

County Council

5th December 2012

Report of the Audit Committee for the Period April 2012 to September 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 the period April to September 2012 and how this committee continues to provide good governance across the Council.

Background

2. The role, membership and terms of reference of the Audit Committee are set out within the Constitution approved by Council.
3. 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.
4. 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 finalising, auditing and certifying the Council accounts are dealt with properly.
5. The membership during the period April 2012 to September 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

31 May 2012

6. The Committee considered:

- (i) A report of the Corporate Director, Resources that highlighted the strategic risks facing the Authority and gave an insight into the work carried out by the Corporate Risk Management Group during the period January to 31 March 2012.
- (ii) A report of the Corporate Director, Resources which demonstrated the effectiveness of risk management across the Council during the year April 2011 to March 2012. The report provided assurance on the effectiveness of the Corporate Risk Management Group in supporting Services in their management of risk to help inform the 2011/12 Annual Governance Statement.
- (iii) A report of the External Auditor that set out the work programme for the 2012/13 audit of the Council's accounts, based on a risk-based approach to audit planning.
- (iv) A report of the Corporate Director, Resources that provided an update on actions being taken to reduce the Authority's risk of making duplicate payments. Overpayments identified during the financial year 2011/12 and the good progress made in recovery sums overpaid was noted. The Committee also gained assurance that further actions were being taken to improve the control environment to help identify potential duplicate invoices before payment was made.
- (v) A report on the work of internal audit during the period Jan to 31 March 2012. Progress made in delivering the annual audit plan and actions being taken to address the reported slippage were noted. Progress made by managers in implementing agreed audit recommendations was also reviewed to gain assurance that control weaknesses identified through audit findings were being addressed.
- (vi) The Interim Governance Reports of the External Auditor on the Durham County Council Pension Fund and Durham County Council's annual financial statements. The Committee welcomed the much

improved position from the previous year but noted that further work was still required to address some of the control weaknesses identified. Many of the issues raised were expected to be addressed before the final governance report was issued in September 2012.

- (vii) A draft response from the Chair of the Committee relating to a letter sent from the Audit Commission regarding compliance with International Auditing Standards. A view of compliance from the Committee's perspective was required as part of the external audit of the Council's and Pension Fund's financial statements for 2011/12.

28 June 2012

7. The Committee considered:

- (i) A report of the Corporate Director, Regeneration and Economic Development to gain assurance that current policies, practices and procedures relating to the identification, valuation and disposal of land were appropriate to manage potential risks. The Committee placed on record their appreciation of the substantial amount of work carried out to establish consistent procedures following Local Government Reorganisation.
- (ii) A report of the Corporate Director, Resources which provided details of the proposed accounting policies to be applied in the preparation of the Council's Statement of Accounts for 2011/12. The report outlined the main accounting changes introduced in the Code of Practice on Local Authority Accounting (the Code) in 2011/12. The Committee approved new accounting policies in relation to heritage assets and carbon reduction allowances. Amended accounting policies relating to government grants and contributions, grouped accounting and private finance initiative schemes were also approved to ensure compliance with the Code.
- (iii) A report of the Corporate Director, Resources which provided details of a request from the Audit Commission for the County Council to assess whether it should be considered a 'going concern' for the purpose of preparing the 2011/12 accounts. The Committee gained assurance that the County Council has a history of stable finance and ready access to financial resources in the future and that there are no significant financial, operating or other risks that would jeopardise the County Council's continuing operation. Consequently the Committee accepted the recommendation that the County Council should be considered as a going concern and that the Statement of Accounts for 2011/12 should be prepared on that basis.
- (iv) The Annual Internal Audit Report for 2011/12 from the Manager of Internal Audit and Risk which summarised the work carried out by Internal Audit during 2011/12 and gave a 'moderate' opinion on the Council's internal control environment during 2011/12. The Committee considered and challenged how the opinion had been derived. In particular it was

noted that the adequacy and effectiveness of key financial controls was a major consideration. The Committee noted that whilst good progress has been made during the year to improve a number of key financial systems, that will provide a much better operational platform for effective financial risk management going forward, some key controls were still absent or not operating effectively in 2011/12 hence the same “moderate” opinion on the financial control environment as the last 2 years. The committee took assurance that full benefit of new systems together with those arising from the recent utilisation of the finance service should ensure an improvement in the financial control environment in 2012/13.

