

## County Council

7<sup>th</sup> December 2011



## Report of the Audit Committee for the Period April 2011 to October 2011

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**Councillor Edward Bell, Chair of Audit Committee**

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### Purpose of the Report

1. To inform the Council of the work of the Audit Committee during the period April to October 2011 and how this committee has been successful in improving governance across the Council.

### Background

2. The Audit Committee of the County Council has been in place since 2007.
3. The role of the committee is set out in its terms of reference within the Constitution approved by Council.
4. Good corporate governance requires independent and effective assurance processes to be in place to ensure effective financial management and reporting in order to achieve the Council's corporate and service objectives. It is the responsibility of the Audit Committee to undertake these aspects of governance on behalf of the Council.
5. The specific objectives of the Audit Committee set out in the Council's Constitution are to provide independent assurance to Cabinet and Full Council over the:
  - Adequacy and effectiveness of the Council's governance arrangements, including the effectiveness of the risk management framework and the associated control environment.
  - Financial Reporting of the Council's Statement of Accounts ensuring that any issues arising from the process of drawing up, auditing and certifying the Council accounts are dealt with properly.
6. The membership and terms of reference of the Committee are set out in the Council's Constitution.
7. The membership during the period April 2011 to October 2011 was as follows:

Chair: Cllr Edward Bell

Vice Chair: Cllr Owen Temple

Members: Cllr Reg Ord  
Cllr Colin Carr  
Cllr Brian Myers  
Cllr Dennis Southwell  
Cllr Barbara Harrison  
Cllr Michele Hodgson  
Cllr Linda Marshall

Co-optees: Ms Katherine Larkin Bramley  
Mr Thomas Hoban

## **Summary of Meetings**

### **26<sup>th</sup> May 2011**

8. The Committee considered 3 reports from the Corporate Director Resources relating to the work of Corporate Risk Management to gain assurance that the Council is managing its risks effectively:
  - the first report highlighted changes to the key corporate and service strategic risks arising during the period January to March 2011;
  - the second summarised the work of Corporate Risk Management during the whole of 2010/11;
  - the third report detailed the findings from an external review carried out by Zurich Municipal, the Council's Insurers, providing independent assurance to the Committee on the effectiveness of the operation of the Council's risk management framework.
9. The Committee considered a report from the Manager of Internal Audit and Risk, which outlined the work and performance of Internal Audit during the period January to March 2011 to gain assurance on the effectiveness of the Council's control environment.
10. The Committee received an update from the Corporate Director Resources on the performance of the payment of invoices to gain assurance that risks associated with late payments were being effectively managed.
11. The Committee considered an update report of the Corporate Director, Resources on the progress made on the implementation of recommendations made by the external auditor in the Annual Governance Report to gain assurance that improvements identified were being addressed. Further assurance was requested on progress being made on the development of a single asset register and asset revaluation.
12. The Committee considered 2 reports from the Corporate Director, Resources relating to Housing Benefit that provided assurance that

identified improvements in the governance arrangements relating to the service were being effectively addressed:

- the first was an update on the implementation of recommendations from the Audit Commission's Housing Benefits Inspection;
- the second related to progress on the implementation of the integrated Revenues and Benefits System that would address many of the improvements identified in the Inspection report. The Committee asked that the Revenue and Benefits Manager attend the September meeting to provide further assurance.

13. The Committee noted the response provided by the Chair on behalf of the Committee, required by the external auditor to fulfil International Auditing Standards (IAS), relating to the Council's arrangement for the management of fraud and compliance with relevant laws and regulations.

14. The Committee considered and approved a report of the External Auditor outlining the Pension Fund Audit Plan for 2010/11.

### **30<sup>th</sup> June 2011**

15. The Committee considered the Annual Internal Audit Report for 2010/11, and the overall opinion provided, to gain assurance on the adequacy and effectiveness of the Council's control environment to inform the Annual Governance Statement.

16. The Committee considered a report of the Corporate Director Resources, on the outcome of the annual review of the effectiveness of Internal Audit to gain assurance that the opinion provided in the Annual Audit Report could be relied upon.

