the life chances of disadvantaged children and young people; Improving school buildings; Sustainable growth.
- Value for Money, Resources and Delivery – explains how the plan will be implemented effectively using its limited resources, working closely with external partners and implementing the organisational change programme designed to help enable the Council achieve its objectives.

c) Council Constitution – The Council Constitution sets out how the Council operates, how decisions are made, and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people. Each agenda for a Council or business meeting contains an item requiring members at the outset of the meeting to declare any relevant interests. The agendas and minutes of all the public meetings of the Council and its Committees are available on our website. The Constitution is formally reviewed each year at the Annual Council meeting.

d) Council Structure – The Council operates under a Leader and Cabinet structure with Cabinet Members responsible for individual portfolios. Portfolios before the May 2011 elections were:-

- Leader of the Council
- Resources and Deputy Leader
- Adult Social Services and Housing
- Development and Major Projects
- Customer Services
- Children’s Services
- The Council as Corporate Trustee

The Cabinet can only make decisions which are in line with the Council’s overall Policy and Budget Framework. If it wishes to make a decision which is contrary to the Policy and Budget Framework, it must be referred to the full Council to decide. The Cabinet collectively make recommendations to the Council about the policy framework and take decisions that ensure services are provided within the framework. Full Council will decide whether to allocate decision making responsibilities to individual members of the Cabinet. If the Council decides to allocate these powers, it will also determine the scope of those powers and the range of service responsibilities allocated to each Cabinet Member. For most “key” decisions made by the Cabinet, by Cabinet Members or by Officers, the Council is required to publish in advance information about: (a) the matter to be decided; (b) who will be making the decision, and (c) the date or timescale for the decision and the place where the decision will be made. Most day to day service decisions are taken by Council Officers. The Council appoints committees with power to carry out non-executive and other functions (e.g. planning and licensing where there is a statutory requirement for the Council to maintain committees). Non-executive functions are those which the Cabinet does not have the power to carry out.

e) Overview & Scrutiny – The activity of the Cabinet is monitored by Overview & Scrutiny Panels. Overview & Scrutiny is the name given to the system of checks and balances implemented by the rest of the Council as they monitor the activity of the Cabinet and also assist them in developing policy. Up to May 2011 the following Overview & Scrutiny Panels have been in place:

- Children & Young People
- Corporate Performance & Resources
- Enterprise & Economic Development
- Healthier Communities & Older People
- Safer & Stronger Communities

f) Standards Committee – The Standards Committee is made up of three Councillors, three independent people and three Parish Councillors. The roles and responsibilities of the Committee include:

- Promoting and maintaining high standards of conduct by councillors, co-opted members and church and parent representatives on school governing bodies.
- Assisting the councillors, co-opted members and church and parent representatives on school governing bodies to observe the Members’ Code of Conduct;
- To recommend to the Council one or more Codes of Conduct and Practice or protocols for members and/or employees of the Council.

To deal with Parish issues a Sub-Committee has been appointed.

g) Corporate Audit Committee – The Corporate Audit Committee is made up of seven Councillors and one independent member. The Council has delegated to this Committee responsibilities including:

- To approve on behalf of the Council its Annual Accounts, as prepared in accordance with the statutory requirements and guidance.
- To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year.
- To approve the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations).
- To consider, prior to signature by the Leader of the Council and Chief Executive, the Annual Governance Statement.
- To review periodically the Council's risk management arrangements, make recommendations and monitor progress on improvements.
- To review periodically the Council's key financial governance procedures.
- To monitor and promote good corporate governance within the Council and in its dealings with partner bodies and contractors, including review of the Council's Code of Corporate Governance.
- To consider the Annual Audit & Inspection Letter from the External Auditor

h) Head of Paid Service – The Chief Executive is designated Head of Paid Service and has overall corporate management and operational responsibility (including overall management responsibility for and authority over all officers). He provides professional advice to all parties in the decision making process; and, together with the Monitoring Officer, is responsible for the system of record keeping for all Council's decisions. He represents the Council on partnership and external bodies as required by statute or by the Council.

i) Monitoring Officer – The Council Solicitor is designated as Monitoring Officer with responsibility for ensuring compliance with established policies, procedures, laws and regulations, and reporting any actual or potential breaches of the law or maladministration to the full Council and/or to the Cabinet.

j) Chief Finance Officer – The Strategic Director of Resources & Support Services was designated as Chief Finance Officer in accordance with Section 151 of the Local Government Act 1972 until the Annual Council meeting on 13th May 2010 when the role was transferred to the Divisional Director Finance. He has responsibility for establishing sound financial management within the Council and ensuring adherence to the Council's own financial standards and rules including the Budget Management Scheme (November 2007), Financial Regulations (May 2002) and Contract Standing Orders (November 2007). The Council has put in place a Financial Plan to support the aims of the Corporate Plan and a system of regular reporting of its financial position and performance during the year.

k) Code of Corporate Governance – In May 2008 the Council approved a 'local' Code of Corporate Governance. The 'local' Code sets out the Council's definition of corporate governance, the Values it stands for and the Key Principles of Corporate Governance that it has adopted.

l) Anti Fraud and Corruption Arrangements – The Council has an Anti-Fraud and Corruption Policy that demonstrates its commitment to tackling fraud and corruption whether within or external to the Council. It details:

- The key principles of the policy;
- The roles and responsibilities of Members and Officers;
- Investigation procedures to be followed in a suspected case of fraud.

The Council's Whistleblowing Policy is a component of the Anti Fraud & Corruption Policy.

m) Corporate Complaints System – The Council has a Corporate Complaints Policy and Procedure which describes how complaints can be made and how the Council will monitor complaints and use that information to improve services and identify training needs. The Council has adopted a two stage approach to ensure that if the complainant is dissatisfied with the Stage 1 response they can have the complaint investigation reviewed again. This review is carried out internally by officers independent of the service area to which the complaint was received. If the complainant is still dissatisfied they can request that their complaint is examined by the Local Government Ombudsman.

n) Stakeholder Communication – In 2008, the Council established a Communications Strategy (2008 – 2011) to engage with citizens and the Community. Four main methods are used to communicate the Council's objectives and achievements to citizens and service users:

- **'Your Local Council Spending & Council Tax Guide'** including an A-Z of Council Services is sent to all Bath & North East Somerset Council households. As well as providing statutory information relating to the Council Tax and budget setting process it provides full detail of the Council's Vision & Priorities and a review of progress in achieving them.
- **The Council Website**, which is updated daily, and provides information about the Council & online access to services;
- **The 'Inform' newsletter**, which is sent weekly via email to all subscribers providing detailed news stories;
- **'Council News'** is produced quarterly and sent to all households within Bath & North East Somerset.

The Council also undertakes consultation exercises with stakeholders, through either one off consultations on specific subjects, or through the Voicebox satisfaction surveys which are carried out twice a year.

o) Partnership Governance – Partnerships are a key component for service provision. The Council's key partnerships are:-

- **The Local Strategic Partnership (LSP)** - It is made up of public services such as the Council, the Avon & Somerset Police, the NHS Bath and North East Somerset and Somer Housing Group - as well as voluntary, community, and business sector representatives. The prime function of local strategic partnerships is to produce a "community strategy", a plan for working together to improve the quality of life in local communities. The partnership has clearly documented governance arrangements that are available from the LSP website.
- **NHS Bath & North East Somerset (PCT)** - Whilst each organisation retains accountability for their particular functions, partnership arrangements enable a joint approach to prioritising resources and service provision. In 2007/08 a Partnership Board for Health and Wellbeing was established. Membership of the Board comprises the Leader of the Council, the Chair of the PCT, Council Officers, PCT officers, non executive PCT Board Members and two Council Cabinet Members. The Partnership Board oversees the development of strategy and performance management for Health and Social Care within the framework set by the Council and the PCT Board. The Partnership Board is responsible for overseeing delivery, performance management and setting strategies to deliver the framework, reporting to the Council and the PCT Board on the delivery of the Health and Social Care Services and the operation of the Partnership Agreement. Partnership Board meetings are held in public and are scheduled to take place every 2 months.

- **West of England Local Enterprise Partnership** – In October 2010 the Government approved a submission to form a Local Enterprise Partnership (LEP) building upon the existing 'West of England Partnership' of the four local unitary councils and businesses in the sub-region.

The Priorities of the LEP are:

People – facilitate the supply of a workforce with skills business need.

Business – support 5 key emerging sectors (Creative & Media; Advanced Engineering; micro electronics; Environmental technologies; and Tourism).

Place – improved transport, environmental and broadband infrastructure (housing & business use land and premises).

There has been two meetings of the Interim Board and the first full Board meeting took place on 5th April 2011. The Board is represented equally by civic and business leaders and meets every two months. In addition to the Council's Board Member the Council's Chief Executive has also attended Board meetings.

[West of England LEP](#)

p) Performance Management - Performance is managed through the Council's Performance Management Framework. The approach adopted is based on the Balanced Scorecard, with Directorates, Services and Teams each having their own Scorecard. The Chief Executive with support from the Council's Section 151 Officer and the Strategic Performance Manager has quarterly 1:1 meetings with Directors to discuss Performance Management. A Comprehensive Performance Pack is produced each quarter for review by Strategic Directors Group, Divisional Directors Group, Cabinet and Overview & Scrutiny panels. A 'Dashboard' report has been compiled to simplify reporting.

q) Risk & Opportunity Management - The Council Risk Management Strategy was reviewed during the year and was approved in April 2011. The Cabinet and Strategic Directors Group maintain a Corporate Risk Register which defines and assesses risks to Council's objectives and records actions to manage these risks. The risks and actions are monitored on a quarterly basis. Strategic and Divisional Directors review Service risk management processes quarterly e.g. the maintenance of Service / Team risk registers. The Corporate Audit Committee monitors the risk management plan periodically.

r) Internal Audit - Internal Audit operates to the standards set out in the Chartered Institute of Public Finance Accountant's 'Code of Practice for Internal Audit in Local Government'. The Council's appointed External Auditor will then assess Internal Audit against this code and its most recent assessment is that Internal Audit satisfies all elements of this code. The Head of Risk & Assurance reports annually to the Corporate Audit Committee on the performance of the Internal Audit function.

s) External Inspectorates - The Council maintains an objective and professional relationship with external auditors and statutory inspectors to seek assurance that the Council is providing efficient, effective and economic services and are proactive in securing continuous improvement in the way its functions are exercised.

4. REVIEW OF EFFECTIVENESS

The Council has responsibility for conducting an annual review of the effectiveness of its governance framework including the system of internal control. In accordance with best practice, the Council has adopted a methodology (Process & Assurance Framework) to formally review the governance framework for the purposes of this Statement. The components are as follows:

Management Assurance -

- A review of compliance with the adopted Local Code of Corporate Governance.
- A review of the implementation of the Risk Management Strategy
- A review of Internal Audit Report findings and recommendations.
- A review of fraud and special investigations completed during the year by Internal Audit.
- Meetings with 'Key' Corporate Officers to specific areas including: Performance; Finance; Communications; Legal; Information Governance; Human Resources; Health & Safety; Equalities; Sustainability; Corporate Complaints and Internal Audit. The objective of these meetings was to identify issues for further discussion with Divisional Directors.

Statutory Officer Assurance

- Meeting with the Council's Statutory Officers (Head of Paid Service, Monitoring Officer and Chief Financial Officer) to discuss their roles and responsibilities and issues identified during the year.

Service Assurance -

- Meetings with Divisional Directors to capture their input using a standard Service Assurance Questionnaire.
- The questionnaires covered the Service Governance Framework Components: Governance, Service Planning, Financial Management, Risk Management, Information Governance, Internal Control, Procurement, Project Management, Partnerships, Human Resource Management; Health & Safety, Corporate Equality; Environmental Sustainability & Climate Change and Public Interest.

