

AUDIT COMMITTEE

ANNUAL REPORT 2012/13

Councillor Alex Sangster, Chair
Councillor Barry Kaye, Vice-Chair

FOREWORD BY THE CHAIR OF THE AUDIT COMMITTEE

I am pleased to present the Audit Committee's 2012/13 Annual Report. The report shows the contribution the Audit Committee has made to the achievement of good governance and sound 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 further developments in respect of anti-fraud and corruption initiatives, where the Council continues to comply with best practice. Members were apprised of a review of Council Tax Single Persons' Discount entitlement that resulted in additional bills being raised of over £700k. The Committee also received reports on risks associated with other major challenges facing the Council such as the Welfare Reforms and the transfer of Public Health services to the Council.

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 NHS and the Police Service, and the Localism Act. I have attended regional events with Health Audit Committee Chairs, where we have made presentations on our response to current challenges from an audit committee perspective. These have impressed health colleagues and enhanced the reputation of the work of the Council and its Audit Committee.

It is generally accepted that the period of economic austerity and constraints on public expenditure will continue for the foreseeable future. Rotherham Council has had to achieve savings of over £50m in three years. 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 2013/14. 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. 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 2012/13

AUDIT COMMITTEE: ANNUAL REPORT 2012/13

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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 five Members:

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

There is strong officer support to the Audit Committee, through the regular attendance of the Director of Audit and Asset Management, the Director of Finance and the Director of Legal and Democratic Services. 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	√	The Committee has a sufficient mix of skills and experience to fulfil its responsibilities effectively.
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the model Terms of Reference
Skills and training	Members have sufficient skills for the job	√	Training is provided to increase Members' skills, through the Members' PDR process.

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

Meetings

There have been nine monthly meetings between April 2012 and March 2013 (no meetings were held in June and August 2012 and January 2013).

COMMITTEE ACTIVITY 2012/13

Terms of Reference

The Audit Committee's terms of reference cover six main areas and are set out 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 Internal Audit Strategy and Internal Audit Plan.
- Considered periodic progress 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 Internal Audit Annual Report and opinion of the Chief Auditor on the Council's control environment.
- 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.

External Audit

The Audit Committee:

- Considered the external auditor's Audit Plan.
- Considered progress against the Plan as 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.

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.
- Approved the production of the Council's Annual Fraud Report.
- Received a report on the outcome of the Council's work on the Audit Commission's National Fraud Initiative.
- Considered national developments including the Government's 'Fighting Fraud Locally' Strategy.

The Annual Governance Statement (AGS) 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 AGS 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 AGS 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 and the Audit Committee's own arrangements.

Statement of Accounts

The Audit Committee:

- Agreed the Council's accounting policies.
- Agreed the annual statutory 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 from the Chief Accountant 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 2013/14 to 2015/16.

Specific Issues

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

- Received a report on the Transfer of Public Health Services to the Council (in line with the Government's Health & Social Care Act 2011) to come into effect from April 2013 and how the associated transitional risks will be managed.
- Received a report on the Review of Council Tax Single Persons' Discounts that identified additional Council Tax income of over £700K through cancellation of entitlement following data matching exercises.
- Received a report on the Localism Act 2011 identifying the way in which its specific provisions had been implemented and the associated risks embedded within the Council's Risk Register.
- Considered a report on the reforms to the Housing Revenue Account system that presents the Council with significant challenges and opportunities through self-management of housing income and debt. This report set out the steps being taken to manage and mitigate the risks associated with this change.
- Received a presentation on the Welfare Reform Act 2012 setting out the national context of achieving savings of £18 billion by 2015 and how this would affect the local economy in Rotherham, both financially and socially. The presentation also highlighted the specific challenges and risks that would be faced by the Council in implementing these central government measures.

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

OTHER ACTIVITIES

We have had three 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 of major change programmes in the NHS and the Police Service, and the Localism Act.

We have also attended two regional events with Health Audit Committee Chairs, where we have made presentations on our response to current challenges from an audit committee perspective.

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 2011/12 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, through receiving reports on the Corporate Risk Register 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.

PLANS FOR 2013/14

We want to continue to develop and build on our current status. For 2013/14 we will:

- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice.
- 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 statement 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.

During 2012/13 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 2013

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 Plan 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 Chief Auditor on agreed recommendations not implemented by management within a reasonable timescale.
- To consider reports dealing with the management and performance of the internal audit service.
- To consider the Annual Audit Report and the opinion of the Chief Auditor on the Council's control environment.
- To ensure that there are effective relationships between internal and external audit, inspection agencies and other relevant bodies.
- To commission work from internal audit.

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 audit letter.
- To commission work from external audit.
- 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

- 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 Standing Orders.
- To review and consider the adequacy of the Council's Anti-Fraud and Corruption arrangements and to monitor their effectiveness and compliance with them, throughout the Council.

Accounts

- To consider the external auditor's report on the audit of the Statement of Accounts.
- To approve the Statement of Accounts.
- To ensure that appropriate accounting policies have been followed.

General

- To review any issue referred to it by the Council, a Council body, the Chief Executive, a Strategic Director, the Section 151 Officer or the Monitoring Officer.
- To submit for consideration by the full council an annual report on the work of the Committee at the end of each 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 – 2012/13

Function / Issue	Apr 2012	May 2012	July 2012	Sept 2012	Oct 2012	Nov 2012	Dec 2013	Feb 2013	Mar 2013
Internal Audit									
Internal Audit Strategy and Audit Plan 2012/13	√								
Internal Audit Annual Report 2011/12			√						
Internal Audit Plan Progress Report					√			√	
Annual Fraud Report			√						
Anti Fraud and Corruption Action Plan					√				
National Fraud Initiative		√					√		
“Fighting Fraud Locally” Strategy	√								
External Audit									
External Audit Plan								√	
Audit and Inspection Recommendations Update Report				√					√
Interim External Audit Report	√								
Grants Audit Report								√	
Annual Audit Letter						√			
KPMG Fees Letter						√			

AUDIT COMMITTEE ACTIVITY – 2012/13

Function / Issue	Apr 2012	May 2012	July 2012	Sept 2012	Oct 2012	Nov 2012	Dec 2013	Feb 2013	Mar 2013
Risk Management									
Corporate Risk Register					√			√	
Annual Review – Insurance and Risk Management Performance							√		
Governance									
Annual Governance Statement		√							
Accountancy and Treasury Services									
Unaudited 2011/12 Statement of Accounts			√						
Audited 2011/12 Statement of Accounts and External Auditors' Report (ISA 260)				√					
Annual Treasury Management Report				√					
Mid-Year Treasury Management Report						√			
Prudential Indicators and Treasury Management and Investment Strategy 2013/14 to 2015/16								√	
Arrangements for Closure of Accounts 2012/13									√

AUDIT COMMITTEE ACTIVITY – 2012/13

Function / Issue	Apr 2012	May 2012	July 2012	Sept 2012	Oct 2012	Nov 2012	Dec 2013	Feb 2013	Mar 2013
Audit Committee Working Arrangements									
Audit Committee Work Programme		√							
Audit Committee Self-Assessment									√
Audit Committee Annual Report	√								
Review of Key Developments Facing the Council									
Transfer of Public Health Services to the Council		√							
Review of Council Tax Single Persons' Discounts					√				
Localism Act Update						√			
Risk Management of the Housing Revenue Account 30 Year Plan						√			
Welfare Reform – Impact on Rotherham							√		