

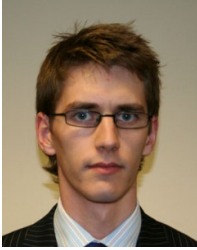
Audit Committee Annual Report 2011/12



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Swale Borough Council

Audit Committee Annual Report – 2011/12



Foreword by Cllr Nicholas Hampshire, Chairman of the Audit Committee

I am delighted to introduce the annual report of the Audit Committee, covering the year to 31 March 2012.

I was appointed as Chairman to the Committee in May 2011 and am pleased to report that the Committee has continued to build on its strength and effectiveness over the year. The Committee continues to comprise a good balance of Councillors with a wide range of skills and experience, and provides oversight and challenge to the Council's operations and internal control environment. I consider that the Audit Committee has fulfilled its obligations to provide independent assurance on the governance of Swale Borough Council.

The Audit Committee's terms of reference clearly state its responsibility for reviewing the Council's governance arrangements (both financial and non financial) and its key objective to obtain appropriate assurances in these areas. As members of this Committee, we have continued to follow best practice and become increasingly challenging of officers whilst always supporting them in their governance priorities.

During the course of the year the Committee has paid particular regard to the key findings made by our internal and external auditors and to the quality of the Council's financial reporting arrangements. This has enabled us to direct and focus attention to weaknesses in internal control and to maintain the quality of the Council's governance and reporting arrangements. The Committee also actively participated within the Government's consultation exercise for the future provision of Local Public Audit, ensuring the Council's interests and concerns were considered at the highest level.

Finally, during 2011, the Committee considered its effectiveness and development needs against the results of an independent, expert peer review evaluation. Although the peer group was impressed by our effectiveness, a number of areas for improvement were identified. As highlighted in section 7 and 8 of this report, these development opportunities have progressed during the year and will be followed up with rigour over the coming months alongside any further improvements identified when the Committee reviews its effectiveness against best practice CIPFA Standards.

I would like to take this opportunity to thank my fellow committee members for their attendance and contributions towards the Committee's objectives during the year, and also to senior officers of the Council for their serious and professional approach to governance matters and to the business of the Audit Committee in general.

**Councillor Nicholas Hampshire
Chairman**

1. Introduction

Whilst there is no statutory obligation to have an Audit Committee, Swale Council understands and supports the value of the Committee as an essential component of effective governance. In recent years there has been a significant amount of regulation and guidance issued on governance arrangements for private and public sector bodies, with the common feature of effective governance arrangements being the existence of an independent Audit Committee.

The Swale Audit Committee comprises nine members whose key purpose is to provide independent assurance of the adequacy of the risk management framework and the associated control environment; independent scrutiny of the Council's financial and non-financial performance - to the extent that it affects the Council's exposure to risk and weakens the control environment - and to oversee the financial reporting process and approve the Annual Statement of Accounts. The Committee is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access in order to deliver on its responsibilities. Meetings are held in public, and all members of the Council as well as members of the public are welcome and encouraged to attend.

The Committee comprises a range of skills, interests and level of knowledge in financial and risk management, accounting concepts and standards and the regulatory regime. They are also required to provide independent and unbiased attitudes as well as the ability to challenge the Executive and senior officers of the Council when required.

Regular attendees to the Audit Committee meetings include the Director of Corporate Services/ Monitoring Officer, the Head of Finance (with S151 responsibility), the Head of Audit Partnership and the Audit Manager and senior representatives from the external auditor. The Committee also has the right to call any other officers or agencies of the Council as required.

The role of the Audit Committee differs from the Council's Scrutiny Committees in that the role of scrutiny is to review policy and challenge whether the Executive has made the right decisions to deliver policy goals. The Audit Committee, however, provides independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and affects the control environment, and oversight of the financial reporting process.

The Committee is not a substitute for the Executive function in the management of internal or external audit, risk management, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is the Committee's role to examine these functions, and to offer opinions or recommendations on the way the management of these functions is conducted.

There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the committee will:

- Raise greater awareness of the need for internal control and the implementation of audit recommendations;
- Increase public confidence in the objectivity and fairness of financial and other reporting;
- Reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement);
- Provide additional assurance to the Authority and its stakeholders through the results of its work.

2. Terms of reference and responsibilities

The Committee's detailed terms of reference are set out in the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model.