Performance Management -

- A review of performance management reporting
- A review of financial management reporting

External Review Assurance -

- An examination of external inspection reports.
- An examination of external audit reports
- A review of complaints to the Local Government Ombudsman.

Other Sources -

- An examination of the work of the Corporate Audit Committee.
- An examination of Standards Committee and Overview and Scrutiny Panels minutes
- A review of the adequacy of the complaints procedure including monitoring and reporting outcomes.
- A review of Strategic Director meetings reports / minutes.

5. PRODUCTION OF THE ANNUAL GOVERNANCE STATEMENT

The publication of the Annual Governance Statement represents the end result of the review of the effectiveness of the governance framework. Corporate involvement in the production of the Statement included:

- **Divisional Directors** – The Divisional Directors Group were briefed on the 4th February 2011 on the process and their roles and responsibilities.
- **Statutory Officers** – The S151 Officer and Monitoring Officer were briefed during February and March 2011 on the process and their roles and responsibilities.
- **Corporate Audit Committee** – The Committee were informed of the Annual Governance Review on 1st February 2011. An update was provided to the Chair of the Corporate Audit Committee on 7th June 2011.
- **Strategic Directors** – The Annual Governance Review and the ‘List of Issues’ were considered by Strategic Directors Group on the 27th June 2011.
- **Corporate Audit Committee** – The Committee reviewed and approved the Annual Governance Statement for signature by the Leader of the Council and the Chief Executive on the 28th June 2011.
- **Leader of the Council & Chief Executive** – The approved Annual Governance Statement 2010-11 was signed by the Leader of the Council and the Chief Executive following its approval by the Corporate Audit Committee.

6. UPDATE ON SIGNIFICANT GOVERNANCE ISSUES 2009/10

The following issues were identified on last years Annual Governance Statement:

No.	Issue	Action Plan – <i>(Current Position)</i>
1.	<p>Economic Downturn & Financial Challenge to the Council</p> <p>The Economic Downturn issue was raised in the 2008/9 Annual Governance Statement and at that time the impact of the recession was only just being felt by Services and the Community. During 2009/10 the Council’s Cabinet and Corporate Performance & Resources Overview & Scrutiny Panel received regular monitoring reports on the Council’s proactive efforts to reduce the impact on the Community through the use of its recession reserve. It remains too early to say whether the recession is fully behind us as recovery in the economy is still weak and there remains the risk of a ‘double dip’.</p> <p>During the year, the demand for Council Services has changed and the Council has responded to the financial challenge of managing budgets in key areas within the Customer Services Directorate. The organisational change process was complex and required staffing issues to be managed.</p> <p>The 22nd June 2010 Emergency Budget announced a significant reduction in public sector spending and the savings required will impact on service provision.</p>	<p>In relation to support to the local economy the majority of actions were complete as at end of year (2009) when a full report on the use of Recession Reserve was made to Cabinet.</p> <p>The Financial Challenge to Council Services is being assessed in detail following the elections, the appointment of a Coalition government and the 22nd June Emergency Budget.</p> <p>The Council has made prudent assumptions of the likely impacts on its budget and services have started the Medium Term Resource and Service Plan exercise early. The assumptions will be updated when the impact of the Emergency Budget has been analysed and these will then be reviewed again following the Comprehensive Spending Review scheduled for the 20th October 2010.</p> <p><i>(Risks & related action plan are monitored through the Council’s Corporate Risk Register – Risks 15 & 16. Quarter 1 2011/12 review of the Register has been completed – all recorded actions are ‘Complete’ or ‘On-Target’).</i></p>

No.	Issue	Action Plan – (<i>Current Position</i>)
2.	<p>Bath Transport Package During 2009/10 the Bath Transport Package continued to progress, however it received ‘significant public interest’ which is a key criteria for consideration.</p> <p>Events during 2009/10 included:</p> <ul style="list-style-type: none"> ▪ 20th May 2009 – 4 planning applications comprising the Bath Transport Package submitted to Development Control Committee. Three of the applications approved, the fourth (Newbridge Park & Ride and Bus Transit System) was deferred to obtain further technical detail. ▪ 6th Aug 2009 – Applications for Newbridge Park & Ride / BTS and A4 Eastern Park & Ride subject to consideration by Secretary of State. ▪ 8th October 2009 – Government announced two outstanding applications will not be subject to Public Enquiry. ▪ November 2009 – Decision Notices for Newbridge Park & Ride / BTS and A4 Eastern Park & Ride issued. ▪ February 2010 – Compulsory Purchase Orders – Council serve ‘Statement of Case for Making the Order’ for each CPO. <p>Further developments:</p> <ul style="list-style-type: none"> ▪ May 2010 – Public Inquiry date of 1st September to decide on compulsory purchase of parcels of land in Bath. ▪ June 2010 – Government announcement that the Public Inquiry is to be postponed. ▪ June 2010 – Emergency Budget and scheduling of the Capital Spending Review for 20th October 2010. <p>There remain significant funding risks as the project proceeds and the situation will therefore need to be carefully monitored and managed.</p>	<p>1. Action taken & required to prepare for a Public Inquiry will be monitored through the Council’s Built Environment Leadership Group & the Transport Board.</p> <p>2. Government Funding plans will be monitored and reported to Cabinet. In the mean time, further expenditure will be minimised pending the outcome of the comprehensive spending review.</p> <p><i>(Risk & related action plan being monitored through the Corporate Risk Register – Risk 13. Quarter 1 2011/12 review of the Register has been completed – all recorded actions are ‘Complete’ or ‘On-Target’).</i></p>

No.	Issue	Action Plan – (<i>Current Position</i>)
3.	<p>Severe Weather Between the 5th and 15th January severe weather was experienced both locally and nationally resulting in heavy snow falls, severe ice and freezing temperatures within the B&NES region.</p> <p>The results of this weather impacted directly on the ability of all sectors of business and Council Services to continue to deliver their full range of services. In these situations this inevitably places significant strain on front-line and critical services where services have the biggest impact both on the community and vulnerable individuals.</p> <p>The situation was exacerbated in key areas such as refuse by a period of cold weather pre-Christmas and the impact of the Christmas holidays which meant delays to providing services were even longer than normal.</p> <p>An 'Outcomes of Severe Weather' report was submitted to the Council's Strategic Directors Group on 15th February 2010 recording achievements and issues. This reported that the emergency had been managed well. However as with all incidents of this nature, areas of improvement were identified.</p>	<ul style="list-style-type: none"> A paper will be submitted to Strategic Directors Group in the late Summer of 2010 to verify that the Council is in an improved position if exceptional circumstances are experienced again during the Winter 2010/11. <p>Paper was submitted to SDG 2nd August 2010.</p> <p>Further bad weather was experienced during Winter 2010/11. The impacts were effectively managed.</p> <p>Key actions taken included:</p> <p>Incident Command / Capabilities / Roles</p> <p>Development of a Major Incident Plan (Final version approved April 2011).</p> <p>Highways</p> <p>Completed Winter Maintenance Review during Summer / Autumn 2010.</p> <p>Council Comms (including Schools)</p> <p>Server and internet pipe capacity increased.</p> <p>IT systems developed enabling Schools to directly input to Council webpages for direct public access and use by radio stations.</p> <p>IT Systems</p> <p>In addition to comms issues, resilience in relation to remote access through broadband and slvpn has been improved.</p>

No.	Issue	Action Plan – (<i>Current Position</i>)
4.	<p>Information Security During 2009/10, three Internal Audit reviews relating to the management of key information management systems within the Council assessed the system of internal control as ‘weak’. These included the ONE system in Children’s Services, ParkMobile system in Parking Services and the ResourceLink system in Human Resources.</p> <p>Issues included –</p> <ul style="list-style-type: none"> - Audit Trails deactivated - Lack of effective management and exception reports - Weaknesses in access and password management - Accessibility to personal information - Training of system administrators - Third Party access - Unnecessary Retention of Records - Separation of duties - Business Continuity Planning <p>All of the issues / weaknesses identified were accepted by management and action plans are being monitored. Internal Audit will follow-up all these areas during 2010.</p>	<p>A proposal has been made to look at the options for centralising, simplifying and sharing the role of key system administrator tasks.</p> <p>The purpose of this proposal will be to reduce risk, simplify information security requirements and achieve efficiencies through economies of scale. This would tackle the vast majority of issues being raised.</p> <p>In addition, Internal Audit will carry out follow-up reviews on the relevant systems.</p> <p><i>No progress on the proposed action to centralise System Administrator roles.</i></p> <p><i>Follow-up Internal Audit reviews for the ONE System, ParkMobile & ResourceLink Audits were carried out during Quarter 4, 2010/11. This identified progress had been made with implementing agreed actions.</i></p> <p><i>This area has been subject to further scrutiny during the Annual Governance Review 2010/11.</i></p>

7. SIGNIFICANT GOVERNANCE ISSUES 2010/2011

The following issues have been identified for action by 31st March 2012:

No.	Issue	Actions
1.		
2.		
3.		
4.		

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We propose over the next financial year (2011/12) to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of the next annual governance review.

SIGNED BY:

**PAUL CROSSLEY
LEADER OF THE COUNCIL**

**JOHN EVERITT
CHIEF EXECUTIVE**

DATE: 30th June 2011

Bath & North East Somerset Council			
MEETING:	Corporate Audit Committee		
MEETING DATE:	28 th June 2011	AGENDA ITEM NUMBER	
TITLE:	Internal Audit Annual Report - (Outturn 2010/11 & Annual Plan 2011/12)		
WARD:	ALL		
AN OPEN PUBLIC ITEM			
List of attachments to this report:			
Appendix 1 – 2010/11 Outturn Report			
Appendix 2 – Introduction to the Audit Plan 2011/12			
Appendix 3 – Audit Plan 2011/12			

1 THE ISSUE

1.1 This is an annual report produced to detail the work undertaken by Internal Audit during 2010/11 and its plans for 2011/12.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- a) Note the summary of audit work during 2010/11 (Appendix 1)
- b) Approve the Internal Audit Plan for 2011/12 (Appendices 2 & 3)

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 Internal Audit Work Carried out in 2010/11 (Appendix 1)

4.2 In the progress report in December 2010, to this committee, it was estimated that 80% of the plan would have been completed subject to no further unplanned work.

4.3 Appendix 1, attached to this report, shows all the Audit reviews in the original 2010/11 Annual Plan and the current status of each review at year end. In addition, details of the unplanned work, carried out by the team, are summarised at the end of Appendix 1, for which a contingency is allocated at the start of the year.

4.4 As at the end of the year (31st March) I can now report that the Internal Audit team has completed 81% of the Annual Plan, against an original target of 90% completion.

4.5 This should be seen as satisfactory performance as only 65% of the number of days, originally set aside for planned reviews, were eventually available to the Team. Three areas in particular have impacted on the Team, namely:

- Sickness: sickness amounted to 206 days, which equated to 375% of the allowance built into the plan.
- Unplanned work: the planning process had a built in contingency of 275 days. However, unplanned work amounted to 376 days, 137% of the full year contingency.
- Redundancy: by the end of December, two part-time members of staff had taken voluntary redundancy, equivalent to 15% of resources.

4.6 Unplanned work carried out during the year is summarised at the end of Appendix 1 and, in total, has involved some 40 pieces of work, including investigations, into fraud & corruption, plus requests from senior management. In addition, there were three Key Control Reviews brought forward from the previous year, which took significant time to finalise due to the nature of the issues involved.

4.7 As in previous years, it is pleasing to note that a number of these pieces of unplanned work relate to requests for consultancy and advice from Service Managers, who continue to value the services we provide and make available.

4.8 In addition, there have been a further 116 recorded requests from various Services for advice / assistance / information, during the year.

