



**Brighton & Hove  
City Council**

# **AUDIT COMMITTEE**

## **ANNUAL REPORT 2010/11 (Draft)**

**Councillor L. Hamilton, Chairman**

## **Foreword by the Chairman of the Audit Committee**



This is my third year as Chair and I am pleased to present the Audit Committee's Annual Report for the 2010/11 municipal year. The report shows how the Audit Committee has successfully achieved its objectives contained in its terms of reference, developed its role and continued to make a positive contribution to the council's governance and control environment.

The next few years will be significant in terms of financial pressures on our services. How we therefore use the resources available will become even more important and how we risk manage our priorities, partnerships and services will be crucial. We will need to ensure a robust governance and control framework and be increasingly vigilant to the risk of fraud.

I would like to take the opportunity to thank both the committee members and the officers that support the committee's work. Special thanks are also due to David Watkins for his commitment and support as Deputy Chair over three years.

I would also like to thank the Audit Commission for their support and regular attendance at meetings.

During the year officers have presented professional reports, taking on board comments, suggestions and ensuring improvements have been made.

I have enjoyed leading the committee and working with officers to further enhance the council's governance arrangements.

## Introduction

1. The Audit Committee (the Committee), is now in its fourth municipal year, succeeding the Audit Panel. The Committee's activities during 2010/11 built on the positive contribution from previous years to the improvement of governance arrangements across the council.
2. The Committee's role is principally to underpin the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control (including Internal Audit External audit and counter fraud) and financial reporting frameworks
3. A copy of the Committee's Terms of Reference is shown at Appendix A.
4. This is the second annual report from the council's Audit Committee. It is produced in accordance with latest best practice<sup>1</sup> and details the work and outcomes of the Committee in 2010/11 and that the council is committed to working as an exemplar organisation, operating to the highest standards of governance.

## Audit Committee Work Programme and Members

5. During the 2010/11 municipal year there were 5 meetings of the Committee. All had full agendas and in total considered 42 reports, had 2 presentations and 3 verbal updates.
6. The rolling and flexible work programme covers the Committee's main areas of activity which is continually reviewed and amended to reflect changes in policies, priorities and risks. A summary of the work programme is shown at Appendix B.
7. The Committee consists of 10 Members and detailed for 2010/11 in Table 1 below. Nominated substitutes attended meetings as required.

**Table 1: Members of the Audit Committee 2010/11**

<b>Member</b>	<b>Role</b>
Councillor Les Hamilton	Chair
Councillor David Watkins	Vice Chair
Councillor Jason Kitcat	Member
Councillor Brian Oxley	Member
Councillor Pat Drake	Member
Councillor Steve Harmer-Strange	Member
Councillor Bill Randall	Member
Councillor David Smith	Member
Councillor Christine Simpson	Member

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<sup>1</sup> Best practice as contained in the CIPFA Publication, "A Toolkit for Local Authority Audit Committees"

Councillor Ann Norman	Member
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8. A rolling and flexible work programme has been agreed for the Committee's main areas of activities

## **Training & Development**

9. In order to be effective, it is recognised that members of the Committee should have a clear understanding of their role, internal control and governance issues, internal and external audit, risk and opportunity management and how the arrangements in place across the council operate.
10. There were no specific training sessions during 2010/11 but integrated (briefings) into committee meetings and regular meetings with Chair and Deputy Chair.

## **Core Activities 2010/11**

11. The Committee's terms of reference contains a number of functional responsibilities and these have been interpreted into seven core activity areas. The Committee's work and outcomes in each of these areas are summarised in the following sub sections:

### **Internal Audit**

12. Internal Audit is a key source of assurance for both officers and Members on the effectiveness of the control environment and governance. The Committee has responsibility for ensuring that Internal Audit is effective in the provision of that assurance.

During the year the Committee has:

- Approved the Internal Audit Strategy and Annual Plan for 2011/12;
- Considered regular Internal Audit Progress Reports from the Head of Audit & Business Risk highlighting audit work completed in particular audit reviews, internal audit performance against key indicators and any significant issues;
- Considered the Head of Audit & Business Risk's Annual Report and Opinion on the council's governance and internal control environment;
- Considered the statutory review of the effectiveness of the system of internal audit;
- Ensured the internal audit and external audit plans were complementary and provided optimum use of the total audit resource;
- Ensured Internal Audit is effective in the provision of key assurance on an ongoing basis; and