In summary, the Committee is responsible for providing independent assurance to the Council in relation to the area of governance. Key terms are to:

1. Consider the effectiveness of the authority's risk management arrangements, the control environment and associated antifraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors.
3. Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.
4. Approve (but not direct) internal Audit's strategy and Annual Audit Plan and monitor performance against them.
5. Review summary internal audit reports and the main issues arising, and seek assurance that action has been taken where necessary.
6. Receive the annual report of the Head of Internal Audit
7. Consider the reports of external audit and inspection agencies.
8. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
9. Review the financial statements, external auditor's opinion and reports to Members, and monitor management action in response to the issues raised by external audit.
10. Approve the Annual Statement of Accounts.
11. Present an annual report to the Executive on exceptions and highlights throughout the year.

3. Membership

The Audit Committee is comprised of nine members. The Committee supports the Executive and Scrutiny Committees in fulfilling the Council's oversight and governance responsibilities through its consideration and approval of the Council's financial statements and financial reporting process, the system of internal controls and risk management and the internal and external audit process. The Committee met on five occasions in 2011/12. In addition to Committee members, the Council's Director of Corporate Services/Monitoring Officer, Head of Finance (S151 Officer), Head of Audit Partnership and Audit Manager also attend the meetings. Committee agenda papers and minutes are available on the Council's website www.swale.gov.uk

2011/12 Audit Committee Members

Cllr Nicholas Hampshire
Chairman



Cllr Colin Prescott
Vice-Chairman



Cllr Tony Booth



Cllr June Garrad



Cllr Angela Harrison



Cllr Mike Haywood



Cllr Mike Henderson



Cllr Pat Sandle



Cllr Ted Wilcox



4. Committee Attendance 2011/12

The Committee has been well supported throughout the year by both members and officers, and attendance records are set out in the table below.

Member/Officer	25/05/11	20/06/11	19/09/11	14/12/11	08/03/12 (n.b. local by-election)
<u>Audit Committee Members</u>					
Councillor Nicholas Hampshire (Chairman)	Y	Y	Y	Y	Y
Cllr Colin Prescott (Vice-Chairman)	Y	A	Y	Y	Y
Councillor Andy Booth	Y	Y	Y	Y	Y
Councillor June Garrad	Y	Y	Y	A	A
Councillor Angela Harrison	Y	Y	Y	Y	A
Councillor Mike Haywood	Y	Y	A	Y	A
Councillor Mike Henderson	Y	Y	Y	Y	A
Councillor Pat Sandle	A	Y	Y	Y	Y
Councillor Ted Wilcox	Y	Y	Y	Y	Y
<u>Substitute Members</u>					
Councillor Adrian Crowther	-	Y	-	-	-
<u>Officers</u>					
Director of Corporate Services	Y	Y	Y	-	Y
Head of Finance	Y	Y	Y	Y	Y
Chief Accountant	-	-	Y	-	-
Head of Audit Partnership	Y	Y	-	Y	Y
Audit Manager	Y	Y	Y	Y	Y
Head of Development Services	Y	-	-	-	Y
Development Management Manager	-	-	-	-	Y
<u>External Audit</u>					
Andy Mack	Y	-	Y	Y	Y
Steve Golding	Y	Y	-	Y	Y
Daniel Woodcock			Y	-	-
<u>Democratic Services</u>					
Kellie Mackenzie	Y	-	-	-	-
Joanne Hammond	-	Y	Y	Y	Y

Key: Y = Attendance, N = Non Attendance, A = Apologies Received – N.B. 8th May attendance was reduced due to a local by-election on this date

5. The Committee considered the following reports during 2011/12

Function/Issue	Lead Officer/Body	25/05/11	20/06/11	19/09/11	14/12/11	08/03/12
<u>INTERNAL AUDIT ACTIVITY</u>						
Internal Audit Annual Report	HAP	Y				
Internal Audit Terms of Reference and Strategy	HAP	Y				
Internal Audit Strategic Plan	HAP			Y		
Strategic Risk Register	HAP			Y		
Internal Audit Assurance – Direction of Travel Report	AM			Y		
Internal Audit Six-Month Interim Report	AM				Y	
The Role of the Head of Internal Audit	HAP				Y	
Internal Audit Report – Planning Services	HAP					Y
Internal Audit Operational Plan 2012/13	AM					Y
<u>EXTERNAL AUDIT ACTIVITY</u>						
Audit Plan and Fee Letter	AC	Y				
Audit Commission Progress Report	AC	Y				
Future of Local Public Audit – Consultation	HAP	Y				
Future of Local Public Audit – Proposed Response	HF		Y			
Annual Audit Letter 2010/11	AC				Y	
Certification of Grant Claims and Returns 2010/11	AC					Y
Audit Committee Update	AC					Y
Audit Plan 2011/12	AC					Y
Future of Local Public Audit - Update	HF					Y
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>						
Role of the Audit Committee	AC	Y				
Benefit Fraud Annual Report 2010/11	HSD	Y				
Draft Annual Governance Statement	HF		Y			
Treasury Management Practices	HF		Y			
Audit Committee – New Work Programme	AM			Y		
Annual Treasury Management Report 2010/11	HF			Y		
Implementation of Bribery Act 2010	HF			Y		
Treasury Management Half Year Review	HF				Y	
Audit Commission – Protecting the Public Purse	HAP				Y	
<u>ACCOUNTS</u>						
Implementation of International Financial Reporting Standards	CA	Y				
Draft Core Financial Statements	CA	Y				
Annual Governance Report	AC			Y		
Final Statement of Accounts	HF			Y		

