

<b>Agenda Item No:</b>	<b>Report No:</b>
<b>Report Title:</b>	<b>Annual Report on the work of the Audit Committee 2011/12</b>
<b>Report To:</b>	<b>Audit and Standards Committee Date: 27 September 2012</b>
<b>Ward(s) Affected:</b>	<b>All</b>
<b>Report By:</b>	<b>Chair of the Audit and Standards Committee</b>
<b>Contact</b>	
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**Purpose of Report:**

To present to Councillors the annual report on the work of the Audit Committee.

**Chair's Recommendation(s):**

- a. To receive and consider the report.
- b. To endorse the conclusion on the effectiveness of Internal Audit (see paragraph 17).
- c. To endorse the opinion on the Council's internal control, environment, and risk management arrangements (see paragraphs 18 and 19).
- d. That the committee should review its terms of reference during the coming year and make a report to the constitution working party.
- e. That the committee should review CIPFA's "Audit Committees – Practical Guidance for Local Authorities (ii)", as part of its training programme.

**Reasons for recommendations**

- a,b,c. At its meeting on 19 March 2009 (i), the committee resolved that the chair should produce an annual report, with specified content. The Council's external auditors, PKF, had recommended these developments as best practice for adoption by the Council as part of the improvements arising from the Use of Resources assessment for 2007/08.
- d. To ensure that we understand the new responsibilities, and to ensure that the current review of the constitution is informed by the views of the committee.
- e. To ensure that we understand the guidance, and continue to conform to that guidance.

**Annual report on the work of the Audit Committee 2011/12**

**Background**

1. The Audit Committee was established in 2001 to provide independent assurance as to the adequacy of the Council's arrangements for internal control, risk management and corporate governance. A key role for the Audit Committee is the monitoring of the plans, work and effectiveness of the Council's Internal Audit service.
2. The committee conforms to the best practice identified in CIPFA's "Audit Committees – Practical Guidance for Local Authorities" (ii) and operates in accordance with the Remit of

the Audit and Standards Committee which is set out in Part 11, Section 4 of the Council's Constitution (iii).

3. The Council has adopted the CIPFA Code of Practice on Treasury Management. In December 2009, CIPFA updated the Code of Practice, with one of the key changes being an emphasis on the need for every local authority to nominate a body to be responsible for ensuring effective scrutiny of the treasury management strategy and policies. Cabinet decided that this scrutiny role should be performed by the Audit Committee, and the Audit Committee received regular reports on treasury management during 2011/12.

### **Training**

4. To be effective, it is important that members of the Audit and Standards Committee have a broad understanding of the financial, risk, control and governance issues facing the Council. To this end the Council provides Committee members with general induction training and guidance on specific topics, based on a Training Needs Self Assessment.
5. A training session was provided for Audit Committee members on 23 January 2012, led by members of the District Council's audit staff, assisted by our external auditors. Members of the pool of substitutes were also invited.
6. Two treasury management training sessions were provided by Arlingclose, the District Council's advisors on treasury management. These were held on 26 May and 19 December, 2011. All councillors were invited to attend.

### **Membership of the Audit Committee**

7. The Audit Committee comprised seven councillors, with the quorum set at four. The Chair of the Audit Committee was elected from the non Cabinet members of the Council's minority group. At the meeting of 25 May 2011, it was confirmed that Councillor Ian Eiloart would be the Chair of the Audit Committee for 2011/12. Councillor Eiloart had been a member of the Audit Committee since May 2009.
8. Councillors John Stockdale, Michael Chartier, and Ian Eiloart from the minority group, and Paul Franklin, Jacqueline Harrison-Hicks, Rob Blackman, and Cyril Sugarman from the majority group served on the committee from 15 May 2011.
9. Councillors Blackman and Franklin were required to retire from the committee on 3 October, because they had been appointed to the Cabinet of the District Council. They were replaced by Councillors Benjamin Warren and Ian White at the full council meeting on 6 December. The timing of the new appointments meant that the committee had only five members available to meet on 5 December.
10. The committee maintains a pool of members who have expressed willingness to serve as substitutes, but any member of Council who is not a member of Cabinet may do so.

## Meetings of the Audit Committee

11. The Audit Committee normally met five times per year. During 2011/12, the meetings held were: on 29 June 2011, 26 September 2011, 5 December 2011, 23 January 2012, and 19 March 2012.
12. At the respective meetings, attendance (including substitutes) was 6/7, 4/7, 4/5, 6/7, and 6/7. All the seven absences for which substitutes were not provided were from the majority group. In one meeting, it was necessary to change the order of the agenda so that the annual accounts could be considered while the meeting was still quorate.
13. Before each meeting, the chair met with the Head of Audit and Performance, and the Head of Finance to preview reports and assess progress on key issues.

