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CORPORATE AUDIT COMMITTEE

ANNUAL REPORT TO COUNCIL 2012/13

1. INTRODUCTION

This is the eighth annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year September 2012 to June 2013.

2. REVIEW OF WORK DONE IN 2012/13

a. Financial Governance – Annual Accounts

- i. The Committee approved on behalf of the Council an unqualified set of accounts for the year ended 31 March 2012 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports from the external auditor (Audit Commission) for the Council and Pension Fund submitted by the external auditors on their audit of the accounts.
- iii. The Council report highlighted some presentational and technical changes to the accounts, but no changes to the General Fund Balances and Reserves. The auditors also noted that the accounts were presented promptly and that they were supported by good quality working papers.
- iv. The report on the Pension Fund Accounts highlighted accounts produced to a good standard, supported by good quality working papers and there were no material adjustments to the accounts.
- v. Both Governance reports were therefore noted and the audit of the accounts formally completed.

b. Financial Governance – Treasury Management

- i. The Committee considered the Treasury Management Outturn for 2011/12 which concluded that all prudential indicators were in line with projections and that the average rate of investment return was 0.56% above the benchmark rate.
- ii. In addition the committee received an update report six months into the 2012/13 year which showed an average rate of investment return 0.53% above the benchmark rate and all actions on target in line with the strategy.
- iii. Finally the Committee reviewed the Treasury Management and Annual Investment Strategy for 2013/14. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies.

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- iv. The committee agreed that current performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and therefore scrutiny will continue to be important to ensure Council resources are invested wisely

c. External Audit -

- i. During the year the External Auditor changed from the outgoing Audit Commission - who completed the audit of the 2011/12 accounts - to Grant Thornton, who had been successful in winning a new five year contract as a result of the governments changes to the public audit regime.
- ii. The draft local Audit Bill was scrutinised before parliament during the year and as it provides for a differing approach to the future appointment and monitoring of external auditors its implications will remain an area of high priority for the Audit Committee.
- iii. Alongside the audit of the accounts for 2011/12 the final elements of work carried out by the Audit Commission included a satisfactory VFM opinion for the Council following assessments of our financial resilience and economy, efficiency and effectiveness and a satisfactory review of our four main grant returns.
- iv. The new external auditor – Grant Thornton – presented their new audit fees for the Council and Pension Fund as well as their audit plans for 2012/13. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.

d. Corporate Governance –

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review. In addition there was a review of progress against actions identified in the 2011/12.
- ii. In relation to the 2012/13 review, two reports were received to both introduce the Committee to their role and also debate a long list of potentially significant issues in relation to the 2012/13 statement.
- iii. All of these views were fed back to senior management and the statement was signed by the Leader of Council and Chief Executive prior to the statutory deadline.
- iv. During the year the Committee also received a report on proposed governance changes to SOMER/CURO as a result of a referral from the Housing & Major Projects Policy Development and Scrutiny Panel.

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- v. The Committee discussed these changes in some detail, noting the reasons for such changes and received representations from the Chief Executive of CURO. In broad terms the Committee did not feel there were significant corporate risks to the Council as a result of these changes and was supportive of the strengthening of the Council's relationship with all its registered social landlords as well as the planned developments to improving the Council's strategic relationship with CURO.

e. Internal Audit –

- i. The Committee considered the Service's work plan and monitored its progress during the year. The Committee was satisfied with the balance of the plan between planned projects, unplanned commissions and follow-up of previous reports.
- ii. Whilst benchmarking results were broadly solid with costs below average and quality assurance indicators high, the Committee did express concern that that only 80% of the plan had been completed - a drop from 84% in the year before – the number of audits completed on time was only at 65% and the level of recommendations implemented had fallen.
- iii. Improvements were accepted as necessary especially in the light of reduced resources from previous years. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- iv. The Committee had previously received a report which recommended internal audit should prepare for a potential shared service and in light of current performance and the challenges ahead in terms of skills, resilience and resources this was again discussed and recommended.
- v. Finally new public sector internal audit standards came into force from April 2013 following joint work between CIPFA (Chartered Institute of Public Finance Accountants) and the IIA (Chartered Institute of Internal Auditors). These raise the bar in terms of quality and expectation on the audit function and a desktop review against the standards was reported to Committee which assessed broad compliance at an acceptable level and identified areas for potential review and improvement.

f. Review of Terms of Reference

- i. As part of good practice the Committee reviewed itself against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
- ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and the level of independence to the committee will be kept under review.

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- iii. Updates and briefings were presented to committee where appropriate and have been received on the following areas –
 - External Audit
 - Treasury Management
 - Performance Management
 - Risk Management
 - Financial Regulations
- iv. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas. The approach will therefore continue to be developed for the following year.

3. WORK PLAN FOR 2013/14

- i. Whilst the Committee's work in 2012/13 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
 - a) The future development of the Internal Audit service as it moves to potentially implementing a shared service with other Local Authorities and the impact of these new partnership arrangements;
 - b) The performance of the new external auditor and on-going development of the new public audit regime;
 - c) Financial resilience of the organisation through its Accounting and Treasury Management arrangements.

4. MEMBERSHIP AND SUPPORT

- i. The Committee's membership and chairmanship changed during the year. For three of the five meetings carried out, the committee comprised 3 Liberal Democrats (including the previous Chairman Councillor Andrew Furse), 4 Conservatives and 1 independent co-opted member.
- ii. This was altered following Council in May 2013 and a new chairman appointed - Councillor Will Sandry - as well as a reduction in numbers to 3 Liberal Democrats, 3 Conservatives, 1 independent member and 1 independent co-opted member.
- iii. Five meetings were held during 2012/13 of which three required at least one substitute.
- iv. The Committee's lead officer has been the Divisional Director for Risk and Assurance. Other officers attend, notably the Strategic Director for Resources, Divisional Director (Finance) who leads on financial issues through his S151 role and Group Manager for Audit & Risk.
- v. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton (previously it was the District Auditor and Audit Manager from the Audit Commission).