- (v) The proposed Internal Audit Plan for the period July 2012 to June 2013. In approving the plan, the risk based audit strategy for delivering the plan was noted. To improve the Committee’s understanding of how this approach would operate in practice, further training on risk based auditing was requested.
- (vi) A report of the Corporate Director, Resources regarding the outcomes of the annual review of the effectiveness of Internal Audit. The Authority has a requirement under the Accounts and Audit (England) Regulations 2011 to review the effectiveness of Internal Audit each year. If Internal Audit is not considered effective, the reliability of the annual internal audit opinion is in question. The Committee concluded that the service had been effective during 2011/12 and noted action taken and planned to strengthen the skills mix in specialist areas such as Information Technology and Pensions.
- (vii) A report of the Corporate Director, Resources relating to the annual review of the effectiveness of the Council’s Corporate Governance arrangements, required to inform the preparation of the draft Annual Governance Statement (AGS) 2011/12. Improvements made to the Council’s governance arrangements during the last year were noted and the Committee resolved that the draft AGS be approved prior to being presented to County Council for information and comment.
- (viii) The Annual Report of the work of the Audit Committee, covering the period April 2011 to March 2012 prior to it being presented to the next meeting of the County Council.
- (ix) A report of the Manager of Internal Audit and Risk which provided details of action taken by Internal Audit during 2011/12, and further action planned, to raise awareness of the risk of fraud and corruption across the Council. The Committee also noted cases of potential fraud and irregularity reported during 2011/12, investigation progress and outcomes. Details of counter-fraud work carried out to prevent and detect fraud, such as the Audit Commission National Fraud Initiative Exercise were also noted to gain assurance that the Council’s arrangements for the management of the risk from fraud and corruption are effective.

30 July 2012

8. The Committee noted a report of the Corporate Director, Resources which provided details of the final outturn for both the General Fund and the Housing Revenue Account for 2011/12 including the Annual Treasury Management Review.
9. The Committee then went on to consider:
 - (i) A report of the Corporate Director, Resources which presented the Statement of Accounts for the year ended 31 March 2012. It was particularly pleasing to note that the draft accounts had been prepared and certified by the statutory deadline of the 30th June 2012. The Committee challenged the increase in short term debtors and bad debt provisions from the previous year and noted the explanation provided that this was primarily due to in-year Council Tax collection performance. The Committee noted actions being taken to improve performance during the current year and requested that an update report be brought back to committee in 6 months time to gain assurance that these actions are effective.
 - (ii) A report of the Corporate Director, Resources which provided an update on progress being made in the development of the Medium Term Financial Plan, Council Plan and Service Plans 2013/14 to 2016/17.
 - (iii) A report from the Audit Commission that provided the Committee with progress in delivering their responsibilities as external auditor and an update on the externalisation of the Audit Practice. It was noted that existing Audit Commission staff would TUPE transfer to the Council's appointed external auditors, Mazars, with effect from the 1st November 2012.
 - (iv) 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 April to June 2012.

27 September 2012

10. The Committee considered and approved the audited Statement of Accounts for the year ended 31 March 2012 presented by the Corporate Director, Resources. The Committee acknowledged the improvements made during the year that contributed to the final accounts being approved within the statutory deadline of the 30th September 2012 - a much improved position on the previous 2 years.
11. The Committee then went on to consider:
 - (i) A report of the Corporate Director, Resources which proposed minor amendments to the draft Annual Governance Statement (AGS) and

sought approval to the final AGS to be published as part of the Council's audited Statement of Accounts 2011/12.

- (ii) The Annual Governance Reports relating to Durham County Council presented by the External Auditor. He advised that he expected to complete his final review and closure procedures, and issue an unqualified opinion on the accounts, the group accounting statements, and the Value for Money Conclusion.
- (iii) The Annual Governance Report relating to the Pension Fund presented by the External Auditor. He advised that he expected to complete his final review and closure procedures, and issue an unqualified opinion, on the pension fund financial statements.
- (iv) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period April to June 2012.

How the Audit Committee has made a difference during the first 6 months of 2012/13.

12. The Committee believe they have made a significant difference to the Council's governance, control and risk framework during the period April to September 2012 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 the Service's 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

Recommendations and reasons

13. Members note the report and the work undertaken by the Audit Committee during the period April to September 2012.

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.