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

### **External Audit**

13. External Audit which is currently provided by the Audit Commission is an essential part of the process of accountability of public funds, providing an independent opinion on the financial statements as well as arrangements for securing value for money across the council.
14. At its June meeting, the Committee were advised that the Government had stopped all work on the Comprehensive Area Assessment which included the Use of Resources.
15. In August 2010, the Department for Communities and Local Government announced plans to disband the Audit Commission and refocusing of the audit of local public bodies. In March 2011 it further issued a consultation draft entitled the “Future of Local Public Audit”. This also included proposals to changes to the structure of audit committees and for them to have responsibility for recommending the appointment of external auditors.
16. During the year the Committee:
  - Considered the Audit Commission’s Annual Audit Plan;
  - Considered progress reports against the plan;
  - Considered Fees Letters;
  - Receive and considered Annual Audit Letter for 2009/10; and
  - Considered individual reports from reviews carried out including Housing Repairs and Maintenance Contract.

### **Risk and Opportunity Management**

17. During the year Committee:
  - Received and considered Risk and Opportunity Corporate Register Updates;
  - Considered the outcomes of the Risk and Opportunity Management Programme;
  - Overseen the transition to a Strategic Risk Management Strategy;
  - Received a briefing on the new risk management “self service” software (Interpan) and considered reports generated;
  - Received the Annual Risk Management Report; and
  - Received and considered individual risk maps on corporate risks, in particular on emerging risks and areas of concern (for example financial outlook).

## **Internal Control and Governance**

18. A pivotal role of the Committee is its work in developing the council's internal control and assurance processes. During the year there were no major break-downs in internal control, governance and risk management reported.
19. During the year the Committee:
  - Considered and agreed the council's Annual Governance Statement a key document which summarises the council's governance arrangements and the effectiveness of these during the year;
  - Received updates on actions for improvements from the Annual Governance Statement;
  - Was requested and provided a letter to the District Auditor on providing assurance from those charged with governance; and
  - Continued to raise the profile of internal control and governance across the council and of the need to ensure audit recommendations for improvement are implemented.

## **Counter Fraud**

20. Countering fraud and corruption is the responsibility of every Member and officer of the council. There were no major incidences of fraud reported to the Committee during 2010/11.
21. During the year the Committee:
  - Considered the outcome of counter fraud activity as part of the Head of Audit & Business Risk's Annual Report;
  - Monitored and supported the actions of officers in particular those by Audit & Business Risk to counter fraud;
  - Were made aware of national emerging fraud and corruption issues that could impact on the council for example housing tenancy fraud;
  - We were made aware of the outcome from the National Fraud Initiative (NFI); and
  - Received a report and presentation on Fraud Risk Analysis and Loss Measurement exercise on the council's potential exposure to fraud which projected a significant level of potential fraud loss as a whole to the council.

## **Financial**

22. During the year the Committee:
  - Considered and approved the Annual Statement of Accounts, asking a number of questions on the content;

- Considered the external auditor's report on the accounts and council's responses to comments;
- Received periodic reports for information, on the council's budget performance (TBM) asked questions and helped to inform the approval of end of year Statement of Accounts; and
- Received updates and progress made on implementing the requirements of the International Financial Reporting Standards.

### **Other Activities**

23. During the year the Committee:

- Considered reports on Treasury Management Policy Update and Annual Investment Strategy, providing an independent scrutiny role.

### **Looking Forward**

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

- Continue to review all governance arrangements to ensure they are robust with focus on the continued transformation of the council, new operating model and financial pressures in particular relating to the continued transformation of the council and financial pressures;
- Continue to support and embed the role of risk management including the risk management software;
- Ensure the effectiveness of the council's response to existing and key risks emerging including resulting from financial pressures and transformation;
- Continue to support the work of Internal and External Audit and ensure appropriate management actions to recommendations made;
- Ensure the council maintains and further improves the standards in relation to the production of accounts;
- Ensure the council continues to manage the risk of fraud and corruption, in particular by taking further proactive measures for example awareness training;
- Equip existing and new Members to fulfil responsibilities by providing training, briefings and good practice guidance;
- Respond to changes imposed by legislation and from best practice on the structure and activities of the Audit Committee to ensure its continued effective role;
- Undertake a comprehensive review of the effectiveness of the Committee; and
- To keep abreast of developments and respond as required to changes in the Public Audit Agenda.

## **Audit Committee Terms of Reference (Agreed by Council in April 2008)**

### **Explanatory Note**

The Audit Committee oversees the Council's arrangements for the discharge of its functions in connection with finance, risk management and audit arrangements. It makes recommendations to the Council, the Cabinet, officers or other relevant body within the Council.

