



AUDIT & STANDARDS COMMITTEE

ANNUAL REPORT 2012/13 (Draft)

Councillor L. Hamilton, Chairman

Foreword by the Chair of the Audit & Standards Committee



The last year has been the first for the Audit & Standards Committee, merged from the former Audit Committee and Standards Committee. I was Chair of the previous Audit Committee for four years and am pleased to have continued in that role for the merged committee

I am pleased to present the Audit & Standards Committee's Annual Report for the 2012/13 municipal year. The report shows how the Audit & Standards 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.

Our terms of reference give us a wide remit including advising and reviewing all the Council's arrangements for internal audit, internal control, risk management, financial management, standards and corporate governance. The Committee has an important role in ensuring public money is spent wisely and in accordance with the Council's priorities.

The Committee has a role in reviewing the work and performance of internal audit and external audit. These reports provide information to provide assurance to the public that the council is complying with the law, spending money appropriately has good internal controls and provides quality services.

I would like to take the opportunity to thank both the Committee members listed and the officers that support the Committee's work for their contributions. The members of the Committee have been both supportive and provided constructive challenge to ensure our governance processes are effective and transparent. This has further been assisted by our two independent persons on the Committee.

I would also like to thank Ernst & Young, the Council's external auditors, for their support and regular attendance at meetings.

I have enjoyed leading the Committee and working with officers to further enhance the Council's governance arrangements. I am looking forward to 2013-14 and given the financial pressures facing the council, the importance of an effective Audit & Standards Committee remains.

Introduction

1. This report provides an overview of the Audit & Standards Committee's (the Committee) activity during the municipal year 2012-13. It is produced in accordance with latest best practice and details the work and outcomes of the Committee in 2012/13 and that the Council is committed to working as an exemplar organisation, operating to the highest standards of governance.
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), ethical standards, and financial reporting frameworks. The Council's Standards Panel is a sub-committee of the Audit Standards Committee, and determines allegations of breaches of the Members' Code of Conduct, on a reference from the Monitoring officer. A copy of the Committee's Terms of Reference for the 2012/13 municipal year is shown at Appendix A.
3. The Committee met five times during 2012/13. Meetings are held in public and papers are available on the Council's website. The meetings are generally scheduled around the key dates for council business such as the statement of accounts, audit planning process and the annual governance statement.
4. To further support the Committee members, officers provide regular briefings on the function and developments that impact on roles and responsibilities.
5. To meet statutory requirements for Standards and to give the Committee additional expertise, two independent persons were appointed during the year with a financial and inspection background.

Committee Work Programme and Membership

6. During the 2012/13 municipal year there were 5 meetings of the Committee. All had full agendas and in total considered 59 written reports and 4 verbal updates.
7. 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.
8. The Committee membership consists of eight Members and two independent persons, detailed for 2012/13 as follows: .

Membership of the Audit & Standards Committee 2012/13

Membership	Role
Councillor Les Hamilton	Member - Chair
Councillor Ann Norman	Member - Opposition Spokesperson
Councillor Matt Follett	Member
Councillor Ben Duncan	Member
Councillor Ollie Sykes	Member
Councillor Jeane Lepper	Member
Councillor David Smith	Member
Councillor Andrew Wealls	Member
Dr David Horne	Non-Voting Co-Optee
Dr Lel Meleyal	Non-Voting Co-Optee

9. A rolling and flexible work programme was agreed in June 2012 for the Committee's main areas of activities.

Training & Development

10. In order to be effective, it is recognised that members of the Committee should have a clear understanding of their role in relation to standards, internal control and governance issues, internal and external audit, risk and opportunity management and how the arrangements in place across the council operate.
11. In September there was a specific training session for Members on the role and functions of the Audit & Standards Committee. This also included a key role in relation to the approval of the Statement of Accounts. Other awareness training was integrated into meetings to ensure Members maintain up to date knowledge, for example the recent Good Governance in Local Government Report from CIPFA/SOLACE and the new Public Sector Internal Audit Standards.

Core Activities 2012/13

12. The Committee's Terms of Reference contain 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 Assurance

13. 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 2013/14;
- 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 Assurance

14. External Audit was provided by the Audit Commission up until November, then Ernst & Young. The provision of effective external audit 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.
15. During the year the Committee:
 - Considered Ernst & Young's Annual Audit Plan;
 - Considered progress reports against the plan;
 - Considered Audit Fee Letters;
 - Received and considered the Annual Governance Report ;
 - Receive Annual Grant Certification Letter; and
 - Receive and considered Annual Audit Letter for 2011/12.

Risk 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).

Council's Governance and Internal Control

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 and were satisfied that it was a robust process and summarised 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 system; 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

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); and
 - Were informed of the Fighting Fraud Locally Strategy and progress made by the council in meeting its requirements.

