

AUDIT COMMITTEE

28th June 2012



**2011/12 Annual Report of the Audit
Committee to County Council**

Councillor Edward Bell, Chair of the Audit Committee

Purpose of the Report

- 1 To present a draft report of the work of the Audit Committee for the period April 2011 to March 2012, for agreement prior to reporting to full Council at its meeting on 25th July 2012

Background

- 2 In accordance with best practice, the Audit Committee has agreed to report a summary of its work to Full Council.

Recommendations and Reasons

- 11 Members agree the draft report as attached for onward reporting to County Council on 25th July 2012

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Appendix 1: Implications

Finance

None

Staffing

None

Risk

None

Equality and Diversity/Public Sector Equality Duty

None

Accommodation

None

Crime and disorder

None

Human rights

None

Consultation

None

Procurement

None

Disability Issues

None

Legal Implications

None

County Council

25th July 2012

Report of the Audit Committee for the Period April 2011 to March 2012



Councillor Edward Bell, Chair of Audit Committee

Purpose of the Report

1. To inform the Council of the work of the Audit Committee during 2011/12 that shows how this committee has been successful in improving governance across the Council.
2. The Committee has requested that bi-annual reports be made to Full Council and a previous report covering the work of the Audit Committee to 31 October 2011 was presented to the Council on 7th December 2011.
3. This report incorporates details previously reported relating to 2011/12 to provide a full record of work carried out during the year.

Background

4. The Audit Committee of the County Council has been in place since 2007.
5. The role of the committee is set out in its terms of reference within the Constitution approved by Council.
6. 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.
7. 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 compiling, auditing and certifying the Council accounts are dealt with properly.
8. The membership and terms of reference of the Committee are set out in the Council's Constitution. This had been amended in March 2010 following the decision of Full Council to delegate its responsibility for the approval of the Annual Statement of Accounts and the Annual Governance Statement to the Committee.
9. The membership during the period April 2011 to March 2012 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

26th May 2011

10. 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:
- (i) highlighted changes to the key corporate and service strategic risks arising during the period January to March 2011;
 - (ii) summarised the work of Corporate Risk Management during the whole of 2010/11;
 - (iii) 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.
11. 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.

12. 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.
13. 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.
14. 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:
 - (i) an update on the implementation of recommendations from the Audit Commission's Housing Benefits Inspection;
 - (ii) 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.
15. 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.
16. The Committee considered and approved a report of the External Auditor outlining the Pension Fund Audit Plan for 2010/11.

30th June 2011

17. 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.
18. 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.
19. 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 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.

20. 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.
21. 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.
22. 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.
23. 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.
24. 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.
25. 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.
26. 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.
27. The Committee noted a letter from the External Auditor relating to a risk identified to the Group Accounts Opinion Audit.
28. 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.

28th July 2011

29. The Committee considered the draft 2010/11 Statement of Accounts that had been certified on the 30th June in accordance with statutory requirements.

30. The Committee reviewed the Final Outturn Report for the General Fund and Housing Revenue Account and considered the implications for the Statements of Accounts.
31. 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.
32. 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.
33. 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.

29th September 2011

34. 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 31st October 2011.
35. 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.
36. 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.
37. 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.
38. The Committee considered a report of the Corporate Director Resources, which provided assurance on improvements being made to reduce the risk of duplicate payments.

39. The Committee approved the Council's Annual Governance Statement which will be published as part of the Statement of Accounts.
40. 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.
41. 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.

31st October 2011 Special Audit Committee

42. 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 was a much improved position from last year where a qualified VFM opinion was provided in relation to the County Council's Statements.
43. In considering the Annual Governance Reports, the Committee noted adjustments made to the financial statements to correct errors disclosed during the audit and adjustments due to errors that management had declined to amend due to immateriality, which were approved in a letter of representation.
44. 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.

