

## **Audit Committee**

**28 November 2013**

**Report to Council on the Work of the Audit  
Committee**



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## **Report of Councillor Edward Bell, Chairman of the Audit Committee**

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### **Purpose of the Report**

1. The purpose of this report is to present the proposed report summarising the work of the Audit Committee, during the period May 2013 to September 2013, to be presented to Council at its meeting on the 8 January 2014.

### **Recommendations and reasons**

2. Members are asked to approve the report attached at Appendix 2.

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**Contact: Avril Wallage      Tel: 03000 269645**

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## **Appendix 1: Implications**

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**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

## Appendix 2

**County Council**



**8 JANUARY 2014**

### **Report of the Audit Committee for the Period May 2013 to September 2013**

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**Councillor Edward Bell, Chairman of the 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 May 2013 to September 2013 and how the committee continues to provide for good governance across the Council.

#### **Background**

2. The role, membership and terms of reference of the Audit Committee are set out within the Constitution and 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 of the Committee during the period May 2013 to September 2013 was refreshed following the May County Council elections and is now as follows:

Chairman:	Cllr Edward Bell
Vice Chairman:	Cllr James Rowlandson
Members	Cllr Lawson Armstrong Cllr Colin Carr Cllr Sonia Forster Cllr Jed Hillary Cllr Tracie Smith Cllr Watts Stelling Cllr Owen Temple
Co-optees:	Ms Katherine Larkin-Bramley Mr Thomas Hoban

6. Induction training for new elected members of the Committee was provided on the 30 May 2013 and each member of committee was provided with an induction handbook of key documents and background information to assist them with their new role.

### **Summary of meetings**

7. A summary of committee business considered at the meetings held during the period is provided at Appendix 2.

### **How the Audit Committee has made a difference during the first 6 months of 2013/14.**

8. The Committee believe they have made a significant difference to the Council's governance, control and risk framework during the period May 2013 to September 2013 by :
  - Striving to help support the Council deliver its objectives and priorities by being both 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**

9. Members note the report and the work undertaken by the Audit Committee during the period May 2013 to September 2013.

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**Contact: Avril Wallage, Manager of Internal Audit & Risk, Tel 03000 269645**

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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.

## Summary of Meetings

### 31 May 2013

The Committee considered:

- (i) The Bi-Annual Report of the Audit Committee which covered the period November 2012 – April 2013 and would be presented to the County Council at its next meeting in accordance with best practice guidelines.
- (ii) A report of the Chair that provided a response, sent on behalf of the Audit Committee, to a letter from the external auditors, relating to compliance with International Auditing Standards. This was a requirement of the final accounts audit process, and a response from the Corporate Director, Resources in relation a similar request from management's perspective was also considered for information.
- (iii) An update from the Corporate Director of Resources on the progress to date on the implementation of agreed actions to address control weaknesses incorporated in the External Auditor's 2011/12 Interim and Final Governance Reports. Members were pleased to note that the majority of action required had now been implementation with only 2 actions outstanding. Further assurance that the outstanding issues were being addressed on a timely basis was requested.
- (iv) An update from the Corporate Director, Resources, giving assurance to Members that deadlines would be met for the draft accounts to be submitted to Mazars by the end of June and for final approval in September 2013.
- (v) A report of the External Auditor, Mazars that set out progress on the 2012/13 audit. It was pleasing to note, that the external auditor has found no need to issue an interim governance report this year, due to a much improved control environment from previous years. However, significant deficiencies in internal control relating to bank reconciliations and journals were highlighted. The Committee sought assurance from the Corporate Director, Resources that these control weaknesses had now been addressed appropriately. Members were pleased to note that reconciliations at the financial year end were now fully complete and that robust systems were in place for regular and timely on going robust bank reconciliations.
- (vi) A report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during January to March 2013. Members were informed of new risks, those that had been removed and the status of all current key risks.

- (vii) A report of the Manager of Internal Audit and Risk that advised Members of known arrangements in place that could provide assurance on the adequacy and effectiveness of the Council's partnership governance arrangements. The report also advised the Committee of the current guidance available to elected members when serving on outside bodies or partnership.
- (viii) A report of the Corporate Director, Resources that provided information on occasions when grant paid to the Council has had to be repaid as grant conditions had not been complied with. It was noted that independent assurance on the adequacy and effectiveness of arrangements in place, to reduce the risk of further claw back, was planned to be provided by Internal Audit as part of the current annual audit plan. The outcomes of this review are expected to be reported to the November meeting of the Committee.
- (ix) A report of the Manager of Internal Audit and Risk which informed members of the work carried out by Internal Audit during the period July 2012 to March 2013 and the assurance on the control environment provided.

### **27 June 2013**

The Committee considered:

- (i) A report from the Head of Planning and Assets giving an update on the disposal of assets procedure. This update had been requested by the Committee following consideration of an internal audit report at the meeting of the Committee in February 2013 on the sale of Windlestone Hall. Assurance was provided that tight internal control procedures are in place and how these will be monitored. The Committee was reminded that independent assurance on the effectiveness of the new processes and procedures is planned to be carried out by Internal Audit within the following few months at the Committee's request, with the outcomes being reported back to Committee on completion.
- (ii) A report of the Corporate Director, Resources which presented the draft Annual Governance Statement for approval. The Committee raised concerns that impact of austerity measures and strategic risk of not delivering the MTFP had not been given enough emphasis. The Committee requested the statement be amended accordingly, prior to it being reported to Full Council for information in July.
- (iii) A report of the Corporate Director, Resources which presented the Annual Internal Audit Report for 2012/13 which provided a 'moderate' opinion on the adequacy and effectiveness of Council's control environment for 2012/13. The Committee were informed that the overall opinion given for the 2012/13 was that of a moderate assurance, which had been the same as given in the previous year. The Committee, although disappointed with the overall opinion,



acknowledged that a lot of improvements had been made during the year and others had been agreed but were yet to be implemented.