17. The Committee considered a report from the Manager of Internal Audit and Risk outlining the risk based internal audit strategy. A proposed Strategic Audit Plan 2011-2016 was noted and the 2011/12 Audit Plan, which is the first year of the strategic plan, was approved. In reviewing this strategy the Committee considered how and where it gets the assurance it needs to be able to fulfil its role. This is illustrated by the Council's overall assurance framework which is attached at Appendix 2 for approval.

18. The Committee agreed an action plan to improve its effectiveness following a self assessment workshop held in May 2011. A copy of the Action Plan is attached at Appendix 3 for information.

19. The Committee noted the Department of Communities and Local Government consultation exercise in relation to proposals on the future of public audit, following the decision to disband the Audit Commission, and the response provided to the consultation by the Corporate Director, Resources.

20. The Committee noted the Risk Management Improvement Plan to gain assurance that actions required, following the review of the Strategic Risk

Management Framework by Zurich Municipal, had been incorporated and were being addressed.

21. The Committee approved the revised Risk Management Strategy and Policy following the annual review. An example risk assessment was demonstrated to ensure the Committee understood how this would work in practice.
22. The Committee considered and noted a report of the Corporate Director Resources, on the implications for the Council of the Bribery Act 2010 which came into effect from 1 July 2011.
23. The Committee considered the External Auditor's Interim Governance Reports relating to the 2010/11 audit of the Pension Fund and Durham County Council. The response to recommendations made to improve the control environment, provided by the Corporate Director Resources, was noted.
24. The Committee approved the draft 2010/11 Annual Governance Statement and noted the significant improvements made to the Council's governance arrangements during the year.
25. The Committee noted a letter from the External Auditor relating to a risk identified to the Group Accounts Opinion Audit.
26. The Committee considered the Annual Fraud Report 2010/11 provided by the Manager of Internal Audit and Risk, to gain assurance on the effectiveness of the Council's Counter Fraud and Corruption Strategy.

### **28<sup>th</sup> July 2011**

27. The Committee considered the draft 2010/11 Statement of Accounts that had been certified on the 30<sup>th</sup> June in accordance with statutory requirements.
28. The Committee reviewed the Final Outturn Report for the General Fund and Housing Revenue Account and considered the implications for the Statements of Accounts.
29. The Committee agreed the Annual Report of the Chair of the Audit Committee summarising the work of the Committee in 2010/11 that was reported to full Council at its September meeting.
30. The Committee noted progress on the consolidation of the Council's bank accounts to gain assurance that risks associated with operating several banks accounts were being addressed.
31. The Committee considered a progress report of the External Auditor that outlined progress on the delivery of their responsibilities. The report also provided an update on key emerging national issues and developments of interest to the Committee.

## **29<sup>th</sup> September 2011**

32. The Committee received an update from the Corporate Director Resources on the status of the final accounts. It was noted that the Council's combined Statement of Accounts were not yet complete. A set of accounts, including the pension fund, which was complete, was tabled at the meeting together with the Pension Fund Annual Governance Report, but were not considered by the Committee. The difficulties in finalising the accounts were noted and assurance provided by both the External Auditor and the Corporate Director that the accounts would be submitted for approval at a special meeting to be convened for this purpose on the 31<sup>st</sup> October 2011.
33. The Committee considered a report of the Corporate Director, Regeneration and Economic Development, that provided an update on the development of a Single Asset Register. Given the importance of this to the preparation of the 2011/12 Accounts, the Committee asked for a further update to be provided at the next scheduled meeting.
34. The Committee received an update report from the Civil Contingencies Unit Manager on the management of risks identified in the Durham and Darlington Local Resilience Forum's Community Risk Register.
35. The Committee considered an update report from the Assistant Chief Executive on the Council's Partnership Governance Framework and approved those partnerships on which assurance will be provided as part of the 2011/12 Internal Audit Plan.
36. The Committee considered a report of the Corporate Director Resources, which provided assurance on improvements being made to reduce the risk of duplicate payments.
37. The Committee approved the Council's Annual Governance Statement which will be published as part of the Statement of Accounts.
38. The Committee considered a progress report on the work and performance of Internal Audit, and the assurance provided on the control environment, for period the April to June 2011.
39. The Committee noted the verbal update provided by the Corporate Director Resources on the latest position regarding actions being taken to recover funds lost through the collapse of Icelandic Banks.

