

AUDIT COMMITTEE

ANNUAL REPORT 2010/11

Councillor A Sangster, Chair
Councillor B Kaye, Vice-Chair

FOREWORD BY THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee's 2010/11 Annual Report. The report shows the contribution the Audit Committee has made to the achievement of improved governance and internal control within the Council.

The Audit Committee oversees the management of risks within the Council and the operation and effectiveness of the Council's internal control arrangements. It fulfils this role by considering and approving reports from officers responsible for financial management and governance within the Council and from the Council's external auditors. Where relevant, the Committee also makes recommendations for action to address any deficiencies identified by or reported to the Audit Committee.

This year we have also considered various emerging risks and priorities, in particular relating to new Internal Financial Reporting Standards and the requirement to disclose details of the Council's spending ('spotlight on spend').

In my foreword last year I noted that 2010/11 would signify the start of a prolonged period of austerity and this has well and truly been the case. Rotherham Council has had to achieve £30million savings to produce a balanced budget for 2011/12. As an Audit Committee we want to help the Council to manage the risks associated with the substantial changes brought about by this level of reduction. This will be a key priority for us in 2011/12. We will also want to ensure the Council maintains the high standards of financial management and control it has achieved.

We have continued to develop our committee. Part of this included receiving refresher training sessions on areas relating to our areas of responsibility. We have continued to meet with audit committee representatives from other public sector bodies in Rotherham to consider broader partnership governance issues and other matters of mutual interest. I am particularly pleased that we were asked by the Chartered Institute of Public Finance and Accountancy (CIPFA) to give a presentation on our partnerships' governance arrangements as part of a CIPFA national training programme.



***Councillor Alex Sangster
Chair, Audit Committee 2010/11***

Finally, I would like to thank my colleague Members sitting on the Audit Committee during the year for the work they have done to help the Committee to fulfil its terms of reference effectively. And, I thank all officers and Members who have responded positively to the Audit Committee over the year, when questions have been asked and information requested.

AUDIT COMMITTEE: ANNUAL REPORT 2010/11

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INTRODUCTION

This Annual report is produced in accordance with latest best practice*¹ and shows that the Council is committed to working as an exemplar organisation, operating the highest standards of governance. The report shows how the Audit Committee has successfully fulfilled its terms of reference and has helped the Council to improve its governance and control environments.

SOME KEY INFORMATION

Audit Committee Membership

The Audit Committee has 5 Members:

Councillor Alex Sangster	-	Chair
Councillor Barry Kaye	-	Vice-Chair
Councillor Neil License		
Councillor Kath Sims		
Councillor John Gilding		

In addition, Councillor Ken Wyatt, Cabinet Member for Resources, is invited to attend Audit Committee meetings. There is strong officer support to the Audit Committee, through the regular attendance of the Strategic Director of Finance, the Assistant Chief Executive (Legal Services), the Director of Central Finance and the Director of Internal Audit & Governance. Other officers attend as and when appropriate, including the Chief Executive.

Key features of the Audit Committee and its operation

Comparison against best practice illustrates the Audit Committee's strengths:

Best Practice	Expectation	Met?	Comment
Independence	Independent from the executive and scrutiny	√	The Committee reports to the Council
Number of Members	3-5	√	The Committee has 5 Members
Number of meetings	Aligned to business needs	√	The frequency of meetings enables all business to be considered in a timely manner
Co-option	To be considered relative to skills	√	Training is provided to increase Members' skills
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the model ToR
Skills and training	Members have sufficient skills for the job	√	General and, through the PDR process, specific training is provided to increase Members' skills

¹ Best practice as contained in the CIPFA, IPF document "A Toolkit for Local Authority Audit Committees"

Meetings and attendance

The Audit Committee meets normally on the penultimate Wednesday of each month. There have been 11 meetings between May 2010 and April 2011 (no meeting was held in August 2010). Attendance by Members was 76% (70% in 2009/10).

COMMITTEE ACTIVITY 2010/11

Terms of Reference

The Audit Committee's terms of reference cover 6 main areas and are copied at **Appendix 1** to this Annual Report. The Committee's work and outcomes in each of its areas of responsibility are summarised in the following sub-sections.

Internal Audit

The Audit Committee:

- Approved the Chief Auditor's audit plan
- Considered quarterly reports produced by the Chief Auditor, highlighting internal audit work completed, internal audit performance against key indicators, management's response to recommendations and any significant issues arising during the period
- Considered the Chief Auditor's annual report and opinion on the Council's control environment
- Considered the statutory review of the effectiveness of the system of internal audit
- Ensured internal and external audit plans were complementary and provided optimum use of the total audit resource
- Received and considered information on the performance of the internal audit team.

We continue to provide support to the Internal Audit service to ensure management is responsive to recommendations made and agreed.

External Audit

The Audit Committee:

- Considered the external auditor's audit plan
- Considered progress against the plan presented by the external auditor
- Received and considered all external audit and inspection reports issued in the year and considered management's response to them, ensuring robust and thorough responses
- Reviewed the Council's progress on all external audit and inspection recommendations on a quarterly basis and asked managers to explain progress, thereby holding them to account.

