

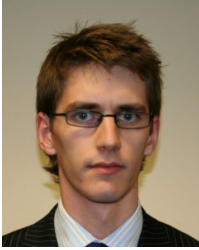
Audit Committee Annual Report 2012/13



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Swale Borough Council

Audit Committee Annual Report – 2012/13



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 2013.

This is the second Annual Report of the Audit Committee and I am pleased to report that the Committee has again 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. As members of this Committee, we have continued to follow best practice and to become increasingly challenging of officers whilst always supporting them in their governance priorities

As outlined in the body of this report, the Committee has been actively engaged with the Council's Internal Auditors and with the Council's external Auditors (Grant Thornton) and I would like to thank all the members who served on the Committee during 2012/13. My thanks also go to the Council officers who have supported the work of the Committee and more specifically supported me in my role as Chairman. I am pleased to report that the Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

In looking forward to 2013 - 14 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Audit Committee remains critical. Along with my fellow members I look forward to meeting those challenges which lay ahead.

**Councillor Nicholas Hampshire
Chairman**

1. Introduction – Role of the Audit Committee

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:

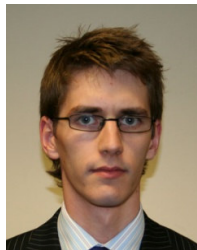
1. Consider the effectiveness of the authority's risk management arrangements, the control environment and associated antifraud and anti-corruption arrangements.
2. Seek assurances that action is being taken on risk-related issues identified by auditors.
3. Be satisfied that the authority's assurance 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 2012/13. 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

2012/13 Audit Committee Members

Cllr Nicholas Hampshire
Chairman



Cllr Colin Prescott
Vice-Chairman



Cllr Andy Booth



Cllr John Coulter



Cllr Angela Harrison



Cllr Mike Haywood



Cllr Mike Henderson
(to February 2013)



Cllr Peter Marchington



Cllr Ted Wilcox



Cllr Adrian Crowther
(from February 2013)



4. Committee Attendance 2012/13

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	23/05/12	19/06/12	19/09/12	19/12/12	18/03/13
<u>Audit Committee Members</u>					
Councillor Nicholas Hampshire (Chairman)	Y	Y	Y	Y	Y
CLr Colin Prescott (Vice-Chairman)	Y	A	Y	Y	A
Councillor Andy Booth	Y	Y	Y	Y	Y
Councillor John Coulter	Y	Y	Y	Y	Y
Councillor Angela Harrison	Y	Y	Y	Y	Y
Councillor Mike Haywood	A	N	A	A	A
Councillor Mike Henderson (to February 2013)	Y	Y	Y	Y	N/A
Councillor Peter Marchington	N	Y	Y	Y	Y
Councillor Ted Wilcox	Y	Y	Y	Y	Y
Councillor Adrian Crowther (from February 2013)	N/A	N/A	N/A	N/A	Y
<u>Substitute Members</u>					
Councillor Nick Williams	Y	-	-	-	-
Councillor Ghlin Whelan	-	-	-	-	Y
<u>Officers</u>					
Director of Corporate Services	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
Development Management Manager	-	-	-	Y	-
Benefit Fraud Team Manager	Y	-	-	-	-
Enforcement Team Manager	-	-	-	Y	-
<u>External Audit</u>					
Andy Mack	Y	-	-	Y	-
Steve Golding	-	-	Y	Y	Y
Daniel Woodcock	-	-	Y	-	-
Laura Leka	-	-	-	-	Y
<u>Democratic Services</u>					
Joanne Hammond	Y	-	Y	Y	-
Katherine Bescoby	-	Y	-	-	-
Kellie Mackenzie	-	-	-	-	Y