## **Special Audit Committee 31<sup>st</sup> October 2011**

40. The Committee approved the Council's 2010/11 Statements of Accounts. In giving this approval the Committee considered a report from the Corporate Director Resources explaining the process for signing off the accounts and problems encountered in their preparation. The Committee also considered the Annual Governance Reports made by the External Auditor in relation to both the Pension Fund and Durham County Council.

It was noted that the External Auditor will issue an unqualified opinion on the accounts of the County Council, the Group Accounting Statements, the Pension Fund Accounting Statements and the Value for Money Conclusion. This is a much improved position from last year where a qualified VFM opinion was provided in relation to the County Council's Statements.

41. In considering the Annual Governance Reports, the Committee:

- Noted adjustments made to the financial statements to correct errors disclosed during the audit
- Noted adjustments due to errors that management had declined to amend on the grounds that the total of these unadjusted misstatements do not materially affect the accuracy/integrity of the Statement of Accounts and approved this non adjustment in a letter of representation.

It was noted that the main errors in the draft County Council accounts primarily related to capital accounting entries for property, plant and equipment. The Corporate Director Resources provided assurance that work in progress to develop a single asset register and to strengthen capital accounting practices, as part of the unitisation of the finance function, would deliver the improvements required for the current year accounts. Progress on this together with recommendations made in the Annual Governance Reports will be monitored by the Committee.

#### **How the Audit Committee has made a difference during the first 7 months of 2011/12**

42. The Committee made a significant difference to the Council's governance, control and risk framework during the period April to October by :

- Striving to help support the Council deliver its objectives and priorities by being a proactive and reactive body encouraging the early reporting of any risk and control issues to ensure that appropriate and timely action is taken to address them
- Continuing to raise the profile of the Internal Audit and Risk Management Service through its reports to Audit Committee
- Independent questioning and contributing to the development and control of internal audit plans
- Seeking assurance on the effectiveness of corporate risk management arrangements
- Seeking assurance on the effectiveness of the Council's corporate governance arrangements from a number of different assurance sources
- Improving the accountability of service managers to respond to outstanding internal audit reports and the implementation of agreed internal audit recommendations thereby helping to drive improvement in controls to manage risks effectively

- Continuing to provide regular challenge and demanding accountability on the effectiveness of the implementation and operation of key financial systems
- Challenging the level of internal audit resources and their work to ensure that the service is effective and a reliable assurance opinion on the Council's controls framework is provided
- Challenging how the Annual Governance Statement has been determined and reviewing the assurance framework in place to ensure that the Council's corporate governance arrangements are effective
- Challenging progress being made to overcome the control issues and difficulties encountered in preparing the Council's Statements of Accounts

### **Recommendations and reasons**

43. Members note the report and the work undertaken by the Audit Committee during the period April to October 2011
44. Members note the Action Plan agreed to improve the effectiveness of the Audit Committee attached at Appendix 2.
45. Members approve the Council's overall assurance framework attached at Appendix 3.

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## **Appendix 1: Implications**

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**Finance** - There are no direct financial implications arising for the Council as a result of this report.

**Staffing** - None.

**Risk** – Not a key decision

**Equality and Diversity/ Public Sector Equality Duty** - None

**Accommodation** - None

**Crime and disorder** - The Audit Committee provide independent assurance that the Council's arrangements to combat the risk of loss through fraud are effective and all reported potential fraudulent acts are appropriately investigated and reported to the police where it is appropriate to do so.

**Human rights** - None

**Consultation** - None

**Procurement** – None.

**Disability issues** – None.

**Legal Implications** – None.