Key

AC	Audit Commission	HP	Head of Planning
AM	Audit Manager	IM	Investigation Manager
CA	Chief Accountant		
HAP	Head of Audit Partnership		
HF	Head of Finance (S151 Officer)		

6. Assurance

The Audit Committee has considered the following areas to assist it in gaining assurance of the governance arrangements within the organisation as part of its annual work programme.

Risk Management
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements• Seek assurance that action is being taken on risk-related issues identified by auditors

This has been achieved by:

- Receiving report on the Council's strategic risk register and risk management framework that led to the creation of the register,
- Considering the adequacy of the risk based approach to audit planning that led to the creation of the Council's 3-year strategic audit plan
- Receiving progress reports on internal and external audit issues.
- Receiving an annual report on the activity and outcomes of the Council's Benefits fraud investigation team

Internal Control assurance
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's control environment• Be satisfied that the Authority's assurance statements, including the Annual Governance Statement, properly reflect the control environment and any actions required to improve it.

This has been achieved by:

- Considering the Head of Audit Partnership review of internal control for 2010/11 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2010/11
- Approving the Authority's Annual Governance Statement for 2010/11 and the action plan to address significant improvements.
- Considering internal audit assurance – direction of travel reports for ongoing assurance of the adequacy of arrangements for delivering improvement to identified weakness in internal control.

Audit Activity

- **Approve (but not direct) Internal Audit's strategy and audit plan and monitor performance**
- **Review summary Internal Audit reports where they've received a 'limited' or 'minimal' assurance and seek assurances that action has been taken where necessary**
- **Receive the annual report of the Head of Audit Partnership**
- **Consider the reports of external audit and inspection agencies**
- **Ensure there are effective relationships between internal and external audit, and inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.**

Internal Audit

The Committee has:

- Received and considered the Head of Audit Partnership's Annual Report for 2010/11 including the opinion on the Authority's control environment which was incorporated into the Annual Governance Statement;
- Considered and agreed the Internal Audit Strategy and 3-year Strategic Audit Plan for 2011/14;
- Agreed the Internal Audit annual plan for 2012/13;
- Received regular reports on the Internal Audit team's progress against the Plan;
- Received the interim report setting out the work of Internal Audit for the first half of the year
- Considered Internal Audit reports with regard to those receiving minimal or limited assurance – Specifically, the Head of Planning Services and Development Manager were invited to attend Committee meetings to confirm action plans and commitment to improving Development Control Enforcement and Section 106 Administration control weaknesses.

External Audit

The Committee has:

- Received and agreed the Annual Audit Letter for 2010/11,
- Considered and agreed the Audit Plan for 2010/11;
- Considered and agreed the certification of grant claim reports;
- Received progress reports on the action taken in response to external audit recommendations
- Contributed to the Government consultation exercise.

Accounts

- **Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit**
- **Approve the Annual Statement of Accounts**

The Committee has sought assurance by:

- Considering changes to the format of the Accounts and the associated documents used to support the accounts;
- Approving the Statement of Accounts for 2010/11;
- Receiving and considering the Annual Governance Report 2010/11.
- Considering the Treasury Management Strategy and regular status reports.

7. Review of the Audit Committee's Effectiveness

It is best practice to periodically review the Audit Committee's effectiveness, therefore in 2011 the four partner authorities which make up the Mid Kent Audit Partnership commissioned the Local Government Improvement and Development (LGID) agency to carry out a peer review of the Audit Committees of the four authorities.