**Table 1: reports presented to the Audit Committee**

Report	June	Sept	Dec	Jan	Mar	Source
<b>Annual Report</b> on the work of the Audit Committee	x					CHAIR
<b>Annual Report</b> on Internal Audit Performance and Effectiveness	x					AUD
<b>Annual Report</b> on the Council's Systems of Internal Control	x					AUD
<b>Interim Report</b> on the Council's Systems of Internal Control	x	x	x	x	x	AUD
Strategic Partnership Governance	x					AUD
Code of Corporate Governance <b>Update</b>	x					AUD
<b>Statement of Accounts</b> 2010/11	x	x				FIN
<b>Report</b> on Treasury Management Activity	x	x	x	x	x	FIN
Annual Audit Fee <b>Letter</b>	x					PKF
Annual Governance <b>Statement</b>		x				AUD
Annual Governance <b>Report</b>		x				AUD
Internal Audit Benchmarking <b>Report</b>			x			AUD
Annual Audit <b>Letter</b>			x			PKF
Summary of external audit fee outturn +			x			PKF
Annual Treasury Management Strategy Statement and Investment <b>Strategy</b>				x		FIN
<b>Report</b> on Grant Claim Certification				x		PKF
Audit <b>Plan</b> 2012/2013				x		PKF
Strategic Audit <b>Plan</b> +					x	AUD

+ - This report was not included in last year's summary, though both were considered by committee

### Key to sources

CHAIR - the chair of the Audit Committee

AUD - Internal: Director of Finance. Contact officer is the Head of Audit and Performance.

FIN - Internal: Director of Finance. Contact officer is the Head of Finance.

PKF - PKF, our external auditors.

14. At each meeting the Audit Committee receives an interim report on the Council's Systems of Internal Control, with the June meeting also receiving the annual internal control report for the financial year that ended in the preceding March. At each June meeting there is also an annual report on Internal Audit Performance and Effectiveness. Other reports are presented to cover regular items in the financial and control cycle or to deal with specific current issues. Reports to meetings are detailed in table 1, in the order that they first appear on an agenda.
15. During the year, the Committee received 27 reports, compared to 29 mentioned in last year's report. The previous year had seen four reports on IFRS Implementation, which is now complete. I have included two additional reports in this table; they were seen last year but not listed in my annual report.
16. Each Audit Committee meeting was attended by the Head of Audit and Performance and the Head of Finance, with other Council finance officers attending as appropriate to report on financial and control issues. An Audit Partner and Senior Manager from the Council's external auditors PKF attend most meetings.

**Table 2: attendance of officers and external auditors at meetings.**

	Jun	Sept	Dec	Jan	Mar
Director of Finance		x			
Head of Finance	x	x	x	x	x
Head of Audit	x	x	x	x	x
PKF	x	x	x	x	x
Principal Accountant (Projects)		x	x		

**Statement of the Audit and Standards Committee's opinion on the effectiveness of Internal Audit.**

17. The Audit and Standards Committee has noted the separate report on Internal Audit Performance and Effectiveness 2011/12 (iv) that was presented to the Audit Committee meeting of 25 June 2012. The Audit and Standards Committee endorses the conclusions of the report that the Internal Audit service achieves its aim, objectives and expected outcome, operates in accordance with the Internal Audit strategy that was approved by the Audit Committee and meets best practice standards including compliance with the CIPFA Code of Practice.

**Statement of the Audit and Standards Committee's opinion on the Council's Internal Control Environment and Risk Management arrangements**

18. As noted above, the Audit Committee received regular interim and annual reports that include detailed assessments of the Council's internal control environment and the arrangements for risk management and corporate governance. These reports, supported by regular briefings from the Head of Audit and Performance, enabled the Audit Committee to maintain proper oversight of the arrangements for internal control.

19. The Audit and Standards Committee endorses the opinion of the Head of Audit and Performance that the overall standards of internal control and risk management are satisfactory. This opinion is based on the work of Internal Audit, other internal reviews and external assurance bodies, and the Council's work on risk management. The risk management process has identified that most risks are mitigated by the effective operation of controls or other measures. Whilst recommendations have been made to improve procedures and controls in some areas, there were no instances in which internal control problems created significant risks for Council activities or services. In most cases managers have addressed the control issues since the respective audits, and within those recommendations not yet implemented there are no issues that create significant risks for the Council.

### **Term of Reference**

20. I have reviewed the committee's terms of reference. Although the terms of reference sometimes fail to distinguish between powers and duties, I believe that we have discharged all of the duties outlined, and complied with the terms of reference in all respects.
21. In addition, we have used the power to commission work when we asked the Head of Audit and Performance to review controls around changes of contractor payment details. This followed a reported case where another institution in Sussex had paid two million pounds to a fraudster. That sum was later recovered. Incidents such as this illustrate the importance of proper controls in financial systems.

### **Audit and Standards Committee activities for 2012/13**

22. The terms of reference have changed since the end of the year, to merge the Audit Committee with the Standards Committee. The new committee will need to establish working practices to discharge its new duties and responsibilities regarding standards matters. Otherwise, it is anticipated that the scope and content of the Audit and Standards Committee's activities will remain broadly similar to those in 2011/12.

### **Financial Implications**

23. There are no additional financial implications from this report.

### **Sustainability Implications**

24. There are no significant effects as a result of these recommendations. However, the audits that we oversee help to ensure that the Council's sustainability goals are met.

### **Risk Management Implications**

25. If the Audit Committee had not ensured proper oversight of the adequacy and effectiveness of the Council's systems of assurance, governance and internal control there would have been a risk that key aspects of the Council's control environment did not comply with best practice standards.

### **Equalities Screening**

26. I have given due regard to equalities issues and, as this is an internal report with no key decisions, screening for equalities is not required.

### **Background documents**

- i. Report to committee: Changes to Audit Committee Reporting... 19 March 2009:  
<<http://s.coop/xir7>>
- ii. CIPFA's "Audit Committees-Practical Guidance for Local Authorities": <<http://s.coop/xirb>>
- iii. The constitution of Lewes District Council: <<http://s.coop/xira>>
- iv. Annual Report on Internal Audit Performance and Effectiveness 25 June 2012:  
<<http://s.coop/xkbk>>