



Report No GA.18 11/12
Governance and Audit Committee
26th September 2011

Subject: Audit Committee Annual Report 2010/11

Report by:	Adrian McCormack, Director of Resources and Deputy Chief Executive
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Purpose / Summary:	To present the Audit Committee's Annual Report for 2010/11

RECOMMENDATION(S):

1) That members note the Audit Committee's Annual Report for 2010/11

IMPLICATIONS

Legal: None

Financial : None

Staffing : None

Equality and Diversity including Human Rights : None
*NB: A full impact assessment **HAS TO BE** attached if the report relates to any new or revised policy or revision to service delivery/introduction of new services.*

Risk Assessment : None

Climate Related Risks and Opportunities : None

Title and Location of any Background Papers used in the preparation of this report:
Minutes and agenda of the Audit Committee April 2010 to March 2011

Call in and Urgency:

Is the decision one which Rule 14 of the Scrutiny Procedure Rules apply?

Yes

No

Key Decision:

Yes

No

1.0 Introduction

- 1.1 Each year, the Committee considers an annual report detailing the work carried out in the previous year and looking at the main issues that have been considered.

2.0 Key Areas

- 2.1 The Annual report details the key areas of work undertaken by the Committee and the main issues that were considered.

Planning Review Task Group

- 2.2 A key issue in this annual report period was the report of the Planning Review Task Group. The group was set up to take an independent view of planning decisions that had generated community concern or where there had been member involvement outside of the decision making process.
- 2.3 The review concluded that suspicion and claims of impropriety were linked to administrative errors and failure in communication.
- 2.4 The Audit Committee reviewed the improvements that were being put in place in the planning service as part of an Internal Audit report and the review group recommendations.

Statement of Accounts

- 2.5 Members considered the reasons for additional work and consequently costs that were incurred in the audit of the statement of accounts and received assurance that changes to the financial accounting regulations were implemented.

Governance Arrangements

- 2.6 The Audit Commission review of governance arrangements in 2009/10 had determined that these were not adequate and made recommendations to ensure that issues were addressed.
- 2.7 The Audit Committee was charged with overseeing the achievement of the recommendations, and these were managed through the Annual Governance Statement Action Plan (see AGS Action plan report).
- 2.8 The Committee noted that the major review of the constitution and resulting changes had addressed most of the recommendations in the Audit Commission report.
- 2.9 Internal Audit were commissioned to look at our response to the Audit Commission recommendations and current governance arrangements.
- 2.10 Their report, issued this month, is covered in detail in the report on the Annual Governance Statement Action plan and gives substantial assurance on the actions and progress made in response to the Audit Commission's report.

Annual Governance Statement

- 2.11 The Annual Governance Statement is a major document detailing the Council's governance arrangements, taking forward any significant issues to be addressed or improved.
- 2.12 The Governance and Audit Committee are charged agreeing the Statement and with overseeing the achievement of the action plan, which last year included the recommendations from the Audit Commission from their review of Governance Arrangements.

Conclusion

- 2.13 The annual report includes details of the main areas of work that the Audit Committee undertook in the year and the significant issues that were considered by the Committee.



Audit Committee

Annual Report

April 2010 to March 2011

“Audit Committees are about governance, financial reporting, and the performance of the whole authority.

“Good corporate governance requires independent, effective assurance about the adequacy of financial management and reporting, enhancing public trust and confidence.” CIPFA

July 2011

Foreword

Councillor Sue Rawlins

Chairman of the Audit Committee

There has been an Audit Committee at West Lindsey District Council since May 2007. This became a full committee in June 2010, to reflect the importance that the Council places on the role of the Audit Committee. It was created to follow best practice in line with the Chartered Institute of Finance and Accountancy (CIPFA).



It is the role of the Audit Committee to provide independent assurance on the Council's arrangements for managing risk, maintaining an effective control environment, including governance, and on financial reporting and performance management.

This annual report gives details of the areas of work that the Sub-Committee covered during 2010/11 and shows the work that we have done to improve the Council's control and governance arrangements.

Of particular note was the receipt of the long awaited report from the Audit Commission on Governance Arrangements. The Audit Committee was charged with overseeing the Council's response and actions to address the recommendations through the Annual Governance Statement Action Plan

As Chairman of the Committee, I would like to thank the other members of the Committee, our Internal auditors and officers and the Audit Commission for their help and support.

