

## County Council

21<sup>st</sup> September 2011

Annual Report to Council 2010/ 11



## Report of the Audit Committee

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**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 2010/11 and 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 separate report covering the work of the Audit Committee for the first 6 months of 2010/11 was presented to the Council on 8<sup>th</sup> December 2010.
3. This report incorporates details previously reported for the first 6 months as a full record of work carried out during the year.

### Background

4. The Audit Committee of the County Council was first established in March 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, effective assurance about both the adequacy of financial management and reporting and the management of other processes required to achieve the organisation's corporate and service objectives. It is the responsibility of the Council's Audit Committee to undertake these aspects of governance.
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 drawing up, 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. To support the Audit Committee with this additional responsibility a series of training sessions were held during June 2010 for all Committee Members but with particular attention being given to induction for new Members and improving the overall effectiveness of the Committee. These sessions included the role and objectives of the Committee and a number of technical areas relating to the approval of the accounts, e.g. accounting policies, opening balances, key financial statements and providing effective challenge to the preparation of the Statement of Accounts and the Annual Governance Statement.
  10. The membership during the period was as follows:

Chair: Cllr E Bell

Vice Chair: Cllr R Ord

Members: Cllr O Temple  
Cllr C Carr  
Cllr D Morgan  
Cllr D Southall  
Cllr B Harrison  
Cllr M Hodgson  
Cllr L Marshall

Co-optees: Ms K Larkin Bramley  
Mr T Hoban

## **Summary of Meetings**

### **20<sup>th</sup> May 2010**

11. The Committee considered a report from the External Auditor summarising the findings from the certification of 2008/09 grant claims. The Committee noted the position and the improvements planned.
12. The Committee considered a report outlining the findings of a review of the effectiveness of the system of internal audit during 2009/10. The Committee concluded that the system was effective.
13. The Committee considered and noted the External Auditor's work programme and fee.

14. The Committee considered and endorsed a revised Risk Management Strategy and Policy prior to approval by Cabinet.
15. The Committee considered reports of the Risk and Governance Manager that highlighted the Council's corporate and service strategic risks and which provided an insight into the work carried out by the Corporate Risk Management Group (CRMG) during the period April 2009-March 2010.
16. The Committee considered and challenged the preparation of the annual internal audit plan prior to approving it.

#### **24<sup>th</sup> June 2010.**

17. Consideration was given at this meeting to some elements of the draft accounts, ahead of the formal meeting commencing in a training and information session lead by the Corporate Director Resources, to lead Members through the process of how the accounts were being prepared and to allow any queries or concerns to be raised and answered prior to formal approval of the accounts on the 30<sup>th</sup> June 2010.
18. The Committee considered a report of the Corporate Risk and Governance Manager seeking approval to the draft Annual Governance Statement (AGS) to be included in the draft Statement of Accounts.
19. Consideration was given to the Annual Internal Audit Report summarising the work of Internal Audit during 2009/10. The Committee noted the annual audit opinion that informed the draft Annual Governance Statement.
20. The Committee reviewed a report in relation to BVPI8 "the Payment of Invoices within 30 days".
21. The Committee considered a report in relation to the Comprehensive Area Assessment (CAA) and Improvement Planning.

#### **30<sup>th</sup> June 2010**

22. The draft Statement of Accounts was presented to the Committee for consideration but as these were incomplete the Committee agreed the accounts circulated would be considered in a training session outside the meeting. The Committee noted the reasons why the accounts were incomplete and would need to be considered at a later date.
23. The Committee noted the External Auditor's proposed 2009/10 Audit Opinion Plans for the accounts relating to Durham County Council and the Pension Fund.

#### **27<sup>th</sup> July 2010**

24. The Committee considered an update report from the BSF Programme Manager that provided further assurance on the management of risk associated with the programme.
25. The Committee approved the operational performance indicators for the Internal Audit Service for 2010/11.
26. The Committee considered reports summarising the work undertaken by the Corporate Risk Manager and the Corporate Risk Management Group during the period April to June 2010 and an update on the current status of the Council's corporate and strategic service risks.
27. The Committee considered a CIPFA consultation document that considered the role of the Head of Internal Audit in public service organisations.
28. The Committee considered and approved the draft Statement of Accounts. Members noted the difficulties in preparing the accounts and actions being planned to improve the financial systems that had created these difficulties. Comments made by the Committee were reported by the Chair to Full Council on the 28th July 2010.
29. The Committee considered a draft Interim Governance Report issued by the External Auditor relating to preliminary findings from a pre-statement audit carried out between January and June 2010.
30. Comments made by the Committee in relation to the accounts were reported by the Chair to Full Council on the 28th July 2010.