The review covered the following areas:

- Terms of Reference
- Internal Audit Process
- External Audit Process
- Membership
- Meetings
- Training
- Administration

Key Findings for Swale Borough Council

The review concluded that the Audit Committee was committed and enthusiastic and that the meetings were lively. The committee members take the role seriously and the committee addresses key issues, particularly those shaped by external audit and audit commission requirements. The Audit Committee has also shown that when it focuses on local issues it can be very effective

Strengths

- Committed and enthusiastic members and the committee addresses the full scope of Audit Committee activity
- Has been very effective when addressing local issues

Areas for Development

- There could be greater balance between core and local agenda items
- Committee members need further training around governance assurance
- Skills of the committee could be bolstered through the appointment of co-opted non-voting members
- Senior officers and members need to promote the role and importance of the Audit Committee (e.g. earlier sight of final set of accounts)

- Greater forward planning of the Audit Committee agenda
- Committee should produce an annual report of its activities and effectiveness
- Committee to do more on risk assurance—risk management is an area that is underdeveloped across the council
- Terms of reference could be developed to meet the CIPFA standard

The LGID report has been considered by the Audit Committee and the resultant action plan will continue to be delivered during the forthcoming year. Included within this is a member development programme that it is hoped will include co-ordinated joint training initiatives across the MKIP partner councils.

The LGID recommendation for the skills of the Committee to be 'bolstered' through the appointment of co-opted, non-voting members was not accepted by the Committee following the peer review.

8. Summary update

In response to this report the Committee has already taken steps to address some of the issues raised as part of the peer review.

- A Forward Plan has been introduced to ensure that the Committee's work programme is aligned to key corporate objectives and priorities, including a focus on wider partnership activities and non-financial risks. The Forward Plan includes 'gaps' for ad hoc issues to be considered or officer briefings to be provided- e.g. Budget Strategy Risks
- The Head of Audit Partnership will develop a training programme for members across the partnership authorities to ensure economies of scale and a co-ordinated training programme is delivered for Audit Committee members, to ensure they are appropriately equipped to discharge their responsibilities. It is anticipated this will come forward to a future Committee for consideration.
- A tracker system will be further developed to facilitate the follow up of issues raised being taken forward.
- Governance Guides/Briefing Notes are being prepared for issue to Committee Members to provide information and guidance on:
 - Roles and Responsibilities – including differing roles of Cabinet and Scrutiny Committees
 - Audit Committee Terms of Reference – which is aligned to CIPFA standards
 - Governance Framework and responsibilities
 - Audit Committee Work Programme
- The Audit Committee effectiveness and Audit Committee Terms of Reference will continue to be reviewed to address recommendations arising from the LGID peer review and to improve compliance against the best practice CIPFA Standards.
- Ad hoc training needs e.g. Finance Briefings are provided as required within the Committee's annual work cycle

Future Challenges

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. The Committee will continue to satisfy itself that new external audit arrangements work satisfactorily, following the abolition of the Audit Commission and the appointment of Grant Thornton, and that the Council's audit, governance and risk management arrangements continue to strengthen. Finally,

Committee Member training and development will continue to be a priority both for the current members and the new members appointed to the Committee at the beginning of the new municipal year.

9. 2012/13 Work Programme

- The Committee faces a challenging year ahead and the Committee's detailed work programme for the forthcoming year is set out below.

Function/Issue	23/5/12	19/06/12	26/09/12	12/12/12	20/03/13
<u>INTERNAL AUDIT ACTIVITY</u>					
Audit Committee Annual Report 2011/12		Y			
Internal Audit Annual Report 2010/11	Y				
Internal Audit Status Reports	Y			Y	
Internal Audit Plan 2013/14					Y
<u>EXTERNAL AUDIT ACTIVITY</u>					
Audit Commission – Audit Opinion Plan and Progress Report	Y				
Audit Commission - Audit & Inspection Plan	Y				
Statement of Accounts and Audit Commission Report on Financial Statements			Y		
Annual Audit Letter					Y
Certification of Claims & Return					Y
Audit Plan					Y
<u>REGULARITY & FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Member development programme			Y		
Draft Annual Governance Statement		Y			
Fraud Annual Report	Y				
Strategic Risk Review			Y		
Annual Treasury Management Report			Y		
Treasury Management Half Year Review				Y	
Development Control Enforcement and S106 Administration – internal control improvements			Y		
Audit Committee Review of effectiveness and Training needs					
<u>ACCOUNTS</u>					
Financial Regulations update	Y				
Financial Report & Statement of Accounts			Y		