From May 2011, the Audit Committee has become the Governance and Audit Committee, building on the Audit Committee's responsibility for audit, regulatory framework and accounts matters by adding responsibility for governance and ethics & standards. This committee will be the 'guardian' of the constitution and has the duty of considering and making recommendations to the Council on any proposal to change the constitution. This will significantly enhance the robustness of the governance arrangements by ensuring open, transparent and considered debate on any proposed changes.

As Chairman of this Committee through the next year, I look forward to working with the officers, members, Internal Audit and the Audit Commission to ensure an effective control environment for West Lindsey District Council

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Councillor Gillian Bardsley (Vice Chairman) – also a member of the Lincolnshire Audit Forum
Councillor Kenneth Bridger
Councillor Meg Davidson
Councillor Burt Keimach
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Independent Member

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Introduction

Having an independent Audit Committee is identified as good practice for local government, to give an independent view of the way that the Authority conducts its business.

CIPFA guidance states that the role of an audit committee is to “provide independent assurance on 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 whole authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process”.

Although this is not a legal requirement of the Authority, West Lindsey has elected to follow best practice to ensure that we gain the benefits from this independent view.

The benefits for operating an effective audit committee are that it:

- Raises greater awareness of the need for internal control and the implementation of audit recommendations
- Increases public confidence in the objectivity and fairness of financial and other reporting
- Reinforces the importance and independence of internal and external audit and any other similar review process such as the Annual Governance Statement.

The role of the Audit Committee is to provide:

- Independent assurance of the adequacy of the risk management framework and the associated control environment in the Authority.
- Independent review of financial and non-financial performance as far as it affects the Authority's exposure to risk and weakens the control environment.
- Assurance that any issues from the drawing up, auditing and certifying the annual accounts are properly dealt with and that appropriate accounting policies are applied.

The core functions of an Audit Committee are to:

- Scrutinise the annual statement of accounts to consider whether appropriate account policies have been followed and refer any concerns to Council.
- Consider the effectiveness of the authority's corporate governance, risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements.
- Seek assurances 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 needed to improve.
- Approve the internal audit strategy and plan and monitor performance.
- Review internal audit reports and the issues arising and seek assurance that action has been taken.
- Receive the annual report of internal audit.
- Consider the reports of external audit and inspectors.
- Ensure effective relationships between internal and external audit and inspection to promote the value of the audit process.
- Review the financial statements, external auditor's opinions and reports to members and monitor management action.
- Maintain an overview of the Council's constitution in respect of contract and financial regulations, codes of conduct and behaviour.
- Oversee the Annual Governance Statement and associated action plan.
- Consider the Head of Internal Audit's reports and opinion and the level of assurance over the Council's corporate governance arrangements.

Strategy Review

The Audit Committee reviews and approves the following strategies:

- Risk management
- Annual Governance Statement
- Local codes of corporate governance, standards and behaviour
- Arrangements for value for money
- Anti-fraud arrangements
- Anti-corruption arrangements including whistle blowing

To be effective, members of the audit committee must have the right depth of knowledge and experience, with unbiased attitudes and the ability to challenge and question.

Review of the Year 2010/11

Frequency of Meetings

The full Committee status of the Audit Committee gave an opportunity to review the frequency of meetings.

Members decided to increase the meetings from four to six times a year to allow for better management of a growing agenda and allow due consideration of the business to be conducted.

This reflected the importance that members put on the role of the Audit Committee to allow for a more proactive and considered approach to providing assurance.

Planning Review Task Group

In January 2010, the Audit Committee were commissioned to carry out a review of planning decisions that had generated community concern around the decision making process and/or had member involvement outside of the councillor role in the decision.

A review group was established and analysed the processes and decisions that had been taken on planning applications that fell within agreed criteria.

Analysis of the decision making process, any member involvement, and reference to national, regional and local planning policies, did not reveal any lack of probity or honesty in the way that the planning applications were determined, or in any of the considerations that were taken into account.

In cases where development did not comply with the planning policy and members' decisions went against officer recommendations, the correct procedure was followed with referral to the Secretary of State where appropriate.

Following the review, members were confident that there had been no impropriety in the way that the decisions have been taken, but that improvements in communication, customer care and enforcement activities would help open the service up to scrutiny and reduce suspicion about the way that decision have been made.