### **Functions**

To carry out independent scrutiny and examination of the Council's financial and non-financial processes, procedures and practices to the extent that they affect the Council's exposure to risk and weakness in the control environment with a view to :

- Providing independent assurance of the adequacy of the risk management and associated control environment;
- Providing assurance on the adequacy of the Council's audit arrangements ;
- Securing robust performance and risk management arrangements; and
- Making recommendations to the Cabinet, Council or Directors as appropriate
- To consider the Council's risk management arrangements and make recommendations to the Cabinet, Council or its Committees.

(Source: B&HCC Constitution)

## Appendix B

### Summary of the Audit Committee Work Programme 2010/11

Meeting Date	Report	Area	
<b>18<sup>th</sup> May 2010</b>	Update on International Financial Reporting Standards (IFRS) and Code of Practice on Local Authority Accounting – Statement of Recommended Practice (SORP)	Financial Management	
	Audit Commission Progress Report 2009/10	External Audit	
	Assurances from the Audit Committee and the body charged with Governance 2009/10	Internal Control & Governance	
	Internal Audit Strategy & Annual Plan 2010/11	Internal Audit	
	Risk and Opportunity Management Update	Internal Audit	
	Review of the Effectiveness of Internal Audit	Internal Control and Governance	
Part 2	Corporate Risk Management Action Plan – Council Housing Stock Condition	Risk Management	
<b>29<sup>th</sup> June 2010</b>	Audit Commission Progress Report 2009/10	External Audit	
	Audit Committee Annual Report 2009/10	Internal Control and Governance	
	Statement of Accounts 2009/10	Financial Management	
	Annual Governance Statement 2009/10	Internal Control and Governance	
	Assurances from those charged with governance	Internal Control and Governance	
	Audit Commission Supplementary Opinion Audit Plan	External Audit	
	Internal Audit Annual Report and Opinion 2009/10	Internal Audit	
	Targeted Budget Management Provisional Out Turn 2009/10	Financial Management	
	Risk and Opportunity Management Update – Corporate Risk Register	Risk Management	
	Part 2	Corporate Risk Management Action Plans Focus	Risk Management
	Internal Audit Annual Report and Opinion 2009/10 – Audit Reviews giving limited assurances	Internal Audit	
<b>28<sup>th</sup> September 2010</b>	Internal Audit Progress Report 2010/11	Internal Audit	
	Targeted Budget Management (TBM) Month 4	Financial Management	
	Risk and Opportunity Management Annual Report 2009/10 and Programme 2010/11	Risk Management	
	Audit of Accounts ended 31 <sup>st</sup> March 2010 letter of representation and Statement of Accounts Update	Financial Management	
	Audit Commission: Annual Governance Report 2009/10	External Audit	
	Abolition of the Audit Commission (Verbal Update)	External Audit	
	Part 2	Corporate Risk Management Action Plans Focus CR15 Effective Procurement Process and Co-ordinated Organisational Compliance	Risk Management
	Part 2	Treasury Management Policy Statement 2010/11 (including Annual Investment Strategy 2010/11)	Other Activities
<b>14<sup>th</sup> December 2010</b>	Proposed review of the effectiveness of the Audit Committee	Internal Control and Governance	
	Internal Audit Progress Report 2010/11	Internal Audit	
	Annual Governance Statement 2009/10 Action Plan Update	External Audit	

Meeting Date	Report	Area
	Risk and Opportunity Management (ROM) Update	Risk Management
	Targeted Budget Management (TBM) Month 6	Financial Management
	Audit Commission Progress Report	External Audit
	Audit Commission Annual Audit Letter 2009/10	External Audit
	Audit Commission Review of Housing Repairs and Maintenance Contract 2009/10	External Audit
Part 2	Fraud Risk Analysis and Loss Measurement	Internal Audit
	Corporate Risk Management Action Plans Focus	Risk Management
<b>5<sup>th</sup> April 2011</b>	Annual Statement of Accounts 2010/11 Progress Update and International Financial Report Standards (IFRS) Verbal Update	Financial Management
	Targeted Budget Management (TBM) Month 9	Financial Management
	Treasury Management Policy Statement	Other Activities
	Annual Investment Strategy 2011/12	Other Activities
	Internal Audit Strategy and Annual Audit Plan 2011/12	Internal Audit
	Risk and Opportunity Update and Strategic Risk Register	Risk Management
	Audit Commission Progress Report 2010/11	External Audit
	Audit Commission Certification of Claims and Returns Annual Report	External Audit
	Audit Commission Fees Letter	External Audit
	Audit Commission Assurance from the Audit Committee as the Body charged with Governance 2010/11	External Audit