

AUDIT AND GOVERNANCE COMMITTEE

29th June 2012

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2011/12

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2011/12 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

- 2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:
- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
 - consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
 - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
 - receive, consider and monitor reports on treasury management policy, strategy and practices.
- 2.2 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:
- Statement of Accounts and International Financial Reporting Standards.
 - Update on changes resulting from the Council's improvement programmes.

3. Matters Considered

- 3.1 The Committee has met eight times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Executive Director of Commercial and Corporate Services, Head of Audit, Risk and Procurement, Head of Law and Governance and the Council's External Auditors.
- 3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:
- a) The Committee endorsed the Audit and Counter Fraud Plan, which sets out the operational plan for the year for the Council and to associated bodies and the performance indicators that the service will be measured against. The Committee was also given the opportunity to identify any areas of work to be considered for the Internal Audit Plan for 2011/2012.
 - b) A progress report in relation to the Audit and Counter Fraud Plan was presented to six of the eight committee meetings during the year. These provided details of the service's performance in relation to the agreed performance indicators and to provide members of the Committee with an opinion on the overall internal control environment within the Council. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to the safeguarding of vulnerable adults and the rate of implementation of recommendations by directorates. It is pleasing to note that the Internal Audit Plan was delivered with the majority of the Key Performance Indicators being met. The head of internal audit's opinion on the Council's internal control environment was positive.
 - c) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the Audit Commission is very positive, and concluded that the internal audit function continues to meet all relevant professional standards.
 - d) External Auditors provided reports detailing their Annual Opinion Audit Plan, their fees, the Annual Audit Letter, Annual Governance Report, and the Annual Grants report. These reports provided a very positive opinion regarding the Council's performance, governance, financial management and value for money arrangements. The External Auditor was also able to confirm that the objection to the accounts which had prevented previous years statement of accounts being signed off, had been resolved

- e) Reports were presented in relation to the Corporate Risk Profile and the risk management arrangements within the Council, to provide assurance to members that key risks are being identified, assessed and effectively managed. An effective risk management framework is in place and good progress made in relation to actions identified to mitigate strategic and corporate risks.
- f) The results of the Annual Governance Review for 2010/11 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant draft Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.
- g) The annual Statement of Accounts 2010/11 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The Committee also received information regarding the new International Financial Reporting Standards. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.
- h) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved amendments to the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, specifically with regard to security and level of return.
- i) The Committee also received regular reports in relation to the consultation on the arrangements to provide external audit in the public sector following the Government's abolition of the Audit Commission, and the subsequent procurement exercise.
- j) Specific reports for information were received in relation to the oversight of financial management in Local Authority maintained schools, and the proposed new arrangements for a corporate approach to providing assurance on how the Council manages its risks. The Committee agreed this approach and a report setting out the arrangements in detail was presented in March 2012.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Implementation of Agreed Internal Audit Recommendations* – The Internal Audit Annual Report for 2010/11 reported that the rate of implementation of agreed medium risk recommendations was not as expected for Health, Housing and Adult Services. The committee asked for regular updates from the Directorate in relation to this, and a significant improvement has now been achieved.
- *Abolition of the Audit Commission* – During a number of meetings throughout the year the Committee was updated and asked questions about the position of the Audit Commission and the subsequent potential impact on the Council.
- *Treasury Management* – The committee has taken a keen interest in the policies applied in relation to Treasury Management activities, asking detailed questions about the ongoing arrangements and proposed changes before providing their approval.
- *Corporate Risk Profile* – The Committee have received updates regarding the Council's Corporate Risk Profile.
- *Integrated Assurance Framework* – The Committee received a detailed presentation regarding the proposed arrangements for the new integrated assurance framework, and asked various questions to satisfy themselves that the approach was appropriate.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2010/2011

Report of the Executive Director of Commercial and Corporate Services

1. Purpose of Report

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2010/2011 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role and will be presented to Council once agreed by this committee.

2. Role of the Committee

- 2.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:
- approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be);
 - consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
 - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
 - receive, consider and monitor reports on treasury management policy, strategy and practices.
- 2.2 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:
- The Council's Economic Masterplan.
 - Statement of Accounts and International Financial Reporting Standards.
 - Treasury Management.