The cases that had been referred to the Group were controversial, going against local residents and parish council wishes, but there had not been any qualified evidence of impropriety.

What was common to the cases were administrative errors and lack of communication. Members of the Audit Committee considered that revised practices, an improvement plan and the adoption of a policy on enforcement would ensure an improved service.

The Audit Committee have received reports on progress in response to an Internal Audit report and the subsequent action plan.

Independent Member

In May 2010, the Council made the decision to appoint an independent member to help the Audit Committee to fulfil its functions. Member considered the qualities that an independent member would need to have and advertised for a person who could:

- Understand complex issues and the importance of accountability and probity in public life.
- Analyse and assess evidence and come to a rational conclusion.
- Reconcile the ideal with reality and practicality.
- Demonstrate objectivity.
- Demonstrate integrity and discretion.

The new member took up her role in December.

Treasury Management Strategy

The Audit Committee examined a new Treasury Management Strategy and noted that no changes were proposed to a cautious approach to the investment criteria.

Lincolnshire Audit Committee Forum

The Lincolnshire Audit Forum was set up to share knowledge and best practice from Audit Committees across all public organisations in the County, including the Police and the NHS.

The Audit Committee Vice Chairman is a member of the Lincolnshire Audit Committee Forum, where training and best practice are shared to be able to raise the level and quality of Audit Committees in the County.

External Audit Annual Governance Report

Statement of Accounts

Members were advised that due to a number of issues during their audit of the statement of accounts, additional work and additional costs were incurred and the deadline was not achieved.

Members considered the reasons for the issues which were caused by technical accounting issues due to changes in the financial accounting regulations and the implementation of a new financial management system that had also put additional pressure on the capacity of the team.

Members examined the causes and sought assurance of internal control measures and lessons learnt.

When the revised Statement of Accounts were received in September, members took the opportunity to give detailed consideration of some of the variances, receiving full explanations of the details of under and over-spends and assumptions made in the Statement.

Members were assured that appropriate accounting practices had been followed and that there were no concerns that needed to be raised with full Council.

Audit Commission Annual Audit letter for 09/10

The Audit Commission concluded that the Council had put in place adequate arrangements for securing economy, efficiency and effectiveness in its use of resources, except for the arrangements in place to meet the standards required for financial reporting and good governance.

Financial Health, understanding costs and achieving efficiencies, commissioning and procurement, use of information, risk management and internal control were all considered to have adequate arrangements.

The Auditor therefore issued a 'qualified, except for' value for money conclusion.

The review of the Council's governance arrangements highlighted matters that led to the conclusion that the Council's governance arrangements in 2009/10 were not adequate. The issues and recommendations identified in the report were included within the Annual Governance Statement action plan, monitored by the Audit Committee and have been addressed by the review of and amendments to the constitution.

Annual Governance Statement

Each year the Council produces an Annual Governance Statement that follows guidance from the Chartered Institute of Public and Accountancy.

Issues that are identified for improvement are detailed in an action plan that is monitored by the Audit Committee.

In 2010/11, the Audit Committee received quarterly reports and were assured that the issues were being addressed. However they expressed concern about member development and training and will be monitoring progress.

Review of Feedback

Members of the Audit Committee receive reports on the complaints, comments and compliments that the Council receives, discussing any issues that are identified and ensuring that lessons are learnt.

Treasury Management

The Sub-Committee agreed the Treasury Management Strategy, setting out the Council's banking criteria and limits for investment sums.

Risk Management Policy and Strategy

The annual review of the Risk Management Strategy and Policy strengthened the aspects of partnership and fraud risks and sought to embed risk management within individual services and performance management.

Members also examined how risks were managed in partnership working to be assured that increased working in partnership would give opportunities rather than risks to achieving the Authority's aims for the District.

The Audit Committee also looked at how the Corporate Spending Assessment and new Government policies were being taken into account through risk management.

Training and Development

It is vital that members of the Audit Committee are equipped to be able to perform their role and give an independent view of the way that the Authority conducts business.

Individual needs assessments have been carried out for members to assess training and development needs and this will be developed through individual training plans.

Compulsory training has been introduced for members of the regulatory committees.

The IDeA was commissioned to help take member development forward, in particular looking at ethical standards, member/officer roles and peer mentoring.

Members have established a training plan and members of the Governance and Audit Committee will keep this under review to ensure that it meets the Authority's needs and is of the correct level and quality.