4.9 2010/11 has been a period of change and decision, for the Audit Service, due primarily to the current and future financial pressures on the Service:

- A detailed project was undertaken during 2010/11, which reviewed future options for service delivery and made recommendations to the Audit Committee and previous Cabinet Member. The results of these recommendations led to –
- Two part-time auditors taking early retirement during the year
- A restructure within the Risk & Assurance Service with the integration of the Risk Management and Internal Audit Teams into one Service, under one Manager, with effect from 1st April resulting in the Audit Manager also taking early retirement.

- Discussions taking place with Bristol City Council on forming a local partnership for internal audit services for implementation in 2012 or 2013.

4.10 Overall, the key outcomes from work carried out during the year can be summarised as follows: -

- a) The continuing development and integration of the new Audit & Risk Management software into our methodologies, which is improving the quality of the product, management information and productivity. In addition, the Team are developing links with regional Councils, who also use the same software.
- b) An effective response to the risks associated with fraud & corruption, particularly in the light of the current recession and economic climate.
- c) Being appointed as the "Responsible Officer" (in effect, an Internal Auditor) by 4 new Academies. This has necessitated working in partnership with their externally appointed Auditors.
- d) Enabling 6 schools to achieve the FMSiS standard, before being abolished by the Department for Children, Schools & Families. After the abolition of FMSiS, the Audit Service has received very positive feedback from Headteachers, concerning the positive and innovative way the Service had approached this process. Since the abolition of FMSiS, the Department for Education has been developing a replacement standard for schools. The Audit Service has been well regarded by the Department, around FMSiS, and it was most satisfying when they approached the Service to assist them in their "mini-pilot", to help assess their new draft proposals.
- e) Working with colleagues within the Finance Service to reconcile the year end Teachers' Pensions returns to the Teachers' Pension Department and give assurance to the Council.
- f) Development of working protocols with the Council's External Auditors.
- g) Carrying out Stage 2 Complaint investigations, on behalf of the Council.

4.11 Performance

4.12 The Risk & Assurance Service has adopted a range of Performance Indicators to inform decision making and improve outcomes, both for the service and the Council as a whole.

4.13 The Internal Audit Service has a range of Performance Indicators, which are calculated monthly, quarterly and annually.

4.14 A summary of the Performance Indicators is provided below, showing performance as at 31st March 2011. Numbers 1 to 4 are a reflection on the control environment within the Council. The remainder relate specifically to the performance of the Team.

	Measure	2009/10 Actual	2010/11 Target	2010/11 Actual
1	% of Services which have an excellent, good or adequate internal control framework	83%	80%	82%
2	% of Critical, High & Medium Audit Recommendations implemented by Services	88%	90%	65%
3	% of schools achieving the FMSiS standard during the year	100%	90%	100%
4	% of Council budget where there is no identifiable fraud	99.99%	99%	99.99%
5	% of notional savings when comparing cost of Internal Audit against the Unitary average	9%	3%	6.5%
6	% of Audit Plan Completed	84%	90%	81%
7	% of assignments completed within time allocated	86%	80%	89%
8	% of Services which rate Internal Audit as excellent or good	100%	90%	96%
9	% of queries dealt within 5 working days of being logged	100%	95%	99%
10	% of planned Core Systems reviewed within the Annual Plan	81%	85%	80%
11	% of Final Reports issued within 4 months of start date	91%	80%	92%
12	% of Staff Appraisals completed	100%	100%	100%
13	% of Planned attendance at work	96%	95%	91%

4.15 Service Managers continue to think highly of the Audit Service, as judged by the completed Audit Quality Assurance Questionnaires received at the end of reviews.

4.16 The only disappointing indicator identified above is in relation to the implementation of critical or high risk recommendations. This was raised through the Annual Governance review which is separately reported to this committee and revolves primarily around controls to existing or legacy information systems.

4.17 CIPFA Benchmarking Exercise 2010

4.18 Each year CIPFA through their consulting arm (IPF) carry out national benchmarking studies and Internal Audit have joined this study since it started in 2001. The exercise compares Internal Audit teams over a detailed range of measures as well as sharing best practice and is an invaluable tool in improving the performance of the service.

4.19 The exercise is carried out over financial years and so the results reflect the year 2009/10 and the comparisons are to Unitaries as a whole and to a family or group of reasonably similar Internal Audit teams.

4.20 The results are very detailed and sizeable both in hard copy and electronic form but are available to the members of the Committee outside of the meeting. A brief summary of the headline measures is, however, detailed below (note: these were provided in the December interim report but are provided again for continuity):-

INDICATOR	B&NES (2008/09)	B&NES (2009/10)	UNITARY AVERAGE
Cost Per Chargeable Day	£306	£288	£308
Staff Cost Per Auditor	£37,526	£38,000	£42,541
Overheads Cost Per Auditor	£10,772	£10,778	£13,028
Cost per £M Gross Turnover	£1,207	£1,099	£955
Audit Days per £M Turnover	3.94	3.81	3.19
Productive Days per in-house Auditor	157	169	171

4.21 In general terms the results of this exercise are positive with the team confirming again it is low cost whilst retaining satisfactory levels of productivity.

4.22 A comparison with the indicators from the previous financial year show that whilst the staff and overhead costs per auditor are virtually the same, the trend for the other four indicators show a favourable situation, with costs reducing and productive days increasing.

4.23 As part of the initiative to drive the cost of Audit overheads down, whilst at the same time making the Team more efficient and effective, we are classified as mobile workers. We have exchanged our PC's for laptops whilst reducing the size of our office base.

4.24 Internal Audit Annual Plan 2011/12 (Appendix 3)

4.25 Appendix 3 details a summary version of the Audit Annual Plan for 2011/2012, i.e. only those areas identified for review in 2011/12. The plan is prepared using a number of factors to risk assess which areas merit coverage. The factors used are -

- a) A Risk on the Corporate Risk Register
- b) An improvement Priority within the Corporate Plan
- c) Time since last audit review
- d) Assurance level last audit
- e) Considered as a Core System
- f) Impact of failure on organisation
- g) Size of budget / turnover
- h) Inherent risk (including Service risk register)

4.26 The focus for this year will be on several areas -

- Moving forward with regards the options for the future delivery of the Internal Audit Service. This was the subject of a report to the February 2011 Audit Committee, which recommended that work is sanctioned to investigate a detailed model for a potential audit partnership with Bristol City Council;
- Ensuring a successful implementation of the Service restructure, with the integration of the Internal Audit and Risk Management teams into one Service, with effect from 1st April 2011;
- Improving management information and productivity, through the continued development of the new audit and risk management software and integrating even further a risk based approach to audit work;
- Developing and improving the quality and quantity of Audit work associated with the Avon Pension Fund;

- Improving the approach to Information Management & Technology Risk. This is as a result of the external audit review of the ICT contract during 2009/10;
- Successful completion of the contract work to be carried out on behalf of the new Academies, whilst at the same time identifying further opportunities for work in this area;
- Successful completion of contract work to be carried out on behalf of the new Social Enterprise, whilst at the same time identifying further opportunities for work in this area.

4.27 Comments of the Head of Risk and Assurance

4.28 It is pleasing to note that within the year once again there were no major frauds or fundamental system failures and it is my opinion that at this current time the Council's Internal Control framework and systems to manage risk are satisfactory.

4.29 Audit coverage has been commented on in the earlier sections of this report and there are a number of positives that can be taken regarding the overall performance of the team.

4.30 As previously reported to the Committee the long-term future in terms of service delivery for internal audit is now clear and the recent restructure has enabled fresh impetus into all aspects of service delivery. The success or otherwise of discussions with Bristol City Council will therefore be of paramount importance in maintaining progress.

4.31 Partnership working generally with Authorities in the South West continues to flourish and is an essential part of our ability to keep pace with the rapid developments to the way services are being delivered and the impacts on risk profiles. Therefore this remains of high importance as we move forward.

4.32 The changing horizon with respect to Council Services, i.e. creation of Academies and our new Social Enterprise has created financial pressures but also opportunities and progress in these areas in the next 12 months will continue to be important with for example new approaches to School audits.

4.33 The coming 12 months will provide a major challenge to the team who will need to ensure that the service is continued to be delivered to an acceptable level whilst also pursuing the options of partnership delivery in the future. This will require significant additional management effort to deliver this agenda and ensure that standards are maintained. Therefore the support of the Committee through this coming year will be important.

4.31 Accounts and Audit Regulations 2006

4.32 The Accounts and Audit Regulations request that the organisation should carry out 'an annual review of the effectiveness of the system of Internal Audit'

4.33 Guidance has been sought regarding the basis for this review and how it should be carried out including contact with CIPFA and the DCLG.

4.34 From these enquiries it appears that the work of the Audit Committee satisfies the requirements of this review through -

- A) Its normal scrutiny of the work of Internal Audit throughout the year.
- B) The review of the internal control environment through the SIC and annual governance review process.
- C) The review of Internal Audit against the CIPFA Code of Practice for Internal Audit.
- D) The review of Internal Audit by External Audit as part of their planned work.

5 RISK MANAGEMENT

5.1 The preparation of the audit plan is carried out following a risk assessment using a number of factors. Commentary and opinion in relation to past performance has used the outcome of audit and other inspection work to inform the risk assessment and there is nothing significant to report to the committee.

6 EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out in relation to this report. There are no significant issues to report to the Committee.

7 CONSULTATION

7.1 The report was distributed to the S151 Officer for consultation.

Contact person	Jeff Wring (01225 477323)
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 31st March 2011

Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Children's Services						
Children, Young People & Family Support Services						
Out of County placements	Key Controls Review	High	Completed	Level 4	5 Made / 5 Accepted	Panel Logs did not always show evidence of the decision; Panel Logs not always properly authorised; Contracts with schools not available in 2 instances; possible discount opportunities not always identified.
Learning & Inclusion						
Teachers' Pension return (PEN05) - opted out Schools	Key Controls Review - Core System	High	Completed	Level 2	7 Made / 7 Accepted	Recommendations made by the Audit Commission not always implemented; The completion of the annual certificate not effectively managed; Certificate sent to Teachers' Pensions not totally accurate; Reports from "opted - out" schools not received in timely manner; Contributions from "opted - out" schools not always accurate;
SIMS	Key Controls Review - Core System	High	Completed	Level 4	4 Made / 4 Accepted	Access and password controls; Year end reconciliation.
Ethnic Minority Achievement Service - (R)	Key Controls Review	Medium	Completed	Level 4	1 Made / 1 Accepted	Inadequate checks made on quarterly invoices, resulting in overpayment.
Travellers Education Service - (R)	Key Controls Review	Medium	Review cancelled			Cancelled at the request of the Service
Opted out school payroll - (R)	Key Controls Review	Medium	Draft Report Issued	Level 3	4 Made	Submission of Pension Reports by Schools; Accuracy of documents; Accuracy of Additional Voluntary Contributions; Availability of documents.
Financial Management Standard In Schools (Abolished with effect from 15th November 2010)						
Beechen Cliff	External Assessment & Follow-up	Medium	Completed			Achieved Standard
Broadlands Secondary School	External Assessment & Follow-up	Medium	Completed			Achieved Standard
Chew Valley Secondary School	External Assessment & Follow-up	Medium	Completed			Achieved Standard
Culverhay Secondary School	External Assessment & Follow-up	Medium	Review cancelled			Withdrawn from process
Haysfield School Technology College	External Assessment & Follow-up	Medium	Review cancelled			Withdrawn from process
Norton Hill Secondary School	External Assessment & Follow-up	Medium	Review cancelled			School became an Academy
Oldfield Secondary School	External Assessment & Follow-up	Medium	Review cancelled			School became an Academy