3. Matters Considered

- 3.1 The Committee has met six times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Executive Director of Commercial and Corporate Services, Head of Audit, Risk and Procurement, Head of Law and Governance and the Council's External Auditors.
- 3.2 To enable the Committee to fulfil its role as set out in paragraph 2.1, a range of reports were considered, as follows:
- a) The Committee endorsed the Internal Audit Strategy and Operational Plan, which sets out the arrangements for providing internal audit within the Council and to associated bodies, the plan of audit work for the year and the performance indicators that internal audit will be measured against. The Committee was also given the opportunity to identify any areas of work to be considered for the Internal Audit Plan for 2011/2012.
 - b) An interim progress report and the Internal Audit Annual Report 2009/2010 were presented to provide details of Internal Audit's performance in relation to the agreed performance indicators and to provide members of the Committee with an opinion on the overall internal control environment within the Council. Specific key issues were highlighted within the reports for members to consider further, specifically in relation to Information Security Management. It is pleasing to note that the Internal Audit Plan was delivered with the majority of the Key Performance Indicators being met. The head of internal audit's opinion on the Council's internal control environment was positive.
 - c) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound. The review, undertaken by the Audit Commission, concluded that the internal audit function continues to meet all relevant professional standards.
 - d) External Auditors provided reports detailing their Annual Opinion Audit Plan, their fees, the Annual Audit Letter, Annual Governance Report, and the Annual Grants report. These reports provided a very positive opinion regarding the Council's performance, governance and value for money arrangements.

- e) Reports were presented in relation to the Corporate Risk Profile and the risk management arrangements within the Council, to provide assurance to members that key risks are being identified, assessed and effectively managed. An effective risk management framework is in place and good progress made in relation to actions identified to mitigate strategic and corporate risks.
- f) The results of the Annual Governance Review for 2009/2010 were presented, which summarises the overall governance arrangements in place within the Council, and makes recommendations for further improvement. The resultant draft Annual Governance Statement highlighted the good corporate governance arrangements in place and was approved by the Committee and included within the Council's Statement of Accounts.
- g) The annual Statement of Accounts 2009/2010 (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor had completed the audit, any amendments were submitted back to the Committee for approval. The Committee also received information regarding progress toward implementing the new International Financial Reporting Standards. The External Auditor commented positively on the arrangements the Council has in place with regard to the production of the Accounts.
- h) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and approved amendments to the Treasury Management Policy and Strategy. The Committee noted the good performance in this area, specifically with regard to security and level of return.

3.3 From the reports presented the Committee has been proactively monitoring activity in a number of important areas, as follows:

- *Implementation of Agreed Internal Audit Recommendations* – The Internal Audit Annual Report for 2009/2010 reported that the rate of implementation of agreed medium risk recommendations stood at 84% against a target of 90%. A breakdown of performance by directorate was provided. The Committee noted that the performance in some areas of the Council should be improved and this was monitored throughout the year by the Committee. Members were made aware of additional arrangements being put in place to seek improvement.
- *Abolition of the Audit Commission* – During a number of meetings throughout the year the Committee enquired about the position of the Audit Commission and the potential impact on the Council and the internal audit service.

- *Treasury Management* – The committee has taken a keen interest in the policies applied in relation to Treasury Management activities, asking detailed questions about the ongoing arrangements and proposed changes before providing their approval.
- *Corporate Risk Profile* – The Committee have received updates regarding the Council's Corporate Risk Profile and have challenged the scoring of specific risks and queried the relationships between risks.

3.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it was deemed appropriate.

4. Recommendation

4.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Council.

ANNUAL REPORT ON THE WORK OF THE COMMITTEE 2009/2010

Report of the Director of Financial Resources and Chief Solicitor

1. Purpose of Report

- 1.1 This report provides a summary of the work undertaken by the Audit and Governance Committee during 2009/2010 and the outcome of this work. The purpose of this report is to demonstrate how the Committee has fulfilled its role. This is the first annual report on the work of the Committee and the report will also be presented to Council.

