

# **AUDIT COMMITTEE**

## **ANNUAL REPORT 2011/12**

**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 2011/12 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 considered various emerging risks and priorities, including several developments in respect of fraud and corruption. Members were made aware of new Bribery Legislation and a new Government-led strategy (Fighting Fraud Locally) to combat fraud and corruption in the UK. Against this background, the Council's own Anti – Fraud and Corruption Policy, Strategy and Action Plan were all updated and continue to comply with best practice.

We have continued to work with colleagues across Rotherham, including audit committee Members from the Health, Police, Fire and Probation Services. This is enabling us to look at cross-cutting areas of development and risk, including the implications of major change programmes in the Police Service and the NHS.

In my foreword last year I noted that 2011/12 would see the continuation of a prolonged period of austerity and this has well and truly been the case. Rotherham Council has had to achieve further savings of £20m to produce a balanced budget for 2012/13. 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 continue to be a key priority for us in 2012/13. We will also want to ensure the Council maintains the high standards of financial management and control it has achieved.



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.

***Councillor Alex Sangster  
Chair, Audit Committee 2011/12***

# **AUDIT COMMITTEE: ANNUAL REPORT 2011/12**

<b>C O N T E N T S</b>	<b>Page</b>
<b>INTRODUCTION</b>	<b>3</b>
<b>SOME KEY INFORMATION</b>	<b>3-4</b>
Audit Committee Membership	
Key features of the Audit Committee and its operation	
Meetings	
<b>COMMITTEE ACTIVITY 2011/12</b>	<b>5-7</b>
<b>OTHER ACTIVITIES</b>	<b>7</b>
<b>OUTCOMES</b>	<b>8</b>
<b>PLANS FOR 2012/13</b>	<b>8-9</b>
<b>APPENDIX 1: AUDIT COMMITTEE TERMS OF REFERENCE</b>	<b>10-12</b>
<b>APPENDIX 2: AUDIT COMMITTEE ACTIVITY 2011/12</b>	<b>13-15</b>

## INTRODUCTION

This Annual report is produced in accordance with latest best practice\*<sup>1</sup> 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 Jahangir Akhtar, Deputy Leader (with responsibility for Resources), has an invitation to attend Audit Committee meetings. There is strong officer support to the Audit Committee, through the regular attendance of the Strategic Director of Resources, the Director of Legal Services, the Director of Finance, and the Director of Internal Audit & Asset Management. 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

<sup>1</sup> 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 10 meetings between May 2011 and April 2012 (no meeting was held in August and November 2011). Attendance by Members was a very good 86% (80% in 2010/11).

## **COMMITTEE ACTIVITY 2011/12**

### **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 regular 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 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.
- Considered developments including the Bribery Act 2010, the Government's 'Fighting Fraud Locally' Strategy, and the Audit Commission's 'Protecting the Public Purse'.

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

The Audit Committee received regular reports on the Council's Treasury Management arrangements in the context of the economic downturn and also received the Prudential Indicators and Treasury Management and Investment Strategy 2012/13 to 2014/15.

### *Specific Issues*

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

- Consideration of a range of publications relevant to the Audit Committee's terms of reference, including Consultation on the Future of Local Public Audit [DCLG]
- Received a report on the performance of the sundry accounts function and how changes in the computer system and working practices had contributed to improved collection rates and more efficient account management.
- Considered a report summarising the Customer Inspection Service.

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

### **OTHER ACTIVITIES**

We have had 3 meetings during the year with colleagues across Rotherham, including audit committee Members from the Health, Police, Fire and Probation Services.

By looking collectively at governance related issues, we are able to identify cross-cutting areas of development and risk that could affect all of the services. This year we have considered, amongst other things, the implications and risks for partners of major change programmes in the Police Service and the NHS.

### **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 the production of the Council's Annual Fraud Report
- 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, Risk Management and responses to external audit recommendations.

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 International Financial Reporting Standards and Anti-Fraud and Corruption developments.

### **PLANS FOR 2012/13**

We want to continue to develop and build on our current status. For 2012/13 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
- Continue to help the Council to manage the risk of fraud and corruption
- Continue to work with colleagues in other statutory services to collectively identify and manage cross-cutting risks arising from major developments.
- Equip existing and any new Members to fulfil our responsibilities by providing refresher training on financial arrangements and risk management.

During 2011/12 we have continued the progress we have 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 2012***



## **APPENDIX 1** **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 Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

Review the procedures followed in compiling the Annual Governance Statement 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 auditor's 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 partner organisations and other South Yorkshire authorities over the mutual exchange of views, good practice and approaches to issues of common concern.

## AUDIT COMMITTEE ACTIVITY – 2011/12

Function / Issue	June 2011	June 2011	July 2011	Sept 2011	Oct 2011	Dec 2011	Jan 2012	Feb 2012	March 2012
Internal Audit									
Internal Audit Plan 2011/12	Approved								
Annual Report of Head of Internal Audit Services	Received								
Internal Audit Progress Report				Received		Received			Received
Annual Fraud Report			Received						
Bribery Act						Received			
Anti Fraud and Corruption arrangements							Approved		
Protecting the Public Purse 2011 – Fighting Fraud Against Local Government							Received		
Anti Fraud and Corruption Policy and Strategy - revision							Approved		
External Audit									
External Audit Plan 2011/12 - proposed		Approved							
External Audit Plan 2011/12									Received
Audit and Inspection Recommendations Update			Received		Received			Received	
External Audit Report 2010/11 [Interim)			Received						
Grants Report 2011/12								February	
Annual Audit Letter 2010/11						Received			

## AUDIT COMMITTEE ACTIVITY – 2011/12

Function / Issue	June 2011	June 2011	July 2011	Sept 2011	Oct 2011	Dec 2011	Jan 2012	Feb 2012	March 2012
Risk Management									
Corporate Risk Register					Received			Received	
Governance									
Annual Governance Statement 2010/11	Received								
Accounts									
Statement of Accounts 2010/11 [unaudited]			Approved						
Statement of Accounts 2010/11				Approved					
Annual Treasury Management and Prudential Indicators 2010/11				Approved					
Treasury Management and Prudential Indicators 2011/12 [mid - year]					Received				
Prudential Indicators and Treasury Management and Investment Strategy 2012/13 to 2014/15								Approved	
Closure of the 2011/12 Accounts 2011/12									Approved
Sundry Accounts Performance 2010/11		Received							
Customer Inspection Service					Received				

## AUDIT COMMITTEE ACTIVITY – 2011/12

Function / Issue	June 2011	June 2011	July 2011	Sept 2011	Oct 2011	Dec 2011	Jan 2012	Feb 2012	March 2012
General and Committee Working Arrangements									
Communities and Local Government – Consultation on the future of Local Public Audit	Received								
Audit Committee Work Programme	Approved								
Audit Committee Update – issue 5 – various issues		Received							
Audit Committee Update – issue 6 – Partnerships' Governance						Received			
Audit Committee Self Assessment						Received			