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Ralph Allen Secondary School	External Assessment & Follow-up	Medium	Completed			Achieved Standard
Somervale Secondary School	External Assessment & Follow-up	Medium	Review cancelled			School became an Academy
St Gregory's Catholic Secondary School	External Assessment & Follow-up	Medium	Completed			Achieved Standard
St Mark's CofE Secondary School	External Assessment & Follow-up	Medium	Completed			Achieved Standard
Wellsway Secondary School	External Assessment & Follow-up	Medium	Completed			Achieved Standard
Writhlington Secondary School	External Assessment & Follow-up	Medium	Review cancelled			Withdrawn from process
School Audit Visits - Primary Schools						
Freshford CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	Level 3	10 Made / 10 Accepted	8 Fully Implemented / 1 for future Implementation / 1 No longer applicable. Revised Action Plan issued covering (a) Contract approval.
Longvernal Primary School	Follow-up of 2009/10 Review	Medium	Completed	Level 3	6 Made / 6 Accepted	4 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering authorisation and renewal of contracts.
Marksbury CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	Level 4	3 Made / 3 Accepted	2 Fully Implemented / 1 Not Implemented. Revised Action Plan issued covering the raising of official orders.
Oldfield Park Infant School	Follow-up of 2009/10 Review	Medium	Completed	Level 5	2 Made / 2 Accepted	Both Fully Implemented
Paulton Junior School	Follow-up of 2009/10 Review	Medium	Completed	Level 3	4 Made / 4 Accepted	2 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) raising of official orders (b) authorisation of semi-official school fund expenditure.
St Andrew's CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	Level 2	8 Made / 8 Accepted	5 Fully Implemented / 2 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) raising of official orders (b) reconciliation of school meals income (c) updating school Purchasing Policy.
St Philip's CofE Primary School	Follow-up of 2009/10 Review	Medium	Completed	Level 4	6 Made / 5 Accepted	4 Fully Implemented / 2 Not Implemented. Revised Action Plan issued covering (a) school inventory (b) authorisation of semi-official school fund expenditure.
St Saviour's CofE Infant School	Follow-up of 2009/10 Review	Medium	Completed	Level 4	6 Made / 6 Accepted	4 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) amendments to school purchasing policy (b) Annual review of school's finance policy by Full Governing Body.

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Westfield Primary School	Follow-up of 2009/10 Review	Medium	c/f to 2011/12			c/f to 2011/12
Chandag Infant School	Key Controls Review	Medium	Completed	Level 2	13 Made / 13 Accepted	Single Central Record; Issue of official orders; Completion of school meals records; Banking of school meals income; Delays in the banking of general school income; Completion of Inventory; School Fund bank reconciliation; Authorisation of school fund expenditure; Use of Petty Cash;
Clutton Primary School	Key Controls Review	Medium	Completed	Level 4	6 Made / 6 Accepted	Single Central Record; Safer recruitment; Reconciliation of school meals income; Raising of official orders; Inventory checks; Audit of semi-official School Fund.
Midsomer Norton Primary	Key Controls Review	Medium	Completed	Level 5	3 Made / 3 Accepted	Single Central Record; School Inventory.
Oldfield Park Junior School	Key Controls Review	Medium	Completed	Level 3	15 Made / 15 Accepted	Signing of overtime claims; Raising of official orders; Segregation of duties; VAT invoices; Inventory; School trip expenditure; Storage of income.
Southdown Infant School	Key Controls Review	Medium	Completed	Level 4	9 Made / 9 Accepted	Raising of official orders; Invoice certification; Reimbursements to staff; School contracts; Inventory; Receipting of income; Governors' minutes.
St John's (Keynsham) Primary School	Key Controls Review	Medium	Completed	Level 4	8 Made / 8 Accepted	Single Central Record; School Fund administration; Raising of official orders; Retention of contract quotations; Reconciliation of income; Inventory; Bank reconciliations.
St Michael's C of E Junior School	Key Controls Review & Follow-up	Medium	Completed	Level 4	5 Made / 4 Accepted	Inappropriate purchases; Raising of official orders; Reconciliation of income; School meals administration.
St Saviour's C of E Junior School	Key Controls Review	Medium	Review not done			Insufficient resources - not c/f to 2011/12 as there is a new approach of themed reviews for schools
Welton Primary School	Key Controls Review	Medium	Review not done			Insufficient resources - not c/f to 2011/12 as there is a new approach of themed reviews for schools
Widcombe Junior School	Key Controls Review	Medium	Review not done			Insufficient resources - not c/f to 2011/12 as there is a new approach of themed reviews for schools
School Audit Visits - Special Schools						
The Link	Follow-up of 2009/10 Review	Medium	Completed	Level 2	13 Made / 13 Accepted	11 Fully Implented / 2 Partially Implemented. Revised action plan issued covering (a) Governors' Terms of Reference (b) banking of school meals income
Fosse Way School	Key Controls Review	Medium	Review not done			Insufficient resources - not c/f to 2011/12 as there is a new approach of themed reviews for schools

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Children's Centre						
St Martin's Garden Childrens Centre - (R)	Key Controls Review	Medium	Completed	Level 4	7 Made / 7 Accepted	Children's Centre budget; Reconciliation of purchasing card statements; arrears policy; Retention of cash: Bankings: Bank reconciliations; Inventory.
Strategic Planning Service						
Home to School Transport	Follow-up of 2009/10 Review	Medium	Completed	Level 1	7 Made / 7 Accepted	6 Fully Implemented / 1 Partially Implemented. Revised action plan issued covering (a) Service Risk Register.
Contact Point	Key Controls Review	Medium	Completed	N/A	N/A	Contact Point is now abolished; Review carried out in order that the annual assurance statement could be authorised, for the Council to receive its final grant.
Service Delivery:						
Environmental Services						
Parking Services	Follow-up of 2009/10 Review	High	Completed	Level 4	3 Made / 3 Accepted	3 Not Implemented. Revised action plan issued covering (a) Reconciliation of income with Agresso (b) New cash collection procedures (c) Reconciliation of data from the parking management system.
Use of Council & Hire Vehicles - (R)	Key Controls Review	High	c/f to 2011/12			c/f to 2011/12
Highway Maintenance & Term Contracts	Key Controls Review	High	c/f to 2011/12			c/f to 2011/12
Use of Council Vehicles - BSOG	Key Controls Review	High	Completed	N/A	N/A	Verification of the Bus Service Operators Grant claim
Tourism, Leisure & Culture						
SPA Operators Accounts Review	Follow-up of 2009/10 Review	Medium	Completed	Level 3	3 Made / 3 Accepted	3 Not Implemented. Revised action plan issued covering (a) Profit sharing arrangements (b) Business Continuity Plan (c) Financial monitoring.
Catering Contract Review	Follow-up of 2009/10 Review	Medium	Completed		1 Made / 1 Accepted	Fully Implemented
Bath Tourism Plus - (R)	Key Controls Review	High	Draft Report Issued	Level 4	5 Made	Current contract arrangements; Council representatives on the Board; Responsibilities of the Company Finance Director; Appointment of the Company's external auditors.
Sports & Active Leisure Team - governance arrangements - (R)	Key Controls Review	High	Completed	Level 4	4 Made / 4 Accepted	Business Continuity Plans; Equipment inventories and checks.
Planning & Transport Development						

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Greater Bristol Bus Network	Audit of Grant Claim	High	Completed	N/A	N/A	Verification of the Greater Bristol Bus Network grant claim
<u>Development & Major Projects:</u>						
Quality assurance process	Follow-up of 2009/10 Review	High	Completed	Level 3	18 Made / 18 Accepted (please note - includes the same recommendations spread over a number of Services)	12 Fully Implemented / 3 Partially Implemented / 3 Not Implemented. Revised Action Plan issued covering (a) Maintenance of a "Lessons learnt log" (b) sign off processes (c) simplified "gateway" process (d) PID preparation and approval.
Budgeting	Follow-up of 2009/10 Review	High	Completed	Level 4	2 Made / 2 Accepted	1 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering creation & monitoring of project timesheets.
SPA Expenditure Review	Follow-up of 2009/10 Review	High	Completed	Level 4	1 Made / 1 Accepted	Fully Implemented
West of England Partnership Office	Follow-up of 2009/10 Review	High	Completed	Level 3	10 Made / 10 Accepted	Fully Implemented
Consultancy & Advice	Key Controls	High	On-going	N/A	N/A	On-going
Employment of Consultants - Development & Regeneration - (R)	Key Controls Review	High	Review cancelled			Cancelled at the request of the Service
Grant Claim - RG20 Land Stabilisation (Combe Down Stone Mines)	Audit of Grant Claim	High	Draft Report Issued	Level 3	5 Made	Completion of final Grant Claim; Retention and storage of documents; verification of third party work; Council contract standing orders;
<u>Improvement & Performance:</u>						
Human Resources						
Payroll - Safer Recruitment	Follow-up of 2009/10 Review	High	c/f to 2011/12			c/f to 2011/12
Payroll -Variations	Follow-up of 2009/10 Review	High	Completed	Level 3	3 Made / 3 Accepted	Fully Implemented
Payroll	Key Controls Review - Core System	High	Completed	Level 4	2 Made / 2 Accepted	Deduction of Pension contributions; Retention of evidence documents.
HR Data - (R)	Key Controls Review	Medium	Completed	Level 2	6 Made / 6 Accepted	Recording of sickness absences by Services; Accuracy of weekly sickness forms to Payroll; The accuracy of sickness data on the payroll system; Monitoring & verification of sickness data.
Strategic Performance						
Review of statutory and local PI's (now Stretch Targets)	Key Controls Review	High	Completed	N/A	N/A	20 of 32 stretch targets achieved; Data to support targets; Clarity of target criteria; Independent monitoring; Accuracy of QPR data.
<u>Democratic & Legal Services:</u>						

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Members' Allowances	Follow-up of 2009/10 Review	Medium	Completed	Level 4	3 Made / 3 Accepted	Fully Implemented
Resources & Support Services:						
Risk & Assurance						
Council Contract Standing Orders	Annual Review	Medium	WIP On-going			WIP On-going
Schools Contract Standing Orders	Annual Review	Medium	WIP On-going			WIP On-going
Council Financial Regulations	Annual Review	Medium	WIP On-going			WIP On-going
Schools Financial Regulations	Annual Review	Medium	WIP On-going			WIP On-going
Budget Management Scheme	Annual Review	Medium	Review not done			Insufficient Resources - not c/f to 2011/12
FMSIS Training & Support	Training & Support	N/A	Completed			N/A
Risk Management	Follow-up of 2008/09 Review	High	Completed	Level 3	4 Made / 4 Accepted	2 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) Implementation of the Risk Management training programme (b) Completion & monitoring of relevant risk assessments.
Finance						
Accounting arrangements for Asset Management	Key Controls Review	Medium	c/f to 2011/12			c/f to 2011/12
Purchase Cards	Key Controls Review	High	Draft Report Issued	Level 3	10 Made	Review of Procedure Notes: Authorisation of card application forms; Retention of records; destination of bank statements.
Treasury Management - new regulations - (R)	Key Controls Review - Core System	High	c/f to 2011/12			c/f to 2011/12
PCIDSS (Payment card industry data security standard)	Follow-up of 2009/10 Review	Medium	Completed	Level 2	11 Made / 11 Accepted	3 Fully Implemented / 3 Partially Implemented / 5 Not Implemented. Revised Action Plan issued covering (a) Completion of the PCIDSS self assessment questionnaire (b) Information sharing agreements (c) Satisfying PCIDSS regulations (d) Obtaining PCIDSS compliance (e) Control process over remote maintenance (f) User authorisation forms.
Property						
Commercial Estates	Follow-up of 2009/10 Review	High	Completed	Level 4	3 Made / 3 Accepted	2 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering monitoring of debt reports.
Review of Charges & Cost Property Review	Consultancy	Medium	Completed	N/A	N/A	Requested by the Service
Primary School Meals - (R)	Key Controls Review	High	c/f 2011/12			c/f to 2011/12
Revenues, Benefits & Council Connect						
E Pay	Key Controls Review	Medium	Completed	Level 3	3 Made / 3 Accepted	Daily reconciliations; Correcting discrepancies; Recording actions taken.