2. Background

- 2.1 The Audit Commission's review of the Effectiveness of Internal Audit in May 2009 identified that the Audit and Governance Committee had not reviewed its remit and effectiveness since its inception in April 2006. It was agreed at the Committee meeting on 22nd May 2009 that a workshop would be held to carry out the review, which took place on 20th July 2009. One of the agreed actions which resulted from the review was that an annual report would be prepared on the work of the Committee.

3. Role of the Committee

- 3.1 The Audit and Governance Committee is a key component in the Council's Corporate Governance Arrangements. Its role is to:
- to approve the Authority's Statement of Accounts, income and expenditure, and balance sheet or record of receipts and payments (as the case may be).
 - consider the effectiveness of the authority's corporate governance arrangements, risk management arrangements, the control environment and associated anti-fraud and anticorruption arrangements and seek assurance that action is being taken on risk-related issues identified by auditors and inspectors;
 - be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it.

3.2 To enable the Committee to fulfil its role effectively awareness / update sessions have been held to provide members of the Committee with information on relevant issues. Sessions provided include the following:

- The Sunderland Strategy and the Council's Corporate Improvement Plan.
- Statement of Accounts.
- Treasury Management.
- Comprehensive Area Assessment and Use of Resources.

4. Review of the Remit and Effectiveness of the Committee

4.1 During the year the Committee undertook a review of its remit and effectiveness. This was undertaken through a workshop which considered an assessment of the Terms of Reference for the Committee against guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), '*Audit Committees: Practical Guidance for Local Authorities*'. A self assessment, based on the CIPFA guidance, was completed during the workshop following detailed discussion by committee members in relation to each area of the operation of the Committee. The self assessment was supported by a list of all of the previous reports which had been presented to the Committee, detailing the purpose of each report and its impact. The External Auditor was also present at the workshop and provided advice and commentary as appropriate.

4.2 The results of the review concluded that, in the main, the current arrangements compare favourably to the CIPFA guidance. However, a number of recommendations were agreed where it was considered that the current arrangements could be improved or enhanced. All but one of the recommendations have been implemented, the remaining recommendation is not yet due for implementation.

5. Matters Considered

5.1 The Committee has met six times during the course of the year to consider a range of issues. Appropriate officers of the Council have been in attendance at the meetings to present reports and provide additional information in order to clarify issues and respond to questions from members of the Committee. Regular attendees at the meetings are the Council's Monitoring Officer (Chief Solicitor), the Director of Financial Resources, the Head of Audit, Risk and Procurement and the Council's External Auditors.

5.2 To enable the Committee to fulfil its role as set out in paragraph 3.1, a range of reports are considered to enable the appropriate decisions to be taken. Appendix 1 shows the list of reports which were considered at each meeting. A summary of the issues considered is as follows:

- a) The committee endorsed the Internal Audit Strategy and Operational Plan, which sets out the arrangements for providing internal audit services within the Council and to associated bodies, the plan of audit work for the year and the performance indicators that Internal Audit Services will be measured against. The Committee was also given the opportunity to identify any areas of concern to be considered for the Internal Audit Plan for 2010/2011.
- b) An interim progress and Annual Report from Internal Audit were presented to provide details of Internal Audit's performance in relation to the agreed performance indicators and to provide members of the Committee with an opinion on the overall internal control environment within the Council. Specific key issues are also highlighted within the reports for members to consider further, for example, ICT disaster recovery.
- c) An annual review of the effectiveness of Internal Audit is carried out and the results of this review were reported to members to provide assurance that the arrangements in place are sound.
- d) External Auditors provided reports detailing their Annual Audit and Inspection Plan, their fees, the Annual Audit Letter, and results of the Comprehensive Area Assessment and Use of Resources judgement. Further reports on specific pieces of work carried out within the Council were also presented to provide members with a view of the arrangements in place, for example, the Council's Asset Management arrangements.
- e) Reports were presented in relation to the Corporate Risk Profile and the risk management arrangements within the Council, to provide assurance to members that key risks are being effectively managed.
- f) The results of the Annual Governance Review were presented, which summarises the overall governance arrangements in place within the Council. This review sets out all of the sources of evidence (including the reports mentioned above) that are used to prepare the draft statement in relation to the Council's overall control environment. This statement, the Annual Governance Statement, was approved by the Committee and included within the Council's Statement of Accounts.
- g) The annual Statement of Accounts (subject to audit) was presented for members to challenge and approve before they were made available for public inspection and to the external auditors. Once the external auditor

had completed the audit, any amendments were submitted back to the Committee for approval. In addition, the Committee received information regarding the implications of the International Financial Reporting Standards, which the Council will have to comply with in the coming years.