Fraud, Corruption and Money Laundering Strategy

The annual review of this strategy looked at the specific activity taking place to address fraud in housing tenancy, single persons' council tax discount and recruitment practices.

The new strategy stresses:

- a stronger emphasis on our zero tolerance approach,
- the importance to counter all fraud, not just housing benefits
- the importance of raising awareness
- the importance of publicity in countering fraud
- joint working through the Lincolnshire Fraud Group

The Audit Committee also looked at the role of the County-wide Fraud Group, that also reports to the Lincolnshire Audit Forum and at arrangements to share information, risk assessments and best practice.

Internal Audit

The role of Internal Audit is to provide assurance on the control environment of the Council, looking specifically at:

- Achievement of the corporate objectives
- Management of material risks faced by the Council.
- Sound resource management
- The delivery of key projects and development of partnerships.

The Audit Committee receives reports from our internal auditors on levels of assurance on areas of work as reported on from the agreed work plan.

Our Internal Audit function is provided by Audit Lincolnshire.

Internal Audit agree each year with the Audit Committee, the areas of work that they will undertake, taking a risk based approach.

Effectiveness of Internal Audit

During 2010/11 Internal Audit carried out assurance reviews on the following core financial systems and procedures, all of which were given either substantial or full assurance:

Financial Management System including the General Ledger
Bank Reconciliation
Treasury Management
Revenue Contracts
Pension Scheme
NNDR

Control weaknesses were identified on

- Council Tax,
- Fees and Charges,
- Payroll and
- Council Tax and Housing Benefit.

The Audit Committee reviewed the system of Internal Audit and assessed it as effective. .

Internal Audit Annual Report

Our Internal Auditors present their Annual Report to the Audit Committee each year, giving an opinion on the adequacy and effectiveness of the

governance framework and internal control systems, working with the Audit Committee to ensure effective processes.

In 2010/11 they identified no areas of '**no assurance**', but recommended that the areas of Managing Performance and Risk and Managing partnerships effectively should be mentioned in the Councils Annual Governance statement.

Their overall opinion on the Councils control environment was satisfactory.

Annual Governance Statement

The Annual Governance Statement (AGS) is the formal statement that reviews, records and publishes the Council's governance arrangements.

Over recent years the Council has developed effective governance arrangements as set out in our governance framework. Assurance is the process by which we can test and gain confidence that the governance framework is operating as intended and that we are:

"Doing the right things, in the right way for the right people, in an open, honest, inclusive and timely manner"

The Audit Commission have determined that we have adequate arrangements to promote and demonstrate the principles and values of good governance.

The Annual Governance Statement identified that issues to address for 2010/11 were:

- Member Development and training
- Strategic Partnerships
- Outcome Management
- Value for Money
- Scrutiny and
- Housing Inspection and
- Officer/Leader Relationships

These were overseen through an action plan that was reported quarterly to the Committee.

The Council carried out a full constitutional review, with the assistance of external specialists to make sure that good practice is adopted and that the relevant responsibilities are understood by both officers and members.

In particular where recommendations referred specifically to the performance of the planning system, members of the Audit Commission have seen regular reports against an improvement action plan and the issues have now been given substantial assurance by our internal auditors.

The Committee has approved the Annual Governance Statement for 2010/11.

The Statement identified issues of:

Financial Statements

A substantial amount of additional work had to be carried out by the Audit Commission on the Statement of Accounts for 2009/10 to be able to achieve an unqualified audit opinion.

Concerns were expressed over the quality of the supporting papers and application of the Statement of Recommended Practice (SoRP) changes that were to be applied.

It will be the responsibility of the now Governance and Audit Committee to be assured that Standards of Recommended Practices are applied.

Risk Management

The process and practice of risk management in the Authority has been given substantial assurance by Internal Audit, the Governance and Audit Committee will review links with the performance management system to achieve a fully embedded risk management ethos in the Council,

New ways of delivering services

The Council is currently undergoing a significant change to the way that we deliver services locally. The development of a new corporate plan will mean challenges in developing skills and sharing information have been included as a significant issue to ensure that governance arrangements are included so that we are able to achieve our aims.