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Customer Care Arrangements & Complaints	Follow-up of 2009/10 Review	High	Completed	Level 3	5 Made / 5 Accepted	1 Fully Implemented / 4 Partially Implemented. Revised Action Plan issued covering (a) New complaints procedure (b) Corporate response standards (c) Nominated complaints officers (d) Annual report.
Council Tax	Follow-up of 2009/10 Review	High	Completed	Level 4	4 Made / 4 Accepted	3 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering the monthly reconciliation process.
NNDR	Follow-up of 2009/10 Review	High	Completed	Level 4	4 Made / 4 Accepted	Fully Implemented.
Processing Claims - Housing Benefits	Follow-up of 2009/10 Review	High	Completed	Level 4	1 Made / 1 Accepted	Fully Implemented.
Community Health & Social Care Services:						
PCT Consultation & Support	Key Controls Review / Integration Support	High	On-going	N/A	N/A	On-going
Commissioning & Contracting	Key Controls Review - Core System	High	Review not done			Considered inappropriate due to creation of Social Enterprise.
Safeguarding Adults - People with Learning Difficulties - (R)	Key Controls Review	High	Completed	Level 3	11 Made / 11 Accepted	Enhancing Procedures Guide; Revision of the Data Collection Form; Complying with the Data Protection Act; Renewal of CRB certificates; Target timescales; Employee declarations for adherence to policies & procedures.
Avon Pension Fund:						
Pensions Payroll Administration	Key Controls Review - Core System	High	Completed	Level 5	1 Made / 1 Accepted	Reconciliation of deductions
IT & Business Continuity	Key Controls Review	High	Review not done			Insufficient Resources
Investment Management	Key Controls Review	High	Review not done			Insufficient Resources
Pensions Payroll	Follow-up of 2009/10 Review	High	Completed	Level 5	3 Made / 3 Accepted	Fully Implemented
Pension AXIS IT System	Follow-up of 2009/10 Review	High	Completed	Level 4	3 Made / 3 Accepted	1 Fully Implemented / 2 Not Implemented. Revised Action Plan issued covering (a) System procedure notes in place (b) Records retention schedule.
Anti-fraud:						
Service Delivery:						
Environmental Services						

Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 31st March 2011

Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Parking Services - Income Collection	Transaction Testing	High	Completed	Level 1	9 Made / 9 Accepted	Daily income collection routines reviewed; Maintain records of barrier passes issued; Security of credit card information; Car park barriers; Reconciliation of permits; Availability of management reports; Issue of temporary day tickets; Monitoring of barrier cards.
Use of Council fuel cards - (R)	Transaction Testing	High	Completed	Level 3	10 Made / 10 Accepted	Authority to order fuel cards; Security of fuel cards; Issue of Council fuel cards; Identification of issues & management action; Management information & monitoring.
Tourism Leisure & Culture						
Heritage Services - Cash Controls	Follow-up of 2009/10 Review	High	Completed	Level 3	5 Made / 5 Accepted	4 Fully Implemented / 1 Partially Implemented. Revised Action Plan issued covering completion of the theft prosecution policy.
Heritage Services - Income Collection Roman Baths	Transaction Testing	High	Completed	Level 4	2 Made / 2 Accepted	Authorisation of refunds; Review of bank reconciliations.
Heritage Services - Retail Security Review	Consultancy	Medium	Completed	N/A		Advice & support provided during a retail security review, led by an external consultant
Library Services - Income Collection	Transaction Testing	High	WIP - c/f to 2011/12			WIP - c/f to 2011/12
Community Health & Social Care Services:						
Personalised Budgets	Transaction Testing	High	Completed	Level 3	9 Made / 9 Accepted	Accumulation of funds by Budget holders; Submission of documentation by Budget holders; Submission of quarterly returns by Budget holders; Verification of quarterly returns; Management of bank accounts;
Radstock Road Community Stores - (R)	Transaction Testing	Medium	Completed	Level 2	14 Made / 14 Accepted	Bar coding system; Stock control system not up to date; Quality control; Disposal of equipment; Periodic stock checks; Stock room security; Procedures & guidelines.
Payments to Domiciliary Care Providers	Transaction Testing	High	Completed	Level 3	6 Made / 6 Accepted	Clients' Care Plans; Periodic reviews of duration of home visits; Submission of timesheets; Client signatures on timesheets; "double-up" visits.
Community Resource Centres - (R)	Transaction Testing	Medium	Completed	Level 4	9 Made / 9 Accepted	Administraion of Residents' cash sheets, including accuracy & certification procedures; Personal needs allowances; Security & storage of cash.
Improvement & Performance:						
Human Resources						
Payroll - Transaction testing	Follow-up of 2009/10 Review	High	Completed	Level 3	6 Made / 6 Accepted	Fully Implemented

Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 31st March 2011

Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Payroll - Transaction testing	Transaction Testing	High	Completed	Level 4	4 Made / 4 Accepted	Inventory of CRB forms submitted; Recharging arrangements to Services.
Payroll - Mileage & Business Expenses - (R)	Transaction Testing	High	Draft Report Issued	Level 4	4 Made	Completion of claim forms; submission of receipts; Incorrect mileage rates.
<u>Resources & Support Services:</u>						
Avon Pension Fund						
Avon Pension Fund - Assets & Revenues	Transaction Testing	High	Completed	Level 4	2 Made / 2 Accepted	Certification of monthly returns from employer bodies
Finance						
Purchase Cards	Transaction Testing	High	Draft Report Issued	Level 3	4 Made	Supporting documentation for transactions; Management review of transaction logs; Inappropriate use of the card (please note - NOT substantial)
Procurement compliance - (R)	Transaction Testing	High	Draft Report Issued	Level 4	5 Made	Completion of the Council's contracts register; Renewal of contracts.
Duplicate Payment Controls	Follow-up of 2009/10 Review	High	Completed	Level 3	3 Made / 3 Accepted	All Fully Implemented
Purchase Cards	Follow-up of 2009/10 Review	High	Completed	Level 4	3 Made / 3 Accepted	2 Fully Implemented / 1 Partially Implemented. Revised action plan issued covering authorisation of new card application forms.
Property						
Cash Cafeterias	Follow-up of 2009/10 Review	High	Completed	Level 1	8 Made / 8 Accepted	5 Fully Implemented / 2 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) Administration of the Corporate Purchasing Card (b) Reconciliation of income (c) Up to date guidance notes (d) Reconciliation of meals numbers.
Community Meals	Transaction Testing	High	Completed	Level 3	4 Made / 4 Accepted	Monitoring of delivery round sheets; Maintenance of stock records; Reconciliation of bankings.
Revenues, Benefits & Customer Services						
Council Tax - NFI - (R)	Consultancy	High	Completed	N/A	N/A	N/A
Council Tax Liability - Breaks in Residence - (R)	Transaction Testing	High	Review not done			Insufficient Resources
Council Tax - Student Exemptions	Transaction Testing	Medium	Completed	Level 3	6 Made / 6 Accepted	Student status verification; Recognised educational establishments; Minimum course requirements; Challenging distance learning; Quality checking of exemptions; Risk Register.
Housing Benefits - Processing Claims	Transaction Testing	High	c/f to 2011/12			c/f to 2011/12
Housing Benefits - Overpayments	Transaction Testing	High	Draft Report Issued	Level 4	4 Made	Written policies & procedures; Completion of documentation; Reconciliation of electronic information; Quality control of processes.

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Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Cash Collection Machines	Follow-up of 2009/10 Review	High	Completed	Level 4	3 Made / 3 Accepted	Fully Implemented
Risk & Assurance Services						
Anti-fraud Bulletins	Preparation & Issue	Medium	Nos 5 & 6 issued			
Anti-fraud & Corruption Policy (Incl. Whistleblowing Policy)	Annual Review	Medium	c/f to 2011/12			c/f to 2011/12
National Fraud Initiative	Data Matching Investigation	High	WIP On-going	N/A	N/A	WIP On-going
Money Laundering	Annual Review	Medium	Completed			Policy reviewed & updated
Whistleblowing Promotion/Awareness	Preparation & Issue	Medium	c/f to 2011/12			c/f to 2011/12
Joint Working with NHS Counter Fraud Team	Annual Review	Medium	Completed			N/A
Information Technology and Management:						
All Services						
Agresso I.T. System	Key Controls Review	High	c/f to 2011/12			c/f to 2011/12 due to the current upgrade of the system.
CareFirst I.T. Systems	Key Controls Review	High	Completed	Level 3	5 Made / 5 Accepted	CRB certificates; Monitoring of users & access to the database; Business continuity issues
Uniform I.T. System	Key Controls Review	High	Completed	Level 3	5 Made / 5 Accepted	Retention of evidence; Password security; Retention of contract agreements; Roles & responsibilities; User base review.
Documentum I.T. System	Key Controls Review	High	Completed	Level 3	6 Made / 6 Accepted	CRB certificates; Monitoring of users & access to the database;
RADIUS I.T. System	Follow-up of 2009/10 Review	High	Completed	Level 4	5 Made / 5 Accepted	Fully Implemented
COMINO I.T. System	Follow-up of 2009/10 Review	High	Completed	Level 2	7 Made / 7 Accepted	5 Fully Implemented / 1 Partially Implemented / 1 Not Implemented. Revised Action Plan issued covering (a) Training & support (b) Compliance with the Data Protection Act.
ONE I.T. System	Follow-up of 2009/10 Review	High	Completed	Level 2	8 Made / 8 Accepted	2 Fully Implemented / 3 Partially Implemented / 3 Not Implemented. Revised Action Plan issued covering (a) Suitability of current reports (b) User access rights (c) Compliance with the Data Protection Act (d) Business continuity plan (e) Current maintenance agreement.

Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 31st March 2011

Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
Parkmobile I.T.System	Follow-up of 2009/10 Review	High	Completed	Level 2	10 Made / 10 Accepted	0 Fully Implemented / 1 Partially Implemented / 9 Not Implemented. Revised Action Plan issued covering (a) Formal training provided (b) Guidance notes (c) Access to Parking system (c) Monitoring of 3rd party access (d) Password administration (e) Management reports (f) Compliance with the Data Protection Act (g) Service Risk Register
ResourceLink I.T. System	Follow-up of 2009/10 Review	High	Completed	Level 2	9 Made / 9 Accepted	2 Fully Implemented / 2 Partially Implemented / 5 Not Implemented. Revised Action Plan issued covering (a) System Administrator (b) Formal training provided (c) Security of employee personnel files (d) Password controls (e) Business Continuity Plan (f) Compliance with the Data Protection Act (g) Retention of records.
Transformation						
Hosted Systems - (R)	Key Controls Review	Medium	Draft Report Issued	Level 1	3 Made	Establishment of Hosting Policy; Corporate Governance; Database of Hosted Systems;
Strategy & Management						
Mouchel - Performance Management	Key Controls Review	High	Draft Report Issued	Level 3	2 Made	Introduction of a quality checking process on key indicators; Provision of validating reports for monitoring purposes.
Operating Systems & Network Security						
Internet / Network Controls (incl Firewall / Virus Protection)	Key Controls Review	High	c/f to 2011/12			c/f 2011/12
<u>Unplanned Reviews: Summary of key areas of work</u>						
Lean Review - Housing Benefits new application system	Consultancy & Advice		Completed	Level 4	3 Made / 3 Accepted	Independent verification of claims; Supporting evidence; CRB checks;
Greater British Heritage Pass - Heritage Services Nos	Consultancy & Advice		Completed	Level 4	2 Made / 2 Accepted	No. of passes underclaimed; Formal contract available.
Home to School Transport - b/f from 2009/10	Key Controls Review		Completed	Level 1	8 Made / 8 Accepted	Current driver CRB's; Driver ID; Risk Registers; Authorisation of Agresso invoices; Records showing vehicle quality assurance checks;

Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 31st March 2011

Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues
West of England Partnership Office - b/f from 2009/10	Key Controls Review		Completed	Level 3	9 Made / 9 Accepted	Partnership joint arrangement document; The performance management framework and reporting structure; Notification of Partnership estimates; Recharging arrangements; Corporate Risk Register; Service level agreements; Business continuity plan.
Safer Recruitment - b/f from 2009/10	Key Controls Review		Completed	Level 2	8 Made / 8 Accepted	Positive disclosures following CRB checks; Retention of CRB documentation; Verification of new employees, references & their qualifications; Requests for CRB checks;
Teachers' Pensions & PEN05 return	Audit of Annual Return		Completed	N/A	N/A	Assistance requested by Finance Service for reconciliation
Teachers' Pensions & TR17 return	Audit of Annual Return		Completed	N/A	N/A	Assistance requested by Finance Service for reconciliation
Secondary School - Football Foundation Grant	Audit of Grant Claim		Completed	N/A	N/A	Reconciliation, audit & submission of grant claim
Creditors - Change of Bank details	Consultancy		Completed	N/A	N/A	Action taken following fraudulent approaches to other Councils
Major Projects - verification of contract compliance	Consultancy		Completed	N/A	N/A	Assistance provided following a challenge by an unsuccessful tenderer
HMRC Inspection	Consultancy		Completed	N/A	N/A	Work associated with a visit by a HMRC Inspector
Briefing & training	Consultancy		Completed	N/A	N/A	Briefing session for School Business Managers
Litter Fixed Penalties	Consultancy		Completed	N/A	N/A	Assistance provided for new Council responsibilities
Stage 2 Complaint	Investigation		Completed	N/A	N/A	An independent investigation on a Stage 2 complaint
Payroll overpayment	Investigation		Completed	N/A	N/A	An investigation into a substantial salary overpayment
Tourism, Leisure & Culture Service - lessons learnt	Investigation		Completed	N/A	N/A	Lessons learnt report issued following an investigation involving conflicts of interest
Heritage Cash Shortage	Investigation		Completed	N/A	N/A	Investigation into alleged cash shortages
Suspect Permit Abuse / Cleansing	Investigation		Completed	N/A	N/A	Allegations of inappropriate behaviour
Primary School - school meals	Investigation		Completed	N/A	N/A	School meals income unaccounted for
Whistleblowing investigation (Parking)	Investigation		Completed	N/A	N/A	Allegations of inappropriate behaviour
Whistleblowing investigation (Recruitment)	Investigation		Completed	N/A	N/A	Allegations of inappropriate recruitment

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Internal Audit Annual Plan 2010 / 2011 - Position Statement as at 31st March 2011

Planned Audit Area 2010/11	Type of Review	Risk Rating	Current Status	Audit Opinion	Recommendations Made / Accepted	Key Issues

**Bath & North East
Somerset Council**

Risk & Assurance Service

Internal Audit Annual Plan

April 2011 - March 2012

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1. Introduction:

- 1.1 The purpose of this document is to explain:
- § The role of Internal Audit
 - § How Internal Audit carries out its work
 - § Relationship with the Council's External Auditor
 - § How the annual plan is prepared, and
 - § Present the draft 2011 / 2012 Annual Audit Plan for consultation
- 1.2 The Internal Audit Service would welcome comments from Service Managers on the contents of this draft Annual Plan. Wherever possible, Audit reviews requested by Managers during the consultation process have been included. All requests are considered taking into account the adopted risk based methodology and available resources.
- 1.3 Comments and suggestions must be received by the 20th April 2011, at the latest, as the Annual Plan will be going to the Corporate Audit Committee for approval, on the 24th May 2011.

2. Internal Audit's Role within the Council:

- 2.1 Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit's work is not limited to the Council's financial systems and records, but extends to all activities of the Council. This enables Internal Audit to give an independent and objective opinion on the control environment as a source of assurance to management.
- 2.2 The service objective of Internal Audit is produced in the form of an Annual Plan, which is presented for approval to the Council's Audit Committee each year.
- 2.3 As part of the annual opinion Internal Audit will report on its own compliance with the CIPFA Code of Practice for Internal Audit. This will be achieved by continually monitoring it's own performance.

Internal Audit Independence:

- 2.4 A critical element of the performance of Internal Audit is independence from the activities it audits. This enables Internal Audit to form impartial and effective judgment for the opinions and recommendations made.
- 2.5 To help ensure independence, Internal Audit is allowed unrestricted access to Senior Management & Members, particularly, the Leader of

the Council, the Chair of the Corporate Audit Committee, the Chief Executive, Strategic Directors, the Council's s151 Officer and the Council's Monitoring Officer. Additionally, the Divisional Director, Risk & Assurance, reports in his own name.

- 2.6 The Internal Audit service form part of the core governance structure of the organisation and its input is required as part of the Annual Governance review. This Review is carried out by the Risk & Assurance Service on behalf of the organisation.

3. Relationship with the Council's External Auditor:

- 3.1 As part of their audit of the Council's financial statements, the Council's external auditor, the Audit Commission, have a dedicated plan from which they carry out specific reviews of the Council's activities and the Avon Pension Fund. To facilitate this work they have already issued a plan for the audit of the 2010/11 accounts.
- 3.2 The Audit Commission have identified what they consider are the key controls, from the material financial systems, which they will test over a 3 year rolling period.
- 3.3 However, the Audit Commission seek to place as much reliance as possible on the work of Internal Audit on the key financial systems. As part of this approach, Internal Audit has agreed to carry out particular reviews within the Audit Commission's annual plan, using their methodology. The intention will be for the Audit Commission to place reliance on this work in coming to their opinion.
- 3.4 The relationship between Internal Audit and the Council's External Audit should take account of their differing roles. The External Auditor has a statutory responsibility to express an opinion on the Council's financial statements, whilst Internal Audit is responsible for assessing the adequacy and effectiveness of the internal controls and advising Management accordingly.
- 3.5 Internal Audit will co-operate and co-ordinate with External Audit to:
- Ensure that duplication of work is minimised
 - Consider joint delivery where appropriate
 - Determine the level of assurance that can be obtained from their work
 - Review the reliance that can be placed on that assurance as part of Internal Audit's opinion on the control environment
 - To enable access to all Internal Audit records as appropriate

4. Preparation of the Annual Plan:

The Internal Audit Service has adopted a risk based approach in determining its Annual Plan and carrying out individual reviews.

Internal Audit Risk Assessment:

- 4.1 To properly develop and substantiate the overall Annual Audit Plan it is necessary to carry out a full and detailed needs assessment of the whole of the Council’s activities.

This is carried out through the use of a Risk Assessment model. This model has been developed over many years of audit experience and external best practice and is being continually updated and refined.

The Risk Assessment model, for which a summary of the criteria can be seen below, was applied to the Council’s activities:

Internal Audit Risk Assessment Matrix – 2011/12

Criteria
A Risk on the Corporate Risk Register
An Improvement Priority within the Corporate Plan
Time since Last Audit Review
Assurance level last Audit
Considered as a Core system
Impact of failure on organisation
Size of budget/Turnover
Inherent risk
(including content of Service Risk Registers maintained)

- 4.2 In order to select reviews to be included in the audit plan, the number of available productive audit days based on available resources must be calculated. In previous years, an allowance has been deducted from available productive days to cover ‘unplanned work’. Unplanned work consists of the investigation of irregularities and consultancy work. However, a decision has been taken to present what the Service would like to audit during the year and how ‘unplanned work’ impacts on the achievement of the plan. In consequence, when the need arises to redirect resources to unplanned work, planned audit reviews, with the lowest risk rating, will be deleted from the Annual Plan.

- 4.3 The application of the Risk Assessment provides details of auditable areas that should be included within the Audit Plan, by identifying a rating for each area of Critical, High, Medium and Low Risk. Included within this are:
- § The Council's Core financial systems
 - § A dedicated Anti-Fraud plan
 - § A dedicated IT plan
- 4.4 Whilst the Avon Pension Fund is included in the overall Audit Plan, it is separately reported to the Pension Fund. However, the same methodology and criteria are adopted.
- 4.5 Following the inclusion of requests from Senior Management, the Annual Plan is created, with strict limitations imposed through the available resources.
- 4.6 In view of the ever changing environment in which Local Government exists the Internal Audit Annual Plan will be reconsidered in September / October 2011 to confirm that work planned to be carried out in the second half of the year is still appropriate. This process will be carried out in consultation with Service Managers.

The Draft Plan is attached at **APPENDIX 1**.

5. Internal Audit Methodology:

Individual Assignments:

- 5.1 At the commencement of each Audit assignment, an Audit Brief (**Annex A**) will be prepared and issued to the relevant Divisional Director and responsible Manager. This Brief will identify the objectives of the review and areas to be covered. This Brief will be subject to agreement between the Service and the auditor.
- 5.2 At the conclusion of each assignment, an end of review meeting will be held with the Manager responsible for the Service to discuss the matters arising, including both strengths and identified weaknesses. The Divisional Director may be involved.
- 5.3 Following this meeting, a draft report will be issued to Management, highlighting strengths & weaknesses, along with any appropriate recommendations. This draft report will include an opinion on the adequacy of controls (**Annex B**) within the area audited and an assessment of the risk to the Council.
- 5.4 The responsible Manager will be required to respond to recommendations and prepare an implementation plan within an agreed timetable.

- 5.5 A final report is then issued to the Divisional Director and appropriate Service Management.

Follow-ups:

- 5.6 Internal Audit reports / recommendations are subject to “follow-up”. The objective of this process is to ensure agreed actions are implemented within the agreed timecales.
- 5.7 The follow-up process will concentrate on ‘Critical’ and ‘High’ recommendations ensuring that any failure to implement as agreed is promptly highlighted to management. ‘Medium’ and ‘Low’ risk recommendations will also be followed up but Internal Audit resources will be focussed on the more significant audit findings and recommendations when carrying out follow ups.

6. Internal Audit Fraud related work:

- 6.1 Internal Audit does not have responsibility for the prevention and detection of fraud. Internal Audit staff, however, shall be alert, in all their work, to risks and exposures that could allow fraud or corruption.
- 6.2 Members of staff working within the Council must report any possible fraud and irregularities to the Internal Audit Service. In this respect, attention is drawn to the Council’s own Anti-fraud & Corruption and Whistle blowing policies. These can be found on the Internal Audit website.

7. Performance Management:

- 7.1 To aid continuous improvement in quality and performance, the Audit Service has its own Quality Performance Indicators (QPI’s), the details

of which are shown below. These feed through to the Risk & Assurance Service performance indicators.

