



AUDIT COMMITTEE

ANNUAL REPORT 2011/12 (Draft)

Councillor L. Hamilton, Chairman

Forward by the Chairman of the Audit Committee



This is my fourth year as Chair and I am pleased to present the Audit Committee's Annual Report for the 2011/12 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 in challenging times for the Council, to its governance and control environment.

The next few years will continue to 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.

The Audit Committee has now merged with the Standards Committee and I believe it will continue to make a positive contribution.

I would like to take the opportunity to thank both the committee members and the officers that support the committee's work.

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.

From 2011/12, the Audit and Standards Committee will be merging and I am looking forward to the change and continued effectiveness of its role.

Introduction

1. The Audit Committee (the Committee), is now in its fifth municipal year, succeeding the Audit Panel. The Committee's activities during 2011/12 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 for 2011/12 municipal year is shown at Appendix A.
4. This is the third annual report from the Council's Audit Committee. It is produced in accordance with latest best practice¹ and details the work and outcomes of the Committee in 2011/12 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 2011/12 municipal year there were 5 meetings of the Committee. All had full agendas and in total considered 40 written reports, received 2 presentations and 1 verbal update.
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 2011/12 in Table 1 below. Nominated substitutes attended meetings as required.

Table 1: Members of the Audit Committee 2011/12

Member	Role
Councillor Les Hamilton	Chair
Councillor Matt Follet	Deputy Chair
Councillor Ron Jarratt	Member
Councillor Gill Mitchell	Member
Councillor Ann Norman	Member
Councillor Anne Pissaridou	Member
Councillor David Smith	Member
Councillor Ollie Sykes	Member
Councillor Liz Wakefield	Member

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

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. In June and September there were two specific training sessions for Members on the role and functions of the Audit Committee. For September this also included Members role in relation to the approval of the Statement of Accounts. Other training was integrated into committee meetings such as fraud update.

Core Activities 2011/12

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. The Department of Communities and Local Government issued a consultation paper at the beginning of 2011/12 entitled "The Future of Local Public Audit". The Committee has been kept informed of the consultation outcome and award of the contract to Ernst & Young.
15. During the year the Committee:
 - Considered the Audit Commission's Annual Audit Plan;
 - Considered progress reports against the plan;
 - Considered Fees Letters;
 - Received and considered the Annual Governance Report ;
 - Receive and considered Annual Audit Letter for 2010/11; and
 - Considered individual reports from reviews carried out including Housing Repairs and Maintenance Contract.

Risk and Opportunity Management

16. During the year Committee:
 - Received and considered the Strategic Risk Register updates;
 - Considered the outcomes of the Risk Management Programme;
 - Received the Annual Risk Management Report; and
 - Received and considered individual risk maps on strategic risks, in particular on emerging risks and areas of concern (for example financial outlook).

Internal Control and Governance

17. A pivotal role of the Committee is its work in developing the council's internal control and assurance processes.
18. 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;
 - Received reports and sought assurance on effective actions to address, control weaknesses in the Council's HR/Payroll and Income Collection systems;

- Was requested and provided a letter to the District Auditor on providing assurance from those charged with governance;
- Together with officers, undertook review of the effectiveness of the Audit Committee utilising best practice from the Chartered Institute of Public Finance (CIPFA) and the National Audit Office (NAO)
- 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

19. Countering fraud and corruption is the responsibility of every Member and officer of the Council.
20. During the year the Committee:
 - Was kept informed of the number and nature of fraud investigations, significant cases, recovered losses etc;
 - 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;
 - Were made aware of the outcome from the National Fraud Initiative (NFI);
 - Received the Councils' updated Counter Fraud Strategy, recommending its approval by the Policy & Resources committee; and
 - Made aware of national developments in counter fraud, the most significant being the release of the Local Government Fraud Strategy, "Fighting Fraud Locally " and will continue to be made aware of actions to address.

Financial

21. 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; and
 - 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.

Other Activities

22. During the year the Committee:

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

Looking Forward

23. The Audit Committee has now integrated with the Standards Committee and will continue to develop its role and build on current status. For 2012/13 it will:

- Continue to review all governance arrangements to ensure they are robust with focus on change and the challenges facing the Council;
- To effectively integrate the functions of Audit and Standards Committee including ensuring Members receive appropriate training;
- Implementing changes to the National Standards Regime from July 2012;
- 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 & Standards Committee to ensure its continued effective role;
- 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 2011/12

Meeting Date	Report	Area
28th June 2011	Audit Commission Progress Report and Update 2010/11	External Audit
	Unaudited Statement of Accounts 2010/11	Financial Management
	Draft Annual Governance Statement 2010/11	Internal Control and Governance
	Review of the Effectiveness of Internal Audit	Internal Audit
	Targeted Budget Management Provisional Out Turn 2010/11	Financial Management
	Risk Management Update: The Risk and Performance Management Framework	Risk Management
Part 2	Strategic Risk Management Actions Plans focus	Risk Management
27th September 2011	Audit Commission: Annual Governance Report 2010/11	External Audit
	2010/11 Statement of Accounts	Financial Management
	Audit Commission: Changes to the local audit regime	External Audit
	Targeted Budget Management (TBM) Month 4	Financial Management
	Risk & Opportunity Management (ROM) Annual Report 2010/11 and Risk Management Programme 2011/12	Risk Management
	Internal Audit Progress Report and Internal Audit Plan 2011/12 Update	Internal Audit
	The Bribery Act 2010	Internal Control and Governance
Part 2	Strategic Risk Management Actions Plans focus	Risk Management
	Investigation into Hove Town Hall Income Losses	Internal Control and Governance
20th December 2011	Treasury Management Policy Statement 2011/12 (including Annual Investment Strategy 2011/12)	Other Activities
	Targeted Budget Management (TBM) Month 7	Financial Management
	Audit Commission: Progress Report 2011/12 and Briefing	External Audit
	Audit Commission: Annual Audit Letter 2010/11	External Audit
	2010/11 Assurances from the Audit Committee as the body charged with governance	
	Internal Audit Progress Report 2011/12	Internal Audit
	Annual Governance Statement 2010/11 Action Plan Update	External Audit
	Strategic Risk Register	Risk Management
	Review of the Effectiveness of the Audit Committee	Internal Control and Governance
Part 2	Strategic Risk Management Actions Plans focus	Risk Management
21st February 2012	Targeted Budget Management (TBM) Month 9	Financial Management
	Review of the Effectiveness of the Audit Committee	Internal Control and Governance
	Audit Commission: Progress Report 2011/12	External Audit

Meeting Date	Report	Area
	Audit Commission: 2010/11 Certification of Claims and Returns – Annual Report	External Audit
	Internal Audit Progress Report 2011/12	Internal Audit
	Risk Management Strategy 2012	Risk Management
	Current Fraud Risks and Brighton & Hove City Council Counter Fraud Programme (Verbal)	Fraud
Part 2	Strategic Risk Management Actions Plans focus	Risk Management
	Internal Audit Review of Payroll	Internal Audit
24th April 2011	Audit Commission: Progress Report 2011/12	External Audit
	Audit Commission: Opinion Audit Plan 2011/12	External Audit
	Assurances from the Audit Committee as the body charged with governance 2011/12	External Audit
	Internal Audit Strategy & Annual Audit Plan 2012/13	Internal Audit
	Counter Fraud Strategy Update	Fraud
	2011/12 Statements of Accounts Preparation	Financial Management
Part 2	Payroll Update (Verbal)	Internal Control and Governance
	Strategic Risk Management Actions Plans focus	Risk Management