### **29<sup>th</sup> September 2010**

31. The Committee considered a report summarising the work carried out by the Internal Audit Service during the period April to June 2010 and noted progress made in delivering the agreed 2010/11 audit plan.
32. The Committee considered a report on the development and implementation of the Council's partnership governance arrangements, including an overview of the current partnership landscape.
33. The Committee received an updated forward plan summarising the work programme of the Committee and how this linked to the Committee's operational terms of reference.
34. The Committee considered and approved the consultation response to the CIPFA Statement on the Role of the Head of Internal Audit in public service organisations.
35. The Committee noted a response provided to the External Auditor by the Chair on behalf of the Committee to fulfil the requirements of ISA620, as part of the external audit of the final accounts, relating to the

arrangements in place for preventing fraud and ensuring compliance with laws and regulations.

36. The Committee noted that the consideration of the Final Statement of Accounts had been deferred until 27<sup>th</sup> October. An update on improvements being made to the financial systems to address the difficulties experienced that had caused the delay was also noted. The Chair will present a statement to the December Council meeting relating to the difficulties in getting the accounts approved.

### **27<sup>th</sup> October 2010**

37. At this special meeting, the Committee considered the Annual Governance Reports of the External Auditor for the County Council and Durham County Council Pension Fund and approved the final Statements of Accounts for 2009/10. Assurances provided by the new Corporate Director Resources relating to the arrangements he was putting in place in order to improve the way the accounts would be progressed next year, including the preparation and monitoring of a consolidated action plan to deliver the improvements identified in the Annual Governance Reports, were welcomed by the Committee.

### **18<sup>th</sup> November 2010**

38. The Committee noted the Consolidated Action Plan prepared to monitor progress in response to recommendations made by the external auditor in the 2009/10 Interim and the Annual Governance Reports.
39. The Committee noted the Overview and Scrutiny Work Programme presented for information to gain a better understanding of its work.
40. The Committee considered a report covering the work of Internal Audit during the period ending September 2010 and noted progress made in delivering the 2010/11 Internal Audit Plan.
41. The Committee considered a report covering risk management during the period July to September 2010 to gain assurance on the effectiveness of arrangements in place.
42. The Committee considered a report on progress to address areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.
43. The Committee considered and approved a revised Internal Audit Charter which established the terms of reference and audit strategy for the Internal Audit Service. Members noted that the Charter reflected the need to improve the risk based approach to internal auditing which was particularly important at this time as the service was to lose resources as a result of restructuring required to achieve budget reductions.

44. The Corporate Director Resources updated the Committee with progress made in improving performance relating to the payment of invoices.
45. The Committee considered a report on progress to improve the effectiveness of Oracle E-Business Suite to gain assurance that adequate arrangements were in place to improve the control environment of the main financial systems.
46. The Committee noted the proposed key milestones and timescales for the integration of the Revenues and Benefits System.
47. The Committee considered a report relating to the effectiveness of the Council's Counter Fraud Strategy and approved a revision to the Strategy and the supporting Fraud Response Plan.
48. The Committee considered a report relating to the benchmarking data for the internal audit service to gain assurance on the effectiveness of the service.

### **6<sup>th</sup> January 2011**

49. The Committee received a presentation from the Head of Policy and Performance outlining the Council's performance management arrangements, including the arrangements for the scrutiny of performance, to improve its understanding of arrangements in place.
50. The Committee considered and approved a revised Local Code of Corporate Governance.
51. The Committee considered a report on progress in addressing areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.
52. The Committee considered a report setting out the result of the Benefit Service Inspection to gain assurance from this external assurance source on the effectiveness of the control environment.
53. The Committee considered the Annual Audit Letter from the Audit Commission in relation to the Audit of the 2009/10 Statement of Accounts.
54. The Committee considered a report on the current position in relation to the high number of bank accounts operated by the County Council and the strategy for rationalisation.
55. The Committee considered a report on the proposals for restructuring the Internal Audit and Risk Service with effect from 1 April 2011 and noted the potential impact on the effectiveness of the service.
56. The Committee considered a report concerning the appointment of co-opted Members to the Audit Committee. Members commented on the excellent contribution the existing 2 co-opted Members had provided and

were delighted that both wished to continue serving on the Committee. The Committee resolved to recommend to the County Council that existing contracts be extended until May 2013.

57. The Committee noted a report which advised of the key provisions of the Localism Bill relating to Standards.
58. The Committee considered a report providing an overview of the Authority's contribution to the Durham and Darlington Local Resilience Forum's (LRF) Community Risk Register.
59. The Corporate Director Resources provided an update to the Committee on the position with Oracle E-Business Suite and advised that the relocation of the Oracle server from Northumberland to Tanfield had gone smoothly.
60. The Committee considered an update on the work being undertaken to improve the effectiveness of the Council's Partnership Governance Arrangements.