Financial Management and Reporting

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.

Standards

22. Following consideration by the Committee in June 2012, the Council adopted a new ethical standards regime for members in July, in accordance with the Localism Act 2011. The previous statutory framework involving a separate Standards Committee with an independent chair and parish council representation was abolished under the Act and it now falls to the combined Audit & Standards Committee to advise the Council on standards matters; and to its sub-committee, the Standards Panel, to hear allegations referred to it concerning alleged breaches of the Members' Code of Conduct. The combined Committee comprises an elected member of the Council as Chair, seven other elected members, and two co-opted Independent Persons (non-voting). The Independent Persons, Dr David Horne and Dr Lel Meleyal were appointed in August 2012 and, in addition to attending Committee, fulfil a statutory advisory role in relation to alleged breaches of the Members' Code of Conduct.
23. The new standards framework implemented in July 2012 included a Code of Conduct for Members covering, amongst other provisions, a new statutory duty to register 'disclosable pecuniary interests' and, on the recommendation of a cross-party working group reporting to the Committee, a requirement to register defined 'other disclosable interests' as well.
24. The cross-party working group also recommended to the Committee a procedure for investigating alleged breaches of the members' Code of Conduct. This was adopted and used in connection with 14 complaints filed against one or more members during 2012/13. Of these complaints, two were referred to the Standards Panel for hearing and determination. On both occasions, the Independent Person fulfilled his statutory function by offering the Panel his views on the case before they reached a decision.
25. In April 2013 the Committee approved revisions to the above procedure in order to streamline the investigation and hearing process in cases where an investigation finds there was no breach, and both the subject member and complainant agree to end the matter without a formal hearing of the Standards Panel, subject to the advice of the Monitoring Officer.
26. At the request of the Committee, the Monitoring Officer assisted Rottingdean Parish Council comply with its duties under the Localism Act regarding the adoption of a new code of conduct and arrangements for registering interests.

27. In January 2013 the Committee considered a report on managing confidential information, which contained recommendations arising from an enquiry into unauthorised disclosure of confidential information in 2012. One of the recommendations was to review and update the Council's codes and protocols which govern the handling of confidential information. The Committee agreed this recommendation in principle.
28. Those codes and protocols were duly revised and brought to the Committee in April for approval or, where appropriate, for consideration prior to approval by Council. The materials included, for the first time, a Social Media Protocol for Members.
29. As part of that review, a new provision was inserted into the Code of Conduct for Members, placing a duty on Members to co-operate with investigations into alleged unauthorised disclosure of confidential information.
30. While reviewing that amendment, the Committee also considered a change to the Code's obligations regarding interests. The Committee accepted a recommendation that all interests (both disclosable pecuniary interests ('DPI') and other interests) be declared at all meetings; and that where a Member's non-DPI interest is considered "prejudicial", the member be required to leave the meeting room. The Committee referred these changes to Council where they were subsequently adopted.

Other Activities

31. During the year the Committee:
 - Considered reports on Treasury Management Policy Update and Annual Investment Strategy, providing an independent scrutiny role.

Looking Forward

32. The Committee will continue to develop its role and build on current status. For 2013/14 it will:
 - Continue to review all governance arrangements to ensure they are robust with focus on change and the challenges facing the Council;
 - Ensure Members continue to receive the appropriate training;
 - 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;
- Keep abreast of developments and respond as required to changes in the Public Audit Agenda.
- Undertake a review of its effectiveness; and
- Meet the requirements of the updated guidance planned by CIPFA.

Audit & Standards Committee Terms of Reference

Explanatory Note

The Audit functions of this Committee relate to the Council's arrangements for the discharge of its powers and duties in connection with financial governance and stewardship, risk management and audit. The Committee makes recommendations to the Council, Policy & Resources Committee, Officers or other relevant body within the Council.

The Standards functions of this Committee seek to ensure that the Members, Co-opted Members and Officers of the Council observe high ethical standards in performing their duties. These functions include advising the Council on its Codes of Conduct and administering related complaints and dispensation procedures. In addition to the Councillors who serve on the Audit and Standards Committee, the Committee includes at least two independent persons who are not Councillors. They are appointed under Chapter 7 of the Localism Act, or otherwise co-opted, and act in an advisory capacity with no voting powers.

In the terms of reference of this Committee a "Member" is an elected Councillor and a "Co-opted Member" is a person co-opted by the Council, for example to advise or assist a Committee or Sub-Committee of the Council.

General Audit and Standards Delegated Functions

To review such parts of the constitution as may be referred to the Committee by the Policy and Resources Committee and to make recommendations to the Policy Resources Committee and the Council.

