

## **Appendix 1**

### CORPORATE AUDIT COMMITTEE

#### ANNUAL REPORT TO COUNCIL 2010/11

##### 1. INTRODUCTION

This is the sixth 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 2010 to June 2011.

##### 2. REVIEW OF WORK DONE IN 2010/11

###### a. Annual Accounts –

- i. The Committee approved on behalf of the Council an unqualified set of draft accounts for the year ended 31 March 2010 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports for the Council and Pension Fund submitted by the external auditors on their audit of the accounts. The reports highlighted some presentational and technical changes to the accounts, but no changes to the General Fund Balances and Reserves. The auditors also noted an improvement in the quality of financial statements and associated working papers since last year. The Committee had kept this area under review throughout the year and was pleased to see the progress made by officers in improving standards.
- iii. An objection to the accounts was also received prior to the conclusion of the Audit, however the district auditor detailed that the issues under consideration were not material in relation to the accounts. A subsequent update was received in June from the District Auditor which found that the objections had not been upheld.
- iv. The report on the Pension Fund Accounts highlighted two non-trivial misstatements, however they did not require amendment as they were presentational and had no affect on the bottom line. The Governance reports were therefore noted and the audit of the Pension accounts formally completed.

###### b. Corporate Governance –

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.
- ii. Due to the local elections one of the committee's formal meetings had to be cancelled and the committee was therefore not able to formally contribute to the outcomes of the review in the usual way. However the Chair of the Committee in conjunction with the independent member were briefed informally and their views were input to the process.

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- iii. This included a recommendation for the Committee to look at particular subject areas in more depth, which will include elements of Payroll and Information Governance being reviewed during the next 12 months.
  - iv. Following the local elections the new Committee then met for the first time in June and endorsed the Annual Governance Statement 2010/11 prior to its signature by the Leader of the Council and Chief Executive which included a follow up to the issues identified in the Annual Governance Statement for 2009/10.
  - v. The Committee also received its annual report on risk management during the year and considered a revised risk management strategy and updates on the strengthening of risk within the performance management framework. The updates were noted and welcomed by the Committee.
- c. Financial Governance -
- i. The Committee considered the latest Treasury Management Outturn for 2010/11 and Annual Investment Strategy for 2011/12. In addition to reviewing the annual strategy the Committee will continue to receive a mid year update report and annual review covering treasury management activities to support the Cabinet Member for Resources.
  - ii. Currently performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and scrutiny will continue to be important to ensure Council resources are invested wisely.
  - iii. All local authorities adopted International Financial Reporting Standards (IFRS) during the 2010/11 year and the Committee was updated on progress towards this target including approving the policy for componentisation. Initial feedback from the external auditors is positive with regard to Council compliance with these new standards and the committee will continue to monitor progress.
- d. Internal Audit –
- i. The Committee considered the Service's work plan and monitored its progress during the year. The Committee was reasonably satisfied with the balance of the plan between planned projects, unplanned commissions and follow-up of previous reports. 81% of the work planned for 2010/11 had been completed, compared with 84% in the previous year.
  - ii. Benchmarking results were again solid, with costs below Unitary average in nearly all categories whilst quality assurance indicators continue to be at a high level with 99% customer satisfaction. Concern was expressed however at the level of sickness and number of audit recommendations failing to be implemented and these areas will be monitored more closely during 2011/12.