Key: Y = Attendance, N = Non Attendance, A = Apologies Received

5. The Committee considered the following reports during 2012/13

Function/Issue	Lead Officer/ Body	25/05/12	19/06/12	19/09/12	19/12/11	18/03/12
<u>INTERNAL AUDIT ACTIVITY</u>						
Internal Audit Annual Report (2011/12)	HAP	Y				
Internal Audit Partnership progress report	HAP				Y	
New Public Sector Internal Audit Standards (PSIAS)	HAP					Y
Internal Audit Six-Month Interim Report (April – Sept 2012)	AM				Y	
Internal Audit Operational Plan 2013/14	AM					Y
<u>EXTERNAL AUDIT ACTIVITY</u>						
Audit Plan and Fee Letter	AC	Y			Y	
Audit Commission Progress Report	AC	Y				
Annual Audit Letter 2011/12	AC					Y
Certification of Grant Claims and Returns 2011/12	AC					Y
<u>Regulatory Framework / Internal Controls Assurance</u>						
Benefit Fraud Annual Report 2011/12	IM	Y				
Draft Annual Governance Statement	HF		Y			
Treasury Management Strategy and Practices – Annual Review 2011/12	HF			Y		
Review of Financial Procedures	HF	Y				
Audit Committee Annual Report	HAP		Y			
Strategic Risk Register	AM			Y		
Treasury Management Half Year Review	HF				Y	
Strategic Risk Register and Action Plan Refresh	AM				Y	
Development Control Enforcement Controls - progress against Audit recommendations	HP			Y	Y	
Audit Committee Development	HAP			Y		
Audit Committee – Work Programme		Y	Y	Y	Y	Y
<u>ACCOUNTS</u>						
Annual Governance Report	AC			Y		
Final Statement of Accounts	HF			Y		
AC Audit Commission AM Audit Manager CA Chief Accountant HAP Head of Audit Partnership HF Head of Finance (S151 Officer)		Key HP Head of Planning IM Benefits Fraud Investigation Manager				

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 Action Plans which detail the actions being taken to manage the risks in accordance with the Council's risk appetite,
- Considering the adequacy of the risk based approach to audit planning that led to the creation of the Council's 2012/13 operational 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 and approving the Council's revised Financial Regulations for submission to Council
- Considering the Council's Prudential Indicators and Treasury Management Strategy and regular status reports on financing and investment activity.
- Considering the Head of Audit Partnership review of internal control for 2011/12 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2011/12
- Approving the Authority's Annual Governance Statement for 2011/12 for submission to Council

- Considering internal audit assurance and direction of travel reports for ongoing assurance of the adequacy of arrangements for delivering improvement to identified weakness in internal control.

Audit Activity
<ul style="list-style-type: none"> • 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:

- Considered the Head of Audit Partnership's Annual Report for 2011/12 including the opinion on the Authority's control environment which was incorporated into the Annual Governance Statement and performance of the Internal Audit function against the audit plan;
- Received the interim report setting out the work of Internal Audit for the first half of the year, including progress against the 2012/13 audit plan;
- 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 satisfactory progress against action plans to improve Development Control Enforcement and Section 106 Administration control weaknesses.
- Considering the progress made by the Internal Audit Partnership since it was established in April 2010 and relevant issues to the future delivery of the service
- Considering the requirements of the new Public Sector Internal Audit Standards and the action which will be taken to implement them.
- Agreed the Internal Audit annual plan for 2013/14;

External Audit

The Committee has:

- Received and agreed the Annual Audit Letter for 2011/12,
- Considered and agreed the Audit Plan and fee scales for 2012/13 and welcomed the 40% reduction from the new Auditors, Grant Thornton;

- Considered and agreed the certification of grant claim reports;
- Received progress reports on the action taken in response to external audit recommendations

Accounts
<ul style="list-style-type: none"> • 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:

- Approving the Statement of Accounts for 2011/12 ;
- Receiving and considering the External Auditor's Annual Governance Report 2011/12.

Audit Committee
<ul style="list-style-type: none"> • Present an annual report to the Executive on exceptions and highlights which have occurred throughout the year

The Committee has:

- Produced its first Annual Report for submission to a meeting of the full Council

7. Audit Committee's Effectiveness

The Audit Committee has continued to consider its effectiveness during the year and to implement recommendations arising from the 2011 peer review, which was conducted by the Local Government Improvement and Development agency (LGID):

- Consideration of training and development requirements for Committee Members and attendance at training events relating to Risk Management, Financial Procedures, Treasury Management and Internal Audit;
- Introduction of an annual reporting process to full Council to demonstrate the Committee's activities and effectiveness;
- Consideration of the Council's risk management arrangements
- Improved forward planning through use of an audit Committee work programme

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.

8. 2013/14 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	26/06/13	25/09/13	11/12/13	26/03/14
<u>INTERNAL AUDIT ACTIVITY</u>				
Audit Committee Annual Report 2012/13	Y			
Internal Audit Annual Report 2012/13	Y			
Internal Audit Interim Report			Y	
Internal Audit Plan 2014/15				Y
<u>EXTERNAL AUDIT ACTIVITY</u>				
Audit Commission – Audit Plan	Y			
Audit Commission – Fee Letter	Y			
Annual Governance Report		Y		
Annual Audit Letter				Y
Certification of Claims & Return				Y
Audit Plan				Y
<u>REGULARITY & FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>				
Member development programme				
Draft Annual Governance Statement	Y			
Fraud Annual Report	Y			
Strategic Risk Review			Y	
Annual Treasury Management Report	Y			
Treasury Management Half Year Review			Y	
<u>ACCOUNTS</u>				
Financial Report & Statement of Accounts		Y		
Financial Report & Statement of Accounts		Y		