To appoint, co-opt or (in any case where only the Council has power) to recommend the appointment or co-option of a minimum of two independent persons: to give general assistance to the Committee in the exercise of its functions; and to give views on allegations of failure to comply with a Code of Conduct as required by Chapter 7 of the Localism Act.

To have an overview of: the Council's Whistleblowing Policy

Complaints handling and Local Ombudsman investigations

To deal with any audit or ethical standards issues which may arise in relation to partnership working, joint committees and other local authorities or bodies.

To ensure arrangements are made for the training and development of Members, Co-opted Members and Officers on audit, ethical and probity matters, including Code of Conduct issues. 11/09/12

(Source: B&HCC Constitution)

Summary of the Audit & Standards Committee Work Programme 2012/13

Meeting Date	Report	Area
26th June 2012	Work Plan for Audit & Standards Committee	Committee
	Complaints Update	Standards
	Standards Update	Standards
	Targeted Budget Management (TBM) Provisional Out Turn 2011/12	Financial Management
	Unaudited Statement of Accounts 2011/12	Financial Management
	Review of the Effectiveness of Internal Audit	Internal Audit
	Audit Commission: Progress Report 2012/13	External Audit
	Audit Committee Annual Report 2012/13	Committee
	Risk Management Programme 2011/12 (Outcome) and 2012/13 (Planned)	Risk Management
	Internal Audit Annual Report and Opinion 2011/12	Internal Audit
	Strategic Risk Register	Risk Management
Part 2	I360	Internal Audit
	Strategic Risk Management Action Plans Focus	Risk Management
25th September 2012	Complaints Procedure	Standards
	Complaints Update	Standards
	Rottingdean Parish Council: Adoption of New Code of Conduct	Standards
	Audit Commission: Annual Governance Report 2011/12	External Audit
	Statement of Accounts 2011/12	Financial Management
	Targeted Budget Management (TBM) 2012/13 Month 2	Financial Management
	Internal Audit Progress Report 2012/13	Internal Audit
	Fighting Fraud Locally	Counter Fraud
Part 2	Complaints Update	Standards
	Strategic Risk Management Action Plan Focus – SR4, 5 and 8	
20th November 2012	Complaints Update	Standards
	HR/Payroll System	Internal Audit
	Audit Commission: Progress Report 2012/13	External Audit
	Audit Commission: Annual Audit Letter 2011/12	External Audit
	Internal Audit Progress Report 2012/13	Internal Audit
	Targeted Budget Management (TBM) 2012/13 Month 5	Financial Management
	Strategic Risk Register Update	Risk Management
Part 2	Strategic Risk Management Action Plan Report	Risk Management
	Strategic Risk Map Focus – SR2 Financial Outlook	Risk Management
22nd January 2013	Standards Update	Standards
	Managing Confidential Information	Standards
	Ernst & Young: Progress Report 2012/13	External Audit
	Ernst & Young: Fee Letter 2012-13	External Audit
	Ernst & Young: 2012/12 Annual Certification Letter	External Audit
	Annual Governance Statement 2011/12 – Action Plan Progress	Governance
	Internal Audit Progress Report 2012/13	Internal Audit

Meeting Date	Report	Area
	Delivering Good Governance in Local Government	Governance
	Targeted Budget Management (TBM) 2012/13 Month 7	Financial Management
	Treasury Management Policy Statement 2012/13 (incorporating the Annual Investment Strategy) – Mid Year Review	Financial Management
Part 2	Strategic Risk Map Focus – SR10 Information Governance	Risk Management
	Strategic Risk Map Focus – SR6 Safeguarding Vulnerable Members in our Community)	Risk Management
16th April 2013	Strategic Risk Map Focus – SR1 Readiness for Opportunities and Impacts of Localism SR3 Pace and Volume of Change	Risk Management
	Update on the Payroll System	Internal Audit
	Letter from the Chair of Audit & Standards Committee re: B&HCC – Risk of material misstatement of the 2012/13 accounts due to fraud	Committee
	Internal Audit Strategy & Annual Audit Plan 2013/14	Internal Audit
	Ernst & Young: Fee Letter 2013-14	External Audit
	Risk Management Strategy 2013	Risk Management
	Public Sector Internal Audit Standards	Internal Audit
	Complaints Update	Standards
	Code of Conduct for Members: Proposed Amendments	Standards
	Review of Procedure for Investigating Alleged Breaches of Code of Conduct	Standards
	Social Media Protocol for Members & Social Networking Policy for Employees	Standards
	Code of Conduct for Member/Officer Relations & Code of Conduct for Employees	Standards
	Guidance for Members and Officers Regarding Confidential Information	Standards