Performance Indicator	Target	Frequency
% of Critical / High & Medium Risk Recommendations implemented by Services	90%	Monthly
% of Audits completed within time allocated	80%	Monthly
% of Services which have an Internal Control Framework assessed as Excellent, Good or Adequate	80%	Monthly
% of Services which rate Internal Audit as Excellent or Good	90%	Quarterly
% of Savings when comparing cost of Internal Audit against the Unitary Average	5%	Annual
% of Council Budget where there is no identifiable fraud	99.9%	Annual
For Final Reports issued in the reportable quarter, % of Final Reports issued within 4 months of the issue date of the Audit Brief	80%	Quarterly
% of chargeable time spent on planned work	60%	Quarterly
% of Core Financial Systems reviewed within the Annual Audit Plan	85%	Annual
% of Audit assignments in the Annual Audit Plan completed at year end.	90%	Annual
% of queries & enquiries dealt within 5 working days of being logged	90%	Quarterly

ANNEX A

AUDIT BRIEF

**Bath & North East
Somerset Council**

	Client	DIRECTOR/HEAD OF SERVICE ETC
	Audit Area	TITLE OF AUDIT
1. Purpose of Audit	<p>This will depend on the audit approach taken (see next section for options) but in the vast majority of instances it will be –</p> <p><i>‘To provide the Client with assurance on the adequacy of the framework of risk controls in relation to the..... ‘</i></p>	
2. Audit Review Methodology	<p>Detail here the type of audit you are performing and then the scope. Different audit approaches include –</p> <p>Risk Based Audit ICQ/KCQ/Systems Audit Questionnaire Risk Workshops Risk Register Analysis Probity Testing Consultancy Projects Systems Development</p> <p>So if it is a Risk Based Audit of Pensions Administration for instance you would say –</p> <p><i>Methodology adopted will be a Risk Based Approach which will:</i></p> <ul style="list-style-type: none"> <i>a) Ascertain and document the current systems</i> <i>b) Evaluate, test and assess the internal controls in place to mitigate risk</i> <i>c) Report on the adequacy and effectiveness of the internal controls in place to mitigate the identified risks</i> 	
3. Areas to be Reviewed	<p>Detail here the key areas you wish to review in the audit. This replaces the Control Objectives section but effectively means the same thing. These must be understandable to the Client, avoid jargon and be as concise as possible. You must agree these with whoever the Audit Reviewer is on each review before issuing to the Client.</p> <p>The Areas you include here should match in the vast majority of cases the areas you include in Section A – Assurance Summary of the Report Format.</p>	

<p>4. Timescales</p>	<p><i>The audit will be carried out over a three month period from the date the brief is agreed by the Client. If the scope of the review or areas to be reviewed should be altered then revised timescales will be agreed with the Client.</i></p> <p><i>As part of the Audit process we will make every effort to minimise the impact on your service and aim to give adequate notice to any requests for information or officer time.</i></p>
<p>5. Key Contacts/ Access Required</p>	<p>Contacts: Indicate here the key people you will deal with plus their extension no. or e-mail ref plus the names/extension numbers of the relevant auditor(s)</p> <p>Access Required: <i>Access to all systems, records and personnel as required to complete the review</i></p>
<p>6. Audit Output & Management Response</p>	<p>Audit Output: <i>A written report will be produced at the completion of the audit in draft and final form. This will detail an evidence based opinion, summary of assurance over each of the areas being reviewed and a risk based Action Plan.</i></p> <p>Management Response: <i>The Client should designate a key contact to agree the audit brief and to also complete the Action Plan contained within the report. All reports and audit briefs will be copied to the Divisional Director as a matter of course.</i></p> <p><i>It will be the responsibility of the Divisional Director to ensure that the Audit Brief is approved within 7 days of issue and the Action Plan contained within the Audit Report is completed and returned to Internal Audit within 2 weeks of the date of issue of the report.</i></p>
<p>7. Standards</p>	<p><i>The Internal Audit Service operates under the CIPFA Code of Practice for Internal Audit in Local Government as stipulated by the Accounts and Audit Regulations 2006.</i></p> <p><i>The Service's terms of reference have been agreed by Members and more details about the work of Internal Audit are available on our website.</i></p>
<p>Prepared By</p>	<p>Date</p>
<p>Accepted By</p>	<p>Date</p>

Audit Opinions

Assurance Level 5 - Excellent Control Framework

The administration and management of the system of internal controls was excellent and reasonable assurance can be provided over all the areas within the audit scope.

- *Assurance Level 4 - Good Control Framework*

The administration and management of the system of internal controls was good and only minor weaknesses were identified from the areas detailed in the audit scope.

- *Assurance Level 3 – Adequate Control Framework*

The administration and management of the system of internal controls was adequate. However, there are a number of areas which require improvement.

- *Assurance Level 2 – Weak Control Framework*

The administration and management of the system of internal controls was weak and reasonable assurance could not be provided over a number of areas detailed in the audit scope. Prompt action is necessary to improve the current situation and reduce the risk exposure.

- *Assurance Level 1 – Poor Control Framework*

The administration and management of the system of internal controls was poor and there are fundamental weaknesses in the areas detailed in the audit scope. Urgent action is necessary to reduce the high levels of risk exposure.

Contact Details

Divisional Director Risk & Assurance	Jeff Wring 01225 477323 jeff_wring@bathnes.gov.uk
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Audit Team Leader	Richard Howroyd 07530263028 richard_howroyd@bathnes.gov.uk
Address	Internal Audit Risk & Assurance Service The Guildhall High Street BATH, BA1 5AW

Internal Audit Annual Plan 2011 / 2012

INTERNAL AUDIT AREA	INTERNAL AUDIT TYPE	AUDIT RISK RATING	STRATEGIC DIRECTOR
<u>Adult Health, Social Care & Housing:</u>			
Safeguarding Adults	Follow-up of 2010/11 Review	High	Ashley Ayre
Social Enterprise Delegations - (R)	Corporate Work	High	Ashley Ayre
Personalised Budgets - (R)	Key Controls Review & Follow-up	Medium	Ashley Ayre
Community Day Services	Key Controls Review	Medium	Janet Rowse
Radstock Road Community Stores - (R)	Key Controls Review & Follow-up	Medium	Janet Rowse
Housing Allocations	Key Controls Review	Medium	Ashley Ayre
<u>Children's Services:</u>			
Health, Commissioning and Planning			
Ethnic Minority Achievement Service	Follow-up of 2010/11 Review	Medium	Ashley Ayre
SIMS - Audit Commission Key Control Review	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Learning & Inclusion			
Out of County Placements	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Primary Schools			
Chandag Infant School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Clutton Primary School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Midsomer Norton Primary School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Oldfield Park Junior School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Southdown Infant School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
St John's CofE (Keynsham) Primary School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
St Martins Garden Primary School - (R)	Key Controls Review	Medium	Ashley Ayre
St Michaels CofE Junior School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Twerton Infant School	Key Controls Review	Medium	Ashley Ayre
Westfield Primary School	Follow-up of 2010/11 Review	Medium	Ashley Ayre
Themed School Reviews			
Financial planning, budget setting and budget monitoring	Key Controls Review	High	Ashley Ayre
Governance Arrangements	Key Controls Review	High	Ashley Ayre
Safeguarding	Key Controls Review	High	Ashley Ayre

Internal Audit Annual Plan 2011 / 2012

INTERNAL AUDIT AREA	INTERNAL AUDIT TYPE	AUDIT RISK RATING	STRATEGIC DIRECTOR
Safeguarding, Social Care & Family Services			
Childrens Centre Services			
First Step Twerton Childrens Centre - (R)	Key Controls Review	High	Ashley Ayre
Radstock Childrens Centre - (R)	Key Controls Review	High	Ashley Ayre
St Martins Garden Childrens Centre	Follow-up of 2010/11 Review	High	Ashley Ayre
Integrated Safeguarding			
Safeguarding	Key Controls Review	High	Ashley Ayre
Integrated Services 0-11			
Commissioning - Bath Area Play Project - (R)	Key Controls Review	High	Ashley Ayre
Social Care			
Fostering	Key Controls Review	High	Ashley Ayre
<u>Development & Major Projects:</u>			
Employment of Consultants - Devp & Regeneration	Key Controls Review	High	John Betty
RG20 Land stabilisation - Combe Down Stone Mines	Follow-up of 2010/11 Review	Medium	John Betty
Consultancy & advice - Major Projects	Corporate Work	High	John Betty
<u>Improvement & Performance:</u>			
Human Resources			
Sickness Monitoring	Follow-up of 2010/11 Review	Medium	Dave Thompson
Payroll Additions and Deductions - Pension Contributions	Key Controls Review	Medium	Dave Thompson
Opted out school payroll	Follow-up of 2010/11 Review	Medium	Dave Thompson
Payroll - Audit Commission Key Controls Review	Follow-up of 2010/11 Review	High	Dave Thompson
Project support/advice	Corporate Work	Medium	Dave Thompson
Statutory Returns - (R)	Key Controls Review	Medium	Dave Thompson
Teachers pension return PEN05	Key Controls Review & Follow-up	Medium	Dave Thompson
Strategic Performance			
National Data Set / Key Performance Indicators - (R)	Key Controls Review	Medium	Dave Thompson

Internal Audit Annual Plan 2011 / 2012

INTERNAL AUDIT AREA	INTERNAL AUDIT TYPE	AUDIT RISK RATING	STRATEGIC DIRECTOR
<u>Information Technology Management:</u>			
Hosted System Security - (R)	Key Controls Review & Follow-up	High	Andrew Pate
Internet / Network Controls	Key Controls Review - Core System	High	Andrew Pate
Virus Protection	Key Controls Review	High	Andrew Pate
Mouchel - Performance Management	Follow-up of 2010/11 Review	High	Andrew Pate
Agresso Financial Management System	Key Controls Review	High	Andrew Pate
CareFirst - Management & Information Systems	Follow-up of 2010/11 Review	High	Ashley Ayre
CareFirst Data Stewardship - (R)	Key Controls Review	High	Ashley Ayre
Documentum	Follow-up of 2010/11 Review	High	Ashley Ayre
Uniform	Follow-up of 2010/11 Review	High	Glen Chipp
<u>Resources & Support Services:</u>			
Finance			
Accounts Payable - Audit Commission Key Controls Review	Key Controls Review - Core System	Medium	Andrew Pate
Accounts Receivable - Audit Commssion Key Controls Review	Key Controls Review - Core System	Medium	Andrew Pate
Purchase Cards	Follow-up of 2010/11 Review	Medium	Andrew Pate
Accounting arrangements for asset management - (R)	Key Controls Review	High	Andrew Pate
Treasury Management - (R)	Key Controls Review - Core System	High	Andrew Pate
Policy & Partnerships			
Equalities - (R)	Key Controls Review	Medium	Andrew Pate
Property Services			
Primary School Meals - Catering	Key Controls Review	Medium	Andrew Pate
Revenues & Benefits, Council Connect			
E Pay	Follow-up of 2010/11 Review	High	Andrew Pate
<u>Service Delivery:</u>			
Environmental Services			
Highways Networks Management			
Highway Maintenance & Term Contracts	Key Controls Review	Medium	Glen Chipp

Internal Audit Annual Plan 2011 / 2012

INTERNAL AUDIT AREA	INTERNAL AUDIT TYPE	AUDIT RISK RATING	STRATEGIC DIRECTOR
Parking Services			
Cash Collection - (R)	Key Controls Review - Core System	High	Glen Chipp
Parking ANPR System - (R)	Project Implementation Support	High	Glen Chipp
Planning & Transport Development			
Income Reconciliation - (R)	Key Controls Review	Medium	Glen Chipp
Land Charges	Key Controls Review	Medium	Glen Chipp
Planning Application, Appeals & Enforcement	Key Controls Review	Medium	Glen Chipp
Section 106 Agreements	Key Controls Review	Medium	Glen Chipp
Section 38 Agreements	Key Controls Review	Medium	Glen Chipp
Tourism, Leisure & Culture			
Tourism Company (Bath Tourism Plus)	Follow-up of 2010/11 Review	Medium	Glen Chipp
Destination Management			
SPA Operators Accounts Review - (R)	Key Controls Review	Medium	Glen Chipp
Heritage Services			
Till System (Replacement) - (R)	Project Implementation Support	Medium	Glen Chipp
Sports & Active Leisure			
Aquaterra - Safeguarding - (R)	Key Controls Review	Medium	Glen Chipp
Sport & Active Leisure Team - Safeguarding - (R)	Key Controls Review	Medium	Glen Chipp
<u>Anti-fraud:</u>			
Adult Health, Social Care & Housing			
Community Resource Centres	Transaction Testing	Medium	Janet Rowse
Payments to Domiciliary Care Providers - (R)	Transaction Testing & Follow-up	Medium	Ashley Ayre
Improvement & Performance			
Human Resources			
Payroll - Mileage & Business Expenses	Follow-up of 2010/11 Review	Medium	Dave Thompson
Payroll - Testing	Follow-up of 2010/11 Review	High	Dave Thompson