We continue to provide support to external audit to ensure management is responsive to recommendations made and agreed.

Risk Management

The Audit Committee:

- Received details of the risk management system, how it works and arrangements in place for mitigating risks
- Received and considered reports on the corporate risk register
- Enquired about specific risks and the application of risk management arrangements within directorates.

Internal Control and Governance

The Audit Committee:

- Agreed the Council's Annual Governance Statement and action plans to improve identified weaknesses
- Considered and supported changes to the Council's Anti-Fraud and Corruption Strategy
- Reviewed the effectiveness of the Council's Anti-Fraud and Corruption arrangements and progress in implementing the Council's Anti-Fraud and Corruption Plan
- Encouraged the adoption of the Audit Commission's National Fraud Initiative
- Approved the production of the Council's Annual Fraud Report.

The Annual Governance Statement is a key document which summarises the Council's governance arrangements and the effectiveness of the arrangements during the year. The Audit Committee received a draft Annual Governance Statement prior to its inclusion in the Council's Statement of Accounts. This was intended to ensure the Audit Committee could more thoroughly review the robustness of the process for producing the Statement and the content of it. The Audit Committee was satisfied that:

- There was a comprehensive assurance framework in place to safeguard the Council's resources
- The framework was reliable and applied during the course of the year, including financial reporting, internal and external audit the Audit Committee's own arrangements.

Accounts

The Audit Committee:

- Agreed the Council's accounting policies
- Agreed the annual statement of accounts

- Received and considered the external auditor's report on the accounts, and ensured that the Council responded to the auditor's comments
- Agreed a response to consultation on changes to the Accounts & Audit Regulations
- Considered the implications of the introduction of International Financial Reporting Standards (IFRS) within local government
- Reviewed the Council's progress towards the implementation of the IFRS.

The Audit Committee received regular reports on the Council's Treasury Management arrangements in the context of the economic downturn.

Specific Issues

The Audit Committee also considered reports on the following specific issues which arose in the period:

- Implications of the reductions in Public Sector budgets
- Arrangements for disclosing spending ('spotlight on spend')
- Risks associated with ALMO re-integration
- The implications of a judgement relating to the inspection of accounts by the Public
- Consideration of a range of publications relevant to the Audit Committee's terms of reference

A full list of the reports considered by the Audit Committee can be found in **Appendix 2**.

OTHER ACTIVITIES

As part of our ongoing commitment to identifying and sharing good practice, we continued to support events in the sub-region during 2010/11. The Audit Committee is particularly pleased that Rotherham was asked to host a sub-regional half-day conference in Spring 2010. This was a reflection of the Council's proactive work in setting up the South Yorkshire and Wakefield Audit Forum and its continuing leading role in developing audit committee arrangements across the area. The conference was a significant success and sets up further development in the future.

The Committee has also continued to meet with colleagues across Rotherham through the '*Rotherham Audit Committee*'. The '*Rotherham Audit Committee*' has looked at partnerships' governance, the implications of NHS changes, place based budgeting and partnership activity. The Council was asked to present details of its work on partnerships' governance at a national programme of 3 training events organised by the Chartered Institute of Public Finance and Accountancy.

OUTCOMES

The Audit Committee aims to focus on adding value through its activity. By concentrating on outcomes the Committee can identify the benefits of its work. In particular this year the Audit Committee:

- Oversaw work on the Statement of Accounts which received a clean opinion from the external auditor
- Oversaw further development of the Council's Anti-Fraud and Corruption arrangements and agreed the production of the Council's Annual Fraud Report
- Learnt from others in the sub-region, shared good practice and facilitated shared learning activity
- Continued to meet with colleagues and reviewed Rotherham wide governance issues through the '*Rotherham Audit Committee*'
- Ensured there was appropriate focus on the risks associated with substantial budget reductions
- Encouraged and presided over a strengthening control environment, specifically by overseeing reviews of the Local Code of Corporate Governance, Ethical Standards and Partnerships' Governance.

In addition, individual Members and the Audit Committee collectively continued to develop and learn about our roles, and deliver these roles effectively. We have received refresher sessions this year on Internal Audit, Risk Management and Accounting Issues.

PLANS FOR 2011/12

We want to continue to develop and build on our current status. For 2011/12 we will:

- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice, in particular relating to partnerships' governance
- Continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations
- Ensure we maintain and further improve our standards in relation to the production of accounts
- Closely monitor the implementation of the International Financial Reporting Standards
- Continue to help the Council to manage the risk of fraud and corruption
- Continue to support the improvement of standards across all relevant organisations in South Yorkshire

- Continue to develop the 'Rotherham Audit Committee' to review partnerships' issues and safeguard public sector interests
- Equip existing and any new Members to fulfil our responsibilities by providing refresher training on financial arrangements and risk management.

During 2010/11 we have consolidated the progress we made in previous years, and going forward we look to continue to be a champion of good governance at both a local and sub-regional level.