10th November 2011

45. The Committee approved revised operational terms of reference which required amendment following the increase in membership resulting from the delegated authority to approve the financial statement of accounts. An updated forward plan of business was agreed in accordance with paragraph 6.1 of the terms of reference.

46. The Committee agreed a report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and gave an insight into the work carried out by the Corporate Risk Management Group during the period July to September 2011.
47. The Committee noted a report of the Manager of Internal Audit & Risk which advised of the work carried out by Internal Audit during the period April to September 2011.
48. The Committee agreed a draft report of the Chair of the Audit Committee of the work of the Audit Committee for the period April to October 2011, to be reported to Council on the 7th December 2011.
49. The Committee approved a revision to the Internal Audit Charter which sets out the terms of reference and strategy for the Internal Audit Service.
50. The Committee agreed a joint report of the Head of Planning and Assets, and Head of Finance which provided an update on the development of a Single Asset Register to gain assurance that improvements required to the control environment relating to council assets were on track.
51. The Committee considered a report of the Corporate Director, Resources that provided an update on the status of the Benefits Inspection Action Plan (BIAP) and which set out how the performance of the Benefits Service is being monitored and managed, now and going forward. The Head of Finance (Financial Services) emphasised the importance that this was being given by the Authority, and members were given an update on the processes and timescales involved in moving to one new system. The Committee noted assurance being provided by CMT and Scrutiny on performance and resolved to rely on this assurance to avoid any duplication.
52. The Committee noted a report of the External Auditor advising of the procurement processes in place for local authorities, fire authorities, and police authorities in securing external auditors for the future.

5th January 2012

53. The Committee received assurance from a report of the Head of Environmental Health and Consumer Protection which provided an update on the strategic risks associated with contaminated land and the potential 'failure to identify and effectively regulate contaminated land'. Funding had not been made available for the current financial year which meant that the strategic risk remained high. A further bid had been submitted for 2012 which received strong support from the Committee.
54. The Committee considered a revision to the Local Code of Corporate Governance following the completion of an annual review of effectiveness of the County Council's Corporate Governance arrangements and recommended its adoption to the Constitution Working Group.

55. The Committee approved the timetable and preparation strategy for the 2011/12 Annual Governance Statement.
56. The Committee noted progress being made on the implementation of the governance action plan which highlighted areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements in 2010/11.
57. The Committee noted a report of the Corporate Director, Resources, which detailed all recommendations for improving control weaknesses incorporated in the External Auditors 2010/11 interim and final governance reports. Management's response to recommendations made was noted. To monitor progress made on implementation, the Committee requested an update on progress to be considered as a standard item at each future Committee meeting until such time as assurance could be provided that all recommendations had been addressed.
58. The Committee noted a report of the Corporate Director, Resources, which provided the latest position on the rationalisation of the number of bank accounts in use across the Council to gain assurance that the risks of having numerous bank accounts was being addressed. On internal audit report on bank reconciliation was considered concurrently to gain further assurance that controls in place were adequate, and where not, that progress on agreed corrective action was being made on a timely basis.
59. The Committee considered a report of the External Auditor which presented the Annual Audit Letter for 2010/11. The External Auditor informed the Committee that an unqualified opinion had been provided on 31 October and that reasonable progress to address control weaknesses continued to be made.
60. The Committee was provided with a verbal update regarding work around the single asset register, a key piece of work which was one of the main factors in the delay of approving last year's accounts by the required statutory deadline.

16th February 2012

61. The Committee received assurance in a report of the Corporate Director, Resources that highlighted the strategic risks facing the Council and the work carried out by the Corporate Risk Management Group during the period October to December 2011. Additional briefing papers were circulated to the Committee which provided further information on two of the significant risks highlighted in the report, requested by the Chair and Vice Chair at pre-agenda.
62. The Committee approved minor revisions to the Councils' Risk Management Strategy and Policy.

