

AUDIT COMMITTEE

Annual Report
2011/12

1. Roles and Functions

The Audit Committee has the following roles and functions:

- (i) To review the Council's Annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
- (ii) To receive and consider the Council's Annual Governance Statement ensuring that it reflects the Council's governance arrangements.
- (iii) To receive the Final Accounts Memorandum and the Report to those charged with Governance from the External Auditors.
- (iv) To consider the Annual Audit and Inspection Letter from the External Auditors and to provide advice and comments on the Letter to the Cabinet and Council.
- (v) To receive the internal and external audit plans and comment on these plans, including the extent to which they provide value for money.
- (vi) To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit is actively promoted.
- (vii) To receive reports from the Council's Internal Auditor on the outcome of audit reviews and investigations and the implementation of recommendations, including the annual report of the Head of Internal Audit.
- (viii) To receive any reports from the External Auditor about the effectiveness of the Council's financial and operational arrangements and monitor Management's response to the issues raised by External Audit.
- (ix) To liaise with the Audit Commission over the appointment of the Council's External Auditor.
- (x) To monitor the effectiveness of the Council's Financial Regulations, Procurement Procedure Rules and strategies for anti-fraud and corruption and whistle blowing.
- (xi) To consider the Council's arrangements for corporate governance and risk management, and, subject to the role and responsibilities of the Standards Committee, to advise on any action necessary to ensure compliance with best practice.

2. Work of the Committee

The Committee approved the Council's 2010/11 Statement of Accounts (including the Annual Governance Statement). Changes were made to the Statement of Accounts and the Audit Commission's Annual Governance Report following consultation with the Chairman. The changes were:

- an alteration to the Statement of Accounts
- identification of further items added to the Annual Governance report
- three non-material statements that did not require amendment to the accounts.

As a result the District Auditor was able to issue an unqualified opinion of the accounts by the statutory deadline of the end of September. The accounts were also published by the September deadline.

The arrangements and timetable for the closure of accounts for 2011/12 will be similar to 2010/11: draft accounts presented for information in June 2012 and the Statement of Accounts for approval in September 2012. In order to reduce the risk of slippage and amount of work at year end, significant in year activity is being undertaken, in particular:

- Monthly reconciliations of control and holding accounts
- Monthly reviews of live capital projects
- Early completion of the 2011/12 asset revaluation programme
- Regular reconciliations of the Fixed Asset Register
- Regular liaison with Essex Cares Ltd.

The Committee has also received and considered the following reports from the Audit Commission:

- Interim Report 2010/11
- Annual Governance Report (Annual External Audit Opinion) 2010/11
- Essex Pension Fund Annual Governance Report (Annual External Audit Opinion) 2010/11
- Annual Audit Letter
- Essex County Council External Audit Plan
- Essex Pension Fund External Audit Plan
- Certification of Claims and Returns – Annual Report

The Audit Committee also oversees the implementation of the Internal Audit and Risk Management Strategies and approval of the Anti-fraud and Corruption Policy. In addition to approving the internal audit plan, it received progress reports on the outcome of internal audit reviews, implementation of recommendations and key risk issues. All Audit Reports are reported to and their progress monitored monthly by Corporate Leadership Team, Cabinet Members and the Deputy Leader and Cabinet Member for Finance and Transformation Programme. Any unresolved issues are reported to the Committee and its Chairman, although none required reporting. There have also been links through into the Scrutiny function, for instance Personal Budgets being picked up by the Community and Older People Policy and Scrutiny Committee.

It received and approved the Internal Audit Plan, Protocol and Strategy, and received regular updates on the strategic risk register. The Committee was informed of external recognition of the service both nationally (winners of Strategic Risk Management Award) and internationally (winners of Risk Management Team of the Year). Members placed on record their congratulations.

The Committee considered the Council's Annual Performance Report 2010/11. The overall performance of the Council was good. There had been a reduction of £14 million in the Council's budget and it had continued to maintain value for money by applying rigour to all services. Of the Essex Pledges 56% had been met or had exceeded the target.

The Committee has monitored progress against External Inspection Reports and the corporate governance action plan.

The Committee has been kept up-to-date on the future of Local Government Audit and noted that a suitably-qualified Audit Committee made up of Members with the appropriate skills, knowledge and expertise is essential. It has undertaken its own development through self-appraisal and working with the Norfolk County Council audit committee. The chairman has met with audit chairmen from Norfolk, Suffolk and Cambridgeshire County Councils.

The Committee commented on the Financial Regulations prior to their consideration by Council. It agreed that a review of the Financial Regulations become a standing item and be considered by the Committee on an annual basis.

In 2009/10 a review of the Council's arrangements for ethical governance was undertaken. Together with previously identified weaknesses in internal controls over member expenses this led to the qualification of the 2009/10 value for money conclusion on the grounds that the Council's arrangements did not meet minimum standards of good governance.

As part of the 2010/11 external audit work the following was reviewed:

- Progress against recommendations made by Internal Audit on governance and expense issues
- The Council's progress in implementing its corporate governance action plan
- Current Governance arrangements.

Testing of members expenses claims was also carried out.

The main conclusions were:

- The Council has invested significant resources to improve ethical governance arrangements
- The majority of the internal audit recommendations are in place
- Significant progress has been made against the 2010/11 corporate governance action plan
- A robust process is in place for approving member expenses.

An unqualified value for money opinion for 2010/11 was issued.

The response to the Audit Commission's Report detailing a seven point action plan as outlined to the Committee by the Monitoring Officer was agreed. The Committee was informed that additional resource has been allocated to the Governance team to ensure work is carried forward as business as usual.

In considering the Audit Commission's Certification of Claims and Returns – Annual Report, the Committee noted the robust actions and arrangements put in place to address the issues raised:

- Development of comprehensive Action Plans
- Review meetings with the Assistant Director, Financial Strategy
- Comprehensive accounting instruction note issued
- Training to raise awareness of finance staff across all levels.

The Committee was assured that the matter was being taken very seriously. It placed on record its concerns and expectations that improvements will be made in the future with a progress report brought to a future meeting.

The Committee was informed of the appointment of Ernst and Young as external auditors of councils and other public services in the East and South of England. In September Ernst and Young will be appointed the Council's external auditor for 2012/13 and the following four years at least. The Chairman emphasised the need for a clear project plan to manage the transfer and ensure there are no slippages. This project will be led by the Executive Director for Finance.

The Committee was updated on the Regulation of Investigatory Powers Act 2000 (RIPA) noting that:

- the Monitoring Officer has been appointed the Senior Responsible Officer (SRO) by the Chief Executive
- three authorising officers have been nominated and an officer board established to monitor the use of RIPA powers.

It was agreed that the Committee should undertake a review of the policy and rules and a report be brought to a future meeting for approval. It was also agreed that the Committee receive quarterly reports on surveillance activity undertaken by the Council.