- h) The Committee received reports in relation to the Council's Treasury Management arrangements to receive assurance that they are appropriate and in line with recently issued good practice.
- i) During the year, the Chairman of the Audit and Governance Committee attended the North East Public Service Audit Committee Chairs' Forum, which considers and compares the activity of the various audit committees across the public sector in the North East. The Chairman had reported that there were clear differences in how Authorities approached the operation of their Audit Committees. It was noted that the Audit and Governance Committee had identified areas for development during the Review of the Remit and Effectiveness of the committee. It was agreed that the Committee would benefit from receiving the results of the Comprehensive Area Assessment and any other cross Council audit or inspection reports in future.

5.3 From the reports presented the Committee has been proactively monitoring performance in a number of areas and requesting improvement. These are as follows:

- *ICT Disaster Recovery arrangements* - In the Internal Audit Annual Report for 2008/2009, the position regarding business continuity / contingency planning for ICT was reported as being satisfactory in three of four areas, with the unsatisfactory opinion being in relation to the recovery of key applications. Since this time the Committee has requested regular updates regarding progress in addressing the situation relating to the recovery of key applications. The arrangements improved significantly during 2009/2010 resulting in a satisfactory opinion being issued in the Internal Audit Annual Report for the year. The Committee is continuing to receive information regarding improvements in this area.
- *Strategic Asset Management* – The Audit Commission presented a report in relation to the arrangements for Strategic Asset Management within the Council in May 2009. The report concluded that although good progress had been made to develop the arrangements there was more to be done in some areas, specifically in relation to developing a strategic approach to managing and acquiring assets within the city. The Committee requested a further report detailing progress in implementing the recommendations. A report regarding progress was provided in March 2010, with further progress reports requested.

- *Implementation of Agreed Internal Audit Recommendations* – In the Internal Audit Annual Report for 2008/2009 it was reported that the rate of implementation of agreed medium risk recommendations stood at 84% against a target of 90%. A breakdown of performance by directorate was provided. The Committee noted that there was low performance in some areas of the Council and asked for this to be monitored through the Committee. Whilst the Internal Audit Annual Report for 2009/2010 has reported that the overall implementation rate has remained the same (at 84%) the performance during the latter part of the year shows an improvement. Performance in this area will continue to be monitored by the Committee.

5.4 It can be seen that the work of the committee is wide ranging with members monitoring performance more closely in those areas where it is deemed improvements are required.

6. Recommendations

6.1 The Committee is asked to consider the report and provide any comments for inclusion prior to the report being presented to Cabinet.

Background Papers

Reports submitted to the Audit and Governance Committee during 2009/2010

Appendix 1

Reports presented to the Audit and Governance Committee 2009/2010

Date	Report of	Title	Purpose	Impact
22 May 2009	City Treasurer and City Solicitor	Annual Review of Effectiveness of Internal Audit 2008/2009	Receive assurance	Members asked specific questions regarding areas of the self assessment leading to improvements in areas discussed.
	City Treasurer	Treasury management in Local Authorities	Receive assurance. Agree to receive reports and monitor compliance with the Treasury Management policy in the future	Additional member review of treasury management practices.
	Audit Commission	Review of Asset Management	Receive information on a specific area of the council	Discussion of the Audit Commission report and a request for further progress reports regarding the implementation of the recommendations.
30 June 2009	Director of Financial Resources	Internal Audit Services Annual Report 2008/2009	Provide an opinion on the performance of internal audit, and the overall internal control environment raising any significant issues	Request for action to improve recommendation implementation rates, including further reports on this issue.
	Director of Financial Resources	Risk Management Annual Report 2008/2009	Provide an opinion on the adequacy of the risk management arrangements in place	Assurance provided.
	Director of Financial Resources and Chief Solicitor	Annual Governance Review	Approval of the Statement Reporting reviews on Internal Control and Internal Financial Control	Specific questions raised on the action plan focusing officer's attention.
	Audit Commission	Audit Fees 2009/2010	For information	