Internal Audit Annual Plan 2011 / 2012

INTERNAL AUDIT AREA	INTERNAL AUDIT TYPE	AUDIT RISK RATING	STRATEGIC DIRECTOR
Resources & Support Services			
Finance			
Accounts Payable - Invoice Testing	Transaction Testing	High	Andrew Pate
Accounts Receivable - Raising Of Accounts & Payments	Transaction Testing	High	Andrew Pate
Procurement Compliance	Follow-up of 2010/11 Review	High	Andrew Pate
Purchase Cards	Transaction Testing	Medium	Andrew Pate
Property Services			
Community Meals	Follow-up of 2010/11 Review	Medium	Andrew Pate
Revenues, Benefits and Council Connect			
Council Tax - National Fraud Initiative Single Person Discounts	Corporate Work	High	Andrew Pate
Council Tax - Student Exemptions	Follow-up of 2010/11 Review	Medium	Andrew Pate
Council Tax Liability - Single Person Discount	Transaction Testing	High	Andrew Pate
Housing Benefit - Overpayments	Follow-up of 2010/11 Review	Medium	Andrew Pate
Housing Benefit - Processing Claims	Transaction Testing	High	Andrew Pate
Risk & Assurance Services			
Anti Fraud & Corruption Policy	Corporate Work	High	Andrew Pate
Money Laundering	Corporate Work	High	Andrew Pate
National Fraud Initiative	Corporate Work	High	Andrew Pate
Transformation			
Mobile Phones	Transaction Testing	High	Andrew Pate
Service Delivery			
Environmental Services			
Blue Badges	Transaction Testing	Medium	Glen Chipp
Fuel Cards / Fobs	Follow-up of 2010/11 Review	Medium	Glen Chipp
Parking Services - Main Car Parks	Follow-up of 2010/11 Review	High	Glen Chipp
Use of Council/Hired Vehicles - (R)	Transaction Testing	Medium	Glen Chipp
Tourism Leisure & Culture			
Cash - Library Services	Follow-up of 2010/11 Review	Medium	Glen Chipp
Income Collection Roman Baths	Follow-up of 2010/11 Review	Medium	Glen Chipp

Internal Audit Annual Plan 2011 / 2012

INTERNAL AUDIT AREA	INTERNAL AUDIT TYPE	AUDIT RISK RATING	STRATEGIC DIRECTOR
<u>Avon Pension Fund:</u>			
Assets and Revenues	Follow-up of 2010/11 Review	Medium	Andrew Pate
Governance & Strategy	Key Controls Review - Core System	High	Andrew Pate
Payroll - Audit Commission Key Controls Review	Follow-up of 2010/11 Review	Medium	Andrew Pate
<u>Other Corporate Work:</u>			
Academy Schools			
Beechen Cliff	Responsible Officer		School Governing Body
Norton Hill	Responsible Officer		School Governing Body
Somervale	Responsible Officer		School Governing Body
Grants			
Bus Services Operators Grant	Corporate Work		Glen Chipp
Greater Bristol Bus Network Grant	Corporate Work		Glen Chipp
RDA Grant	Corporate Work		Andrew Pate
Great British Heritage Pass Claim	Corporate Work		Glen Chipp

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28th June 2011	AGENDA ITEM NUMBER
TITLE:	External Audit Reports & Update	EXECUTIVE FORWARD PLAN REFERENCE: E
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Interim Audit Summary of Key Findings		

1 THE ISSUE

- 1.1 The External Auditor will update the Committee on a range of issues affecting the Councils audit work, including the appendix to this report which presents a summary of key findings from the interim audit carried out during the last financial year.

2 RECOMMENDATION

- 2.1 The Corporate Audit Committee is asked to note the update from the External Auditor and the findings from Appendix 1.

3 FINANCIAL IMPLICATIONS

- 3.1 There are no direct financial implications as a result of this report.

4 THE REPORT

- 4.1 The report attached at Appendix 1 details the findings from the interim audit work carried out during the last financial year. In general arrangements are good or satisfactory and only one formal item is raised with regard to the approval process for Accounting Journals.
- 4.2 In addition the External Auditor will provide an update on other issues affecting the Councils audit work which include –
- a) Certification of the 2009/10 Audit;
 - b) Objection received to the 2009/10 accounts;

c) Future of the Audit Commission and affect on local public audit

5 RISK MANAGEMENT

5.1 A proportionate risk assessment has been carried out in relation to the Councils risk management guidance. There are no new significant risks or issues to report to the Committee as a result of this report.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been carried out using corporate guidelines, no significant issues to report.

7 CONSULTATION

7.1 Consultation has been carried out with the Section 151 Finance Officer.

8 ADVICE SOUGHT

8.1 The Council's Section 151 Officer has had the opportunity to input to this report and have cleared it for publication.

Contact person	Jeff Wring (01225 47323)
Background papers	None
Please contact the report author if you need to access this report in an alternative format	

Interim Audit **Summary of** **Key Findings**

Bath and North East Somerset Council

Audit 2010/11

The Audit Commission is an independent watchdog, driving economy, efficiency and effectiveness in local public services to deliver better outcomes for everyone.

Our work across local government, health, housing, community safety and fire and rescue services means that we have a unique perspective. We promote value for money for taxpayers, auditing the £200 billion spent by 11,000 local public bodies.

As a force for improvement, we work in partnership to assess local public services and make practical recommendations for promoting a better quality of life for local people.

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Summary

Introduction

1 We complete our audit of the Council's accounts in two stages. We undertake an interim audit during the financial year. In the summer we undertake an audit of the year-end accounts reporting our work in September when we give our audit opinion.

2 This paper summarises the findings from the interim audit.

Background

3 Auditing standards require us to gain an overall understanding of the Council, including how transactions flow through your financial information systems. We do this by documenting your key financial systems such as those for paying creditors or collecting council tax. We test controls within these systems on a cyclical basis working jointly with internal audit.

4 We also review your overall control environment such as your risk management processes and your arrangements for managing information technology.

5 Our interim audit comprises the review of the control environment and financial systems.

Audit approach

6 The audit commission has a standard approach for documenting and testing financial information systems and your control environment. We apply this approach to systems which generate material figures in the statement of accounts.

Main conclusions

7 Overall, based on our interim work your arrangements are satisfactory, however we have identified one key control issue which we wish to report to you.

8 Journals are manual adjustments to the amounts recorded in the accounts. Satisfactory authorisation of journals is a key financial control. Evidence for the authorisation of journals is not always recorded and where it is recorded this is not always done promptly. Authorisation of journals should be enhanced where appropriate.

9 Officers are undertaking a retrospective review of journals to ensure they are correctly authorised.

10 We have agreed with officers a detailed memorandum setting out more minor issues and recommendations arising from our work.

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May 2011

Bath & North East Somerset Council		
MEETING:	Corporate Audit Committee	
MEETING DATE:	28 th June 2011	AGENDA ITEM NUMBER
TITLE:	Annual Report of the Corporate Audit Committee	
WARD:	ALL	
AN OPEN PUBLIC ITEM		
List of attachments to this report:		
Appendix 1 – Existing Terms of Reference for the Corporate Audit Committee		

1 THE ISSUE

1.1 An annual report of the committee's work in 2010/11 is required to be submitted to Council at its September meeting and this report asks for Members views on the effectiveness of the committee during this time. This will be the sixth annual report of the Committee since it was established by the Council on 12th May 2005

1.2 The current terms of reference of the committee are attached at Appendix 1.

2 RECOMMENDATION

2.1 The Corporate Audit Committee is asked to:

- a) Delegate responsibility to Councillor Andrew Furse as Chairman of the Committee during 2010/11 and the Head of Risk & Assurance to prepare an annual report for submission to Council in September;
- b) Comment on the effectiveness of the committee in carrying out its role during 2010/11 and request any changes to its future operation or workplan.
- c) Comment on the effectiveness of the role of the independent member to the committee and delegate responsibility to Councillor Andrew Furse and the Head of Risk & Assurance to decide on future arrangements for 2011/12.

3 FINANCIAL IMPLICATIONS

3.1 There are no direct financial implications relevant to this report.

4 THE REPORT

4.1 The Committee's work is carried out to give assurance to the Council over its governance arrangements and meet its terms of reference which are attached at Appendix 1.

4.2 During the year the following areas have been covered by the committee –

- Approval of the 2009/10 Accounts both in draft and restated form
- Review of Progress to achieve the new International and Financial Reporting Standards (IFRS)
- Review of the Treasury Management Strategy
- Review of Risk Management Arrangements and refreshed draft Strategy
- Review of the plans and work of Internal Audit
- Review of the options for future delivery of Internal Audit
- Review of Fraud & Corruption arrangements
- Review of the Annual Governance Review process for 2010/11
- Review of the Governance reports for Council & Pension Fund
- Review of the Annual Audit Letter for 2009/10
- Changes to VFM Opinion an Opinion Audit
- Review of Compliance with IFRS
- Review of Grant Claims & Returns
- Review of Opinion Plans for the Council & Pension Fund
- Review of an objection to the Councils Accounts
- Review of the fees letters for the Council and Pension Fund
- Various reviews of follow-ups to Internal & External Audit reviews
- Review of the work plan of the Committee

- In addition briefings have been delivered on the following topic areas -
 - a) Future of Audit Commission
 - b) Risk Management
 - c) Internal Audit
 - d) External Audit

- e) Fraud & Corruption
- f) Treasury Management
- g) West of England Partnership
- h) Corporate Governance & Ethics

4.3 The Committee has reviewed in depth its own terms of reference, role and independent support during 2009/10 and no further changes are recommended. Proposals were discussed in relation to the role of the Independent Member at the meeting of the committee last June.

4.4 However in light of the consultation paper on local public audit and proposed changes to audit committee membership by DCLG it is again recommended that there is no change at this time, subject to the comments of members of the Committee.

5 RISK MANAGEMENT

5.1 A risk assessment related to the issue and recommendations has been undertaken, in compliance with the Council's decision making risk management guidance.

5.2 The Corporate Audit Committee has specific responsibility for ensuring the Council's Risk Management and Financial Governance framework is robust and effective.

6. EQUALITIES

6.1 A proportionate equalities impact assessment has been undertaken and there are no significant issues to report.

7. CONSULTATION

The report was distributed to the S151 Officer for consultation.

Contact person	<i>Jeff Wring (01225 477323)</i>
Background papers	
Please contact the report author if you need to access this report in an alternative format	

Appendix 1 – Corporate Audit Committee Terms of Reference

The Council delegates to the Corporate Audit Committee the following responsibilities:

1. To approve on behalf of the Council its Annual Accounts, as prepared in accordance with the statutory requirements and guidance;
2. To approve the External Auditors' Audit Plan and to monitor its delivery and effectiveness during the year;
3. To approve the Internal Audit Plan within the budget agreed by the Council and to monitor its delivery and effectiveness (including the implementation of audit recommendations);
4. To consider, prior to signature by the Leader of the Council and Chief Executive, the Annual Governance Statement (including the list of significant issues for action in the ensuing year), as prepared in accordance with the statutory requirements and guidance; and to monitor progress on the significant issues and actions identified in the Statement;
5. To review periodically the Council's risk management arrangements, make recommendations and monitor progress on improvements;
6. To review periodically the Council's key financial governance procedures, i.e. Financial Regulations, Contract Standing Orders, Anti-Fraud & Corruption Policy and to recommend any necessary amendments;
7. To consider the annual Audit & Inspection Letter from the External Auditor and to monitor progress on accepted recommendations;
8. To monitor and promote good corporate governance within the Council and in its dealings with partner bodies and contractors, including review of the Council's Code of Corporate Governance and in any such other ways as the Committee may consider expedient (within the budget agreed by the Council);
9. To consider and make recommendations of any other matters relating to corporate governance which are properly referred to the Committee or which come to its attention;
10. To make an annual report to council on the work [and findings] of the Committee, including (if necessary) any measures necessary to improve the effectiveness of the Committee.

