

## **ANNUAL REPORT OF THE AUDIT COMMITTEE**

### **SUMMARY**

The Chartered Institute of Public Finance & Administration (CIPFA) state that an effective Audit Committee will produce annual reports on its work and findings.

This report is to inform members of the work of the Audit Committee during the past year and the sources of information upon which the enclosed Audit Committee opinion statement is based.

### **RECOMMENDATIONS**

It is recommended that the work carried out by this Committee be noted.

### **DETAIL**

### **ROLE OF THE AUDIT COMMITTEE**

1. Members are reminded of the role of the Audit Committee which is:

- (a) Reviewing and monitoring the Council's approach to risk management and corporate governance including the approval of the Statement of Internal Control.
- (b) Monitoring the integrity of the Council's financial statements and approving the Statement of Accounts.
- (c) Reviewing any proposed changes to accounting policies and promoting discussion around these.
- (d) Considering budget reports and the effect of government announcements on the Council's finances.
- (e) Reviewing Financial Update reports identifying the impact on the Medium Term Financial Plan.
- (f) Approving the role and responsibilities of the Internal Audit Service
- (g) Considering the appointment of the External Audit, as far as the Audit Commission's rules permit and monitoring the effectiveness of auditor's performance
- (h) Approving the internal and external audit plans
- (i) Reviewing Internal Audit work on a quarterly basis; internal and external annual reports together with any management response and receiving details of specific significant issues highlighted via audit work and referring to the Executive Scrutiny Committee; the Select Committees; the Standards Committee; Cabinet or Council, as appropriate, any issues arising which are key in nature
- (j) In conjunction with the Standards Committee, maintaining an overview of the Council's Constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour, and

- considering the Council's compliance with its own and other published standards and controls
- (k) Considering details of key ethical and wider corporate governance issues submitted by the Standards Committee.

The Terms of Reference for the Audit Committee were approved by Council, at its meeting held on 25 January 2006, and form part of the Council's Constitution. At its meeting in January, Council also approved a Statement of Purpose for the committee:-

The purpose of the Audit Committee is to provide independent assurance of the adequacy of the risk management framework 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.

## **Background**

2. This report covers the period from 1<sup>st</sup> October, 2010 to 30<sup>th</sup> September, 2011. As many other reports give opinions or results at the end of the financial year, the timing of this report is to show that the review/ appraisal of the control environment within this Council are on-going.
3. Although a new Audit Committee is still in the first year of operation, there have been a sufficient number of members who have been members of both committees to ensure a continuance of the review/ appraisal process across the period of reporting.
4. The opinions of the Audit Committee expressed in this report are based on information supplied by the following specialist risk assessment services.
  - The Council's Monitoring officer,
  - The Chief Accountant,
  - The External and Internal Audit services,
  - Health & Safety, and
  - Risk Management and Insurance.
  - A number of Corporate Governance reports.
5. The main thrust of all the specialist reports is to ensure risks are identified, managed appropriately and the resulting control environment is reliable. In receiving and challenging these reports the Audit Committee is well placed to form an independent over-view of the complete control environment including the Authorities Anti fraud Strategy.

## **OPINION STATEMENT**

6. The carry over of membership of the committee from the previous municipal year was sufficient to ensure work in progress was continued. To avoid the unsatisfactory possibility that Audit Committee members be required to report on a year of which they have no personal knowledge or experience (and therefore be reliant on the Officers upon whom they are supposed to exercise oversight), the

previous Chair suggested that the Committee's report cover the work on the Authority's control environment for the year ending 30th September.