- (iv) A report of the Corporate Director, Resources regarding the outcomes of the annual review of the effectiveness of Internal Audit. This annual review is a statutory requirement and is important as provides assurance on the reliability of the annual audit opinion on the Council's control environment. Members expressed strong concerns about the poor response from senior management to a feedback questionnaire issued as part of this year's review as only 15 of 28 questionnaires were returned. However, in consideration of all the evidence presented, the Committee was able to conclude that the internal audit service was effective during 2012/13.
- (v) A report of the Corporate Director, Resources which outlined the proposed programme of work to be carried out by Internal Audit in the period July 2013 to June 2014. The resultant annual audit plan was approved. Progress on delivering the plan will be regularly monitored by the Committee.
- (vi) A report of the Corporate Director, Resources that presented a forward plan of Audit Committee business for the next 12 months.
- (vii) 2 reports relating to Direct Care Payments; an internal audit report resulting in limited assurance, and the service response in relation to audit findings. The Head of Commissioning provided an update on the social care and direct payments arrangements in place and improvements made and planned in response to audit findings. A follow up audit was requested by the Committee to provide independent assurance, in this high fraud risk area, that revised policies and procedures are effective and operate as expected.
- (viii) The 2012/13 Annual Fraud and Irregularity Report of the Manager of Internal Audit and Risk. This provided information on the effectiveness of the Council's Counter Fraud and Corruption Strategy. This included an update on fraud preventative work, detective work and investigations of potential cases.

### **29 July 2013**

The Committee considered:

- (i) A report of the Corporate Director, Resources which highlighted the strategic risks facing the Council and that gave an insight into the work carried out by the Corporate Risk Management Group during April to June 2013. Members were informed of new risks, those that had been removed and the status of current key risks to gain assurance that strategic risks were being effectively managed.

- (ii) 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 2012/13 including the Annual Treasury Management Review.
- (iii) A report of the Corporate Director, Resources which presented the draft un-audited Statement of Accounts for the year ended 31 March 2013. The Corporate Director, Resources confirmed that the draft accounts had been certified and provided to external audit within the statutory deadline of 30 June 2013
- (iv) A report of the External Auditor, Mazars, detailing progress on the 2012/13 audit and highlighted the quality assurance arrangements in place at Mazars to assure the committee on the quality of the external audit service to be provided. It was pleasing to note that no areas of concern were raised relating to the audit and that no problems were envisaged with the audited accounts being available for publication within the statutory deadline of the 30 September.

### **30 September 2013**

The Committee considered:

- (i) A report of the Payroll and Pensions Manager about the approach taken in response to the outstanding internal control recommendation made by the External Auditor, as part of the 2011/12 audit, relating to authorised signatories. Assurance was provided that an electronic authorisation process was planned to be developed and implemented by September 2014. In the interim, the Committee were assured that adequate alternative controls were in place to mitigate the risk of significant fraud or error. Independence assurance that these controls are effective in practice is to be provided by Internal Audit.
- (ii) A report of the Corporate Director, Resources that sought approval of the final Annual Governance Statement to be published as part of the Council's audited Statement of Accounts 2012/13.
- (iii) A report of the Corporate Director, Resources which presented the Statement of Accounts for the year ended 31 March 2013 for approval. The Head of Corporate Finance thanked the External Auditors at Mazars, the finance team and Internal Audit for working well together to ensure the accounts were prepared and audited by the statutory deadline of the 30 September. The overall improvement in the account preparation and reporting process was acknowledged by the Committee who thanked all those involved.
- (iv) The Audit Completion Reports of the External Auditor relating to the audit of both Durham County Council's 2012/13 Statement of Accounts and those for the Pension Fund. The Committee were pleased to note the comments made by the External Auditor in relation to the significant

improvements made in both the quality and timing of the accounts. The Committee were advised of the final review and closure procedures and noted the intension of the External Auditor to issue an unqualified opinion on both the accounts and the VFM conclusion.

- (v) A detailed presentation from the Head of Finance (Corporate Finance) outlining the budget and MTFP setting process to gain assurance on the management of risks associated with this key governance area.
- (vi) The Committee considered 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 2013. The report also provided an update on progress made by management on the implementation of actions required to address audit findings. The Committee were pleased to note the overall significant improvement made by management on the implementation of audit recommendations, but raised concerns about the length of time some actions, reported as overdue, had been outstanding. It was agreed that the committee would “call in” actions owners where more than one revised target was reported to gain assurance that there was a reasonable explanation for the delay.
- (vii) The Committee considered a report of the Manager of Internal Audit and Risk that presented results from the CIPFA 2013 Internal Audit Benchmarking Club exercise for 2012/13 actual and 2013/14 estimates. This provided further assurance to the Committee that the service was effective and is achieving VFM.