Councillors Alex Sangster (Chair) and Barry Kaye (Vice-Chair)
Rotherham MBC Audit Committee
April 2011

AUDIT COMMITTEE

Statement of Purpose

To provide independent assurance of the adequacy of the audit and risk management frameworks and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment and to oversee the financial reporting process.

Terms of Reference

Internal Audit

To approve (but not direct) the internal audit manager's proposed strategy plan and performance and ensure that this gives an adequate level of assurance over the Council's main risks.

To consider summaries of specific internal audit reports as requested and seek assurance that action has been taken where necessary.

To consider reports from the internal audit manager on agreed recommendations not implemented within a reasonable timescale.

To consider reports dealing with the management and performance of the internal audit service.

To consider the internal audit manager's annual report and opinion.

To ensure that there are effective relationships between internal and external audit, inspection agencies and other relevant bodies.

External Audit

To consider and comment upon the external audit plan.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To consider specific reports as agreed with the external auditor.

To consider the adequacy of management response to external audit advice, recommendations and action plans.

To consider issues arising from the external auditor's annual management letter prior to its submission to the full council.

To commission work from internal and external audit.

To liaise with the Audit Commission over the appointment of the Council's external auditor.

To provide feedback to the external auditor upon external audit performance.

Risk management

Consider the effectiveness of the Council's risk management arrangements and control environment.

Seek assurances that action is being taken on risk related issues identified by auditors and inspectors.

Review the robustness of risk registers.

Internal control arrangements and Corporate Governance

To consider and review the statement of internal control prior to recommending it to the full Council.

Be satisfied that the Council's assurance statements including the Statement of Internal Control properly reflect the risk environment and any actions required to improve it.

Review the procedures followed in compiling the Statement of Internal Control and supporting documentation to determine the robustness of the evidence and assurances upon which the statement is based.

Consider and monitor action plans for addressing any significant internal control weaknesses disclosed.

To consider the Council's arrangements for corporate governance and agree necessary actions to ensure compliance with best practice.

To maintain an overview of financial regulations and contract procedure rules.

To review and consider the adequacy of the Council's anti-fraud and corruption policy and to monitor its effectiveness throughout the Council.

To review and consider the statement of internal control prior to recommending.

Accounts

To consider and review the annual statement of accounts prior to recommending it to the full Council.

To consider the external auditors SAS610 report on the audit of the annual financial statement prior to recommending the audited statement of accounts to the full Council.

To consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statement or from the audit.

General

To review any issue referred by the Council, a Council body, the Chief Executive, an Executive Director, the Section 151 Officer or the Monitoring Officer.

To submit for consideration by the full council an annual report as to the work of the committee at the end of each financial year.

To liaise with the Audit Committees of 2010 Rotherham Limited, other partner organisations and other South Yorkshire authorities over the mutual exchange of views, good practice and approaches to issues of common concern.

Appendix 2

AUDIT COMMITTEE ACTIVITY – 2010/11

Function / Issue	May 2010	June 2010	July 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	March 2011	April 2011
Audit Activity											
Internal Audit											
Internal Audit Plan 2010/11	Agreed										
Annual Report of Head of Internal Audit Services	Received										
Review of Effectiveness of System of Internal Audit	Received										
Internal Audit Progress Report					Received				Received		
Managing the Risk of Fraud								Received			
External Audit											
Report on accounts				Received							
Value For Money Conclusion				Received							
Annual Audit & Inspection Letter 2009/10									Received		
Audit Opinion Plan 2010/11									Received		
Approach to Use of Resources/Value for Money Improvement										Received	
Audit & Inspection recommendations	Received				Received						
Certification of Claims and Returns											Received
Pensions Data Flows				Received							

Function / Issue	May 2010	June 2010	July 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	March 2011	April 2011
Risk Management											
Annual Review of Risk Management Arrangements						Received					
Corporate Risk Register			Received		Received			Received			Received
Economic Downturn	Received										
Joint Service Centres			Received								
Health & Safety Risk Management			Received								
Public Sector Funding Reductions						Received			Received		
Children's Services							Received				
Localism Bill										Received	
ALMO											Received
Governance											
Annual Governance Statement 2009/10	Received	Agreed									
Annual Governance Statement 2010/11										Received	
Annual Fraud Report				Agreed							
Governance publications						Received					
CIPFA Better Governance Forum Briefing Paper										Received	
Significant partnerships			Received								

Function / Issue	May 2010	June 2010	July 2010	Sept 2010	Oct 2010	Nov 2010	Dec 2010	Jan 2011	Feb 2011	March 2011	April 2011
Accounts											
Letter of Representation											
Statement of Accounts 2009/10		Agreed		Agreed							
Treasury Management and Prudential Indicators				Received	Received				Received		
Update on the Transition to International Financial Reporting Standards					Received				Received		
'Spotlight on Spend'								Received			
Accounts & Audit Regulations changes									Received		
Confidentiality at Audit									Received		
Accounting Policies										Received	
General and Committee Working Arrangements											
Audit Committee Work Programme							Agreed				
Audit Committee Self Assessment							Agreed				
Audit Committee Annual Report											Agreed
Joint Audit Committee activity			Received					Received			