63. The Committee received an update for the Corporate Director, Resources on the Annual Governance Statement action plan and sought additional assurance that planned target implementation dates would be achieved.
64. The Committee considered an update on the implementation of actions for improving control weaknesses incorporated in the External Auditor's 2010/11 Interim and Final Governance Reports and noted progress to date. To enable more effective monitoring the Committee requested key action priorities to be highlighted in future reports.
65. The Committee received an update on the work around the single asset register, and noted, although slightly behind schedule, no key issues had arisen. It was noted that assurance on the reliability and completeness of the asset register would be provided through periodic testing.
66. The Committee noted a report of the External Auditors that provided an update on progress in delivering their responsibilities.
67. The Committee noted a report of the Manager of Internal Audit and Risk that informed members of the work carried out by Internal Audit during the period October to December 2011 and challenged the reasons provided by management for the deferment of some planned work. Further information was requested to be provided from the relevant service manager.

22nd March 2012

68. The Head of Corporate Finance provided a briefing to members on the Council's budget setting procedures to gain assurance that adequate processes were in place to manage risk effectively.
69. The Committee received a further update on progress being made on the on the implementing of the agreed governance action plan.
70. The Committee noted a further update report of the Corporate Director, an progress made regarding the implementation of agreed recommendations for improving control weaknesses incorporated in the External Auditor's 2010/11 Interim and Final Governance Reports.
71. The Committee considered the annual report of the External Auditor on the outcomes of the Council's 2010/11 claims and returns and noted the improved position from the same exercise in 2009/10.
72. The Committee considered a report of the External Auditor on the audit plan for 2011/12 Accounts for the DCC Pension Fund and noted the key risk areas to be reviewed.
73. The Committee noted a report of the Corporate Director, Resources that provided members with a summary of the key accounting changes in the latest edition of the Code of Practice for Local Authority Accounting in the UK, which will apply to 2011/12 accounts. It was noted out that this would

bring about changes to the recording of the heritage assets owned by the Authority.

74. The Committee received an update of the Corporate Director, Resources, on the work around the single asset register and noted that Phase 1 was now complete. A progress report on phase 2, which was underway, was requested. The Committee noted that arrangements in place for the value and sale of land appeared fragmented and requested that a report be brought to committee to provide assurance that policies and procedures in place are effective and that expected targets for capital receipts are achievable.
75. The Manager of Internal Audit and Risk updated members on work which had been deferred and reported at the last meeting. It was noted that the Chair and Vice Chair had met with the Head of Housing and had gained assurance on the reasons for the deferment of the planned audit review of ALMO contract monitoring arrangements and that it had been agreed that the work would commence in six months time.
76. The Committee received an update from the Corporate Director, Resources on the position with the recovery of funds following the collapse of the Icelandic banks. It was noted that £4.775m had been recovered to date and that it was expected that most of the £7m owed would be received.
77. The External Auditor updated the Committee on future changes for the Authority's external auditor. It was noted that the Council's proposed external Auditors from 2012/13, following the decision to abolish the Audit Commission, was DA Mazars Partnership. A five year contract, effective from the 1st September 2012, is expected to be awarded. Thereafter, the Council would be required to appoint its own external auditor.

How the Audit Committee has made a difference during 2011/12

78. 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

Future Work

79. In accordance with best practice, the Committee has undertaken an annual review of its effectiveness. This year's review took the form of an on line anonymous survey developed by the Audit Commission.

80. The results of the survey, capturing feedback from 13 respondents, were reported and discussed in a workshop facilitated by the external auditor, drawing on his experience of the operation of audit committees elsewhere, on 13 May 2011.

81. The majority of actions identified for improvement in the workshop have now been implemented but further work is still need in some areas. In particular work planned to improve induction and training for new members will be progressed to response to any changes to Committee membership arising from next year's Council elections.

Recommendations and reasons

82. Members note the report and the work undertaken by the Audit Committee during the 2011/12.

Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 0191 383 3537

Appendix 1: Implications

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.