### **10<sup>th</sup> February 2011**

61. The Committee considered a report on the current status of the management of risk within the BSF Programme.
62. The Committee received a verbal update from the Corporate Director, Resources relating to the payment of invoices.
63. The Committee considered a report on the management of the corporate strategic risk of not achieving all of the MTFP targets due to the programme of savings not being successfully achieved. The Corporate Director Resources advised that this major risk is being monitored by CMT fortnightly.
64. The Committee considered a report of the strategic risks facing the Council during the period October - December 2010.
65. The Committee considered a report on the work being done to identify and assess the reliability of key sources of assurance by the development of an assurance mapping framework. This report also sought approval to a change in the internal audit annual planning cycle.
66. The Committee considered a report that advised Members of the work carried out by Internal Audit during the period ending December 2010 and progress made in delivering the 2010/11 Audit Plan.
67. The Committee considered a report on the progress made on relocating the hosting of the Oracle E-business Suite to Durham and the next steps for further improvement of the effectiveness of the system.

68. The Committee considered a report providing an update on progress made on the implementation of the Consolidated Action Plan to address concerns raised by the Audit Commission following the 2009/10 audit.

### **18<sup>th</sup> March 2011**

69. The Committee considered a report providing an update on progress being made to improve the assurance provided other the effectiveness of partnership governance arrangements.

70. The Committee considered a report of the External Auditor that provided an update on progress in delivering its' responsibilities as the Council's external auditor.

71. The Committee considered a report of the External Auditor that detailed the work proposed to be undertaken for the audit of financial statements and the value for money conclusion for 2010/11.

72. The Committee considered a report of the External Auditor summarising the certification of 2009/10 grant claims, including messages arising from the assessment of the Council's arrangements for preparing claims and information on claims that were amended or qualified. The Committee highlighted in particular the inadequate control environment for the Housing and Council Tax Benefit Scheme for 2009/10 and sought assurance that improvements required to establish an adequate control framework have been implemented.

73. The Committee considered an update report on investments in Icelandic Banks.

74. The Committee considered and approved the programme of work to be carried out by Internal Audit during the period April to June 2011.

75. The Committee considered an update report on action taken to improve internal audit assurance on the Pension Fund.

76. The Committee considered a report on the consultation exercise being undertaken by the Department of Communities and Local Government relating to the revision and consolidation of the Accounts and Audit Regulations 2003 (SI 2003 No 533), as amended, with effect from 31 March 2011. Members noted the proposed changes and the implications for the role of Committee. In particular it was noted that elected members will only be required to approve financial statements after the external audit process is complete and therefore the accounts need only be brought to a meeting in September each year rather than in draft by 30<sup>th</sup> June. It was noted, however, that the draft accounts together with a summary of the 2010/11 outturn position would be reported to the July meeting to allow members the opportunity to consider any further assurance or training they may require to enable them to fulfil their responsibility for approving the accounts at the September meeting.



77. The Committee considered a report on the progress being made to ensure the 2010/11 Statements of Accounts will be compliant with International Financial Reporting Standards.
78. The Committee considered a report of the proposed changes to Contract Procedure Rules following the annual review. The Committee agreed that the Chairman and Vice-Chairman should be provided with the detailed reasoning for the changes and potential consequences prior to making a recommendation for their approval to full Council as part of the revision to the Constitution in May 2011.
79. The Committee considered a report on progress in implementing the areas of improvement arising from the annual review of the effectiveness of corporate governance arrangements.

### **How the Audit Committee has made a difference during 2010/11**

80. The Committee made a significant difference to the Council's governance, control and risk framework during the year by :
- Embracing its increased responsibility for the approval of the Statements of Accounts and the Annual Governance Statement (AGS) and providing increased scrutiny and independent assurance, following a number of timely training sessions, of the process of preparing the final accounts and the AGS
  - Striving to help support the Council deliver its objectives and priorities by being a proactive and reactive body encouraging the early reporting of any control issues to ensure that appropriate and timely action is taken to address
  - Challenging proposed external audit work and fees
  - 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
  - Independent questioning on the management of corporate and service strategic risks, calling individual service managers into account to gain further assurance on high risk areas eg BSF and MTFP savings.
  - Seeking assurance from other assurance bodies eg external inspection, scrutiny and overview
  - 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 of key financial systems and actions being taken in response to control issues raised by the external auditor as a result of the audit of the 2009/10 Statement of Accounts
  - Ensuring recommendations made and actions requested during meetings were acted upon by ensuring the implementation and monitoring of an Audit Committee Action plan to provide a proper trail of progress at each committee meeting

- Challenging the transparency and openness of its independent assurance role by questioning any agenda items that were not in the public domain
- Challenging the level of internal audit resources available to provide an adequate annual audit opinion

### **Future Work**

81. 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.

82. 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.

83. The resultant key actions identified for improvement in the workshop have been agreed by the Committee and will be monitored during 2011/12.

### **Recommendations and reasons**

84. Members note the report and the work undertaken by the Audit Committee during 2010/11.

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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 lost 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.