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- iii. The Committee also noted the decision by the government to remove the financial management assessment process for all schools (FMSiS) during 2010. Previously B&NES had recorded excellent results with all secondary schools and primary schools achieving the accredited financial management standards, prescribed by central government. The Committee commended Internal Audit for their contribution to this success by providing training and support to all schools, as well as carrying out the formal external assessments. Future proposals were as yet unclear with the Department for Education still to consult on any replacement to this regime.
  - iv. Finally a long term project had been ongoing during 2010/11 reviewing future service delivery models for Internal Audit. This project was necessary to review the future provision of the service in light of the severe budget cuts required by all services, risks facing the organisation and skills necessary to carry out the audit role.
  - v. The Committee received the final report at its February committee which recommended an immediate internal restructure to prepare it for a potential shared service with neighbouring authorities. This restructure included an amalgamation of all audit and risk management resources and a recommendation that service delivery to be retained in-house for at least 2 years pending the results of further negotiation with neighbouring authorities.
  - vi. A 25% gross budget saving could be achieved by the end of 2011/12 as a result of these proposals along with the potential to close some but not all of the key skills gaps through a new partnership.
  - vii. The committee welcomed the report and strongly endorsed the recommendations recognising the potential of the partnership option but continuing to express a desire to retain an in-house service for as long as possible. Updates on progress to a potential new shared service were therefore requested during 2011/12.
- e. External Audit -
- i. In addition to the Governance Reports detailed above the Committee also considered the Annual Audit Letter for 2009/10 which summarised the work carried out by the Audit Commission.
  - ii. The previous assessment and inspection framework had been removed during 2010 following the change in government and the Audit Commission itself is to be abolished. Therefore there was a much reduced regime of coverage during 2010/11 with no formal reviews being completed outside of the audit of the accounts.
  - iii. Overall the council comfortably demonstrated a satisfactory VFM opinion within this process and had previously been assessed as 'good' within the previous inspection regime which was endorsed by the Committee.

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- iv. Finally, the future of the external audit regime and implications from the announcement to abolish the Audit Commission in August 2010 were a topic of significant interest to the Committee.
  - v. In March 2011 the Department for Local Communities and Local Government (DCLG) issued a consultation paper on the future of local public audit to address these issues.
  - vi. The Committee reviewed all of these proposals and recognised the efforts made by the new government to both reduce costs and remove onerous inspection work in this sector. It did however have significant concerns about some of the proposals, which could if not implemented properly, introduce additional cost and bureaucracy and change some of the essential tenets of good corporate governance by altering the makeup and terms of reference of the Audit Committee.
  - vii. It acknowledged management comments that the proposals appeared to be trying to tackle a bigger problem than replacing the Audit Commission as commissioner of external audit services and supported the management response sent to the DCLG. These issues will remain an area of high priority for the Audit Committee during 2011/12 and further updates will be required once DCLG release its final proposals.
- g. Review of Terms of Reference
- i. As part of good practice the Committee reviewed itself against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
  - ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and following a review in June it was recommended to retain the current role for at least a further 12 months pending the new proposals on the future of external audit.
  - iii. In relation to training and development a full programme was developed and briefings and presentations have been received on the following areas –
    - Future of the Audit Commission
    - Risk Management
    - Internal Audit
    - External Audit
    - Fraud & Corruption
    - West of England Partnership
    - Corporate Governance & Ethics
  - 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.

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### 3. WORK PLAN FOR 2011/12

- i. Whilst the Committee's work in 2011/12 will be broadly similar to the year recently ended it will need to continue to review the impacts of recent proposals around the future of the external audit regime.

### 4. MEMBERSHIP AND SUPPORT

- i. The Committee appointed for 2010/11 comprised 3 Liberal Democrats (including the Chairman Councillor Andrew Furse), 4 Conservatives and 1 independent co-opted member. Following the local elections in May 2011 the political make-up and chairman of the committee remained the same however 6 new members joined the Committee and met for the first time at the June Committee.
- ii. 4 meetings were held during 2010/11 with at least 6 out of the 8 members attending each meeting, and three meetings where at least where one substitute was necessary.
- iii. The Committee's lead officer is the Divisional Director for Risk and Assurance. Other officers attend, notably the Strategic Director for Resources, Divisional Director (Finance) who leads on financial issues through his S151 role and Group Manager for Audit & Risk. The external auditors are represented by a District Auditor and Audit Manager from the Audit Commission who attended all 4 meetings.