Date	Report of	Title	Purpose	Impact
	Director of Financial Resources	Statement of Accounts 2008/2009 (subject to Audit)	Approve the statement of accounts subject to audit	Specific questions raised by members on the accounts. Explanations received.
29 September 2009	Chief Executive and Director of Financial Resources	Summary of the Sunderland Strategy and the Council's Corporate Improvement Plan	For information	
	Director of Financial Resources	International Financial Reporting Standards	For information	
	Director of Financial Resources	Audited Statement of Accounts	Approval of the amended statement of accounts	Statement of Accounts approved.
	Director of Financial Resources	Assessment of the Remit and Effectiveness of the Audit and Governance Committee	Provide a summary of the assessment and approve the recommended improvements	Assessment was agreed and improvements to the working of the Committee were agreed.
27 November 2009	Director of Financial Resources	New Corporate Risk Profile	Receive assurance	Members asked specific questions regarding the entries in the profile and requested that the Head of Strategic Economic Development be invited to a future meeting to outline the Economic Master Plan.
	Director of Financial Resources	Internal Audit Plan Consultation 2010/2011	Provide Members of the Committee the opportunity to contribute to the development of the Internal Audit Plan for 2010/2011	Members discussed areas for consideration in formulating the Internal Audit Plan.
	Director of Financial Resources	Internal Audit Progress Report 2009/2010	Receive assurance	Specific queries were raised regarding the work undertaken.

Date	Report of	Title	Purpose	Impact
	Director of Financial Resources	Treasury Management – Review of 2008/2009 and mid year review 2009/2010	Receive assurance	
15 February 2010	Director of Financial Resources	Capital Programme – Third Review 2009/2010, Provisional Resources and Treasury Management Review	Receive assurance and provide comments as required	Assurance received, arrangements were commended.
15 February 2010 cont...	Director of Financial Resources	Capital Programme 2010/2011, including Prudential Indicators and Treasury Management Strategy and Policy	Receive assurance and provide comments as required	Various questions were asked by members and explanations received.
	The Chairman	North East Public Service Audit Committee Chair's Forum	Discuss the issues raised at the Forum and consider any areas for further development	It was agreed that the Committee would benefit from receiving the results of the Comprehensive Area Assessment and any other cross Council audit or inspection reports in future.
26 March 2010	Director of Financial Resources	Internal Audit Strategy and Operational Plan 2010/2011	Endorsement of the updated Internal Audit Strategy and Operational Plan	Specific questions regarding areas included within the Operational Plan were raised. The Operational Plan was endorsed.
	Director of Financial Resources	Corporate Risk Profile – Update	Receive assurance	Comments were made regarding the report. It was agreed that in future it would be more appropriate for members to receive a summary of the key areas of activity and updates presented.
	Deputy Chief Executive	Review of Strategic Asset Management	Review progress in implementing recommendations made by the Audit Commission	Progress was noted and further updates were requested by the Committee.
	Chief Executive	Comprehensive Area Assessment	Receive assurance in relation to the findings of the Comprehensive Area Assessment	Questions were asked in relation to specific issues highlighted in the report. Assurance was received regarding the actions being taken to improve some areas that had been 'red tagged' as part of the Assessment.

Date	Report of	Title	Purpose	Impact
	Chief Executive and Director of Resources	Annual Audit Letter	Receive assurance from the Council's external auditors in relation to 2008/2009	Specific queries were raised on the report. The Chairman asked the District Auditor to press on with trying to resolve the objections to both the 2007/2008 and 2008/2009 accounts.
	Director of Financial Resources	Proposed Schedule of Reports 2010/2011	Approve the reports to be presented to the Committee	Reports approved. Chairman also asked for some issues from the Annual Audit Letter to be covered.
	Director of Financial Resources	International Financial Reporting Standards – Progress Report	Receive assurance regarding progress in complying with the standards	