7. The members of the Committee have shown a strong commitment to the work for which they have been given responsibility and despite the influx of new Members and change of Vice Chair whose experience of Audit work has been invaluable the committee has functioned well. The members have studied agendas and asked searching questions of officers not only presenting reports but also requesting further investigation of issues and explanation by the Chair and supporting officers of the committee.
8. We are fortunate insofar as the make up of the Audit Committee membership is diverse not only geographically but also in experience and expertise. Members represent not only the North and South of the Borough but also the major conurbations and communities giving a broad spectrum of geographical and electoral knowledge.
9. This overview coupled with long serving members with experience of Cabinet and Chairing Scrutiny Committees and members elected recently indicates a searching and enquiring membership with a varied and extensive knowledge capable of ensuring sound and ethical governance.
10. Members examined, challenged and approved the Annual accounts and noted the adjustments therein particularly to the value of the property portfolio of Council housing stock. The examination of these documents required the committee to examine and query at length the content and following lengthy discussion were accepted and approved.
11. Committee was provided with details and discussed relevant avenues of borrowing potential agreements and Members of the Audit Committee discussed the issues surrounding Treasury Management, and the implementation of the Strategy at Stockton during 2009/10 to provide the Council, and its Committees, with sufficient safeguards and long term prudent financial planning. Members also looked in greater detail at the reports submitted by the Health and safety officer with regard to staff illness and injury and training and procedures for the prevention and monitoring of occurrences.
12. As well as looking at the Internal Audit Report, Corporate Risk Register and the Health and Safety Report at each meeting the Committee has, and will continue to include in its deliberations and debates External Audit Updates, The Audit Commission Annual Governance Report 2009/10, The Annual Governance Statement, Constitutional Updates (as required), The Annual Report of Standards Committee and The Monitoring Officer's Report. And last but certainly not least The Role of Internal Audit.
13. Under the Accounts and Audit (Amendment) Regulations 2006 an internal review of the Internal Audit service should be carried out each year. Consideration was given to the fifth such review, which had again been conducted under the auspices of the Corporate Governance Group. Two members of the Group had reviewed evidence and had formulated conclusions, findings and recommendations regarding the service, the details of which were submitted.

14. The financial statements were the first to be produced under International Financial Reporting Standards. This in itself was a major change to the accounting regime and had required the restating of the Balance Sheets for 2008/09 and 2009/10 and of the Comprehensive Income and Expenditure Statement for 2009/10. The Council prepared well for the introduction of IFRS and produced the draft financial statements in time for the statutory deadline of 30 June. There were a large number of errors and inconsistencies in the statements, mainly due to IFRS adoption and stock transfer, including some material errors.

15. In conclusion I would add the following:-

We must record our gratitude to the Head of Internal Audit and wish him well in his retirement. His contribution and that of all of the staff involved in the provision, monitoring and control of the Governance and management of the affairs of the Authority have ensured that :-

'The Council has a sound, effective system of internal control. The Audit Committee is now well established with comprehensive terms of reference. The Audit Committee has responsibility for risk management, internal control and financial reporting. The Chair of the Audit Committee prepares an annual report on the Committee's work for presentation to Cabinet. Effective corporate and ethical governance is critical to an authority's performance and to demonstrating continuous improvement it is therefore, a fundamental element of the modernization agenda. Probity and high standards are an inherent part of corporate/ethical governance. They are also priorities in Law and Democracy's Service Plan and in the Council Plan.

**Chairman of the Audit Committee  
Councillor Barry Woodhouse**

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## Changes during the year

The Accounts and Audit Regulations 2011 changed the requirements regarding the completion and approval of the Annual Financial Statements. From 2010/11, annual Financial Statements must be prepared by 30th June and to then pass them to external auditors for review. Authorities were then required to present audited accounts for approval by those charged with governance by 30th September.

The financial statements were the first to be produced under International Financial Reporting Standards.

The Council prepared well for the introduction of IFRS and produced the draft financial statements on time. There were however a large number of errors and inconsistencies in the statements, mainly due to IFRS adoption and stock transfer, including some material errors. These errors had reduced the usable reserves by £2,679,000, increased total expenditure by £22,487,000 and reduced net assets by £22,487,000

The Audit Commission had two specified criteria and completed their value for money work concluding that the Council had arrangements in place for securing financial resilience and arrangements for challenging how it secures economy, efficiency and effectiveness.

On 30th March 2011, the Government published its proposals to disband the Audit Commission. At the meeting held on 27th June 2011, the Committee agreed the Council's response to the consultation and asked for results of the consultation.

Consideration was given to a report that provided an update of the practical implementation of the Treasury Management Strategy approved by Council in February 2010.

Members were made aware that since the Icelandic Banking Crash the prime aim of security in local government investments had increased emphasis. The continual monitoring of information on any changes in the investment sector being paramount both for internal control and the stability of the Authorities forward financial planning.