Looking Ahead to 2011/12

In order to allow the Governance and Audit Committee to meet best practice and provide the independent added value to the control environment, issues to be addressed in the year 2011/12 will be to :

- Develop and oversee the action plan for the Annual Governance Statement to address issues of:
 - Member training and development
 - Scrutiny
 - Financial Statements
 - Outcomes performance management
 - Partnerships
 - Risk Management
 - Value for Money
 - Transformation
- Raise awareness of the role of the Audit Committee by developing a web page, including assurance on corporate governance
- Make sure that action plans are agreed and performance managed for risks identified by auditors and inspectors.
- Work with the Lincolnshire Audit Committee Forum to share best practice and streamline the assurance framework for Lincolnshire public services.
- Focus on embedding risk management throughout the organisation, linked to performance management.
- Further embed risk management in both County-wide and District partnerships.
- Ensure that the fraud strategy meets best practice and develop county wide working to meet the needs of the strategy, share information and best practice.
- Ensure that the work plan meets the needs of good governance and best practice.
- Ensure that member training and development meets the needs assessments of individual members and develops the Authority's ability to improve services and meet the needs of modern local government.
- Consider the reports of the Standards Committee.



Audit Committee

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- Achievement of the corporate objectives
- Management of material risks faced by the Council.
- Sound resource management
- The delivery of key projects and development of partnerships.

The Audit Committee receives reports from our internal auditors on levels of assurance on areas of work as reported on from the agreed work plan.

Our Internal Audit function is provided by Audit Lincolnshire.

Internal Audit agree each year with the Audit Committee, the areas of work that they will undertake, taking a risk based approach.

Effectiveness of Internal Audit

During 2010/11 Internal Audit carried out assurance reviews on the following core financial systems and procedures, all of which were given either substantial or full assurance:

Financial Management System including the General Ledger
Bank Reconciliation
Treasury Management
Revenue Contracts
Pension Scheme
NNDR

Control weaknesses were identified on

- Council Tax,
- Fees and Charges,
- Payroll and
- Council Tax and Housing Benefit.

The Audit Committee reviewed the system of Internal Audit and assessed it as effective. .

Internal Audit Annual Report

Our Internal Auditors present their Annual Report to the Audit Committee each year, giving an opinion on the adequacy and effectiveness of the governance framework and internal control systems, working with the Audit Committee to ensure effective processes.

In 2010/11 they identified no areas of '**no assurance**', but recommended that the areas of Managing Performance and Risk and Managing partnerships effectively should be mentioned in the Councils Annual Governance statement.

Their overall opinion on the Councils control environment was satisfactory.

Annual Governance Statement

The Annual Governance Statement (AGS) is the formal statement that reviews, records and publishes the Council's governance arrangements.

Over recent years the Council has developed effective governance arrangements as set out in our governance framework. Assurance is the process by which we can test and gain confidence that the governance framework is operating as intended and that we are:

"Doing the right things, in the right way for the right people, in an open, honest, inclusive and timely manner"

The Audit Commission have determined that we have adequate arrangements to promote and demonstrate the principles and values of good governance.

The Annual Governance Statement identified that issues to address for 2010/11 were:

- Member Development and training
- Strategic Partnerships
- Outcome Management
- Value for Money
- Scrutiny and
- Housing Inspection and
- Officer/Leader Relationships

These were overseen through an action plan that was reported quarterly to the Committee.

The Council carried out a full constitutional review, with the assistance of external specialists to make sure that good practice is adopted and that the relevant responsibilities are understood by both officers and members.

In particular where recommendations referred specifically to the performance of the planning system, members of the Audit Commission have seen regular reports against an improvement action plan and the issues have now been given substantial assurance by our internal auditors.

The Committee has approved the Annual Governance Statement for 2010/11.

The Statement identified issues of:

Financial Statements

A substantial amount of additional work had to be carried out by the Audit Commission on the Statement of Accounts for 2009/10 to be able to achieve an unqualified audit opinion.

Concerns were expressed over the quality of the supporting papers and application of the Statement of Recommended Practice (SoRP) changes that were to be applied.

It will be the responsibility of the now Governance and Audit Committee to be assured that Standards of Recommended Practices are applied.

Risk Management

The process and practice of risk management in the Authority has been given substantial assurance by Internal Audit, the Governance and Audit Committee will review links with the performance management system to achieve a fully embedded risk management ethos in the Council,

New ways of delivering services

The Council is currently undergoing a significant change to the way that we deliver services locally. The development of a new corporate plan will mean challenges in developing skills and sharing information have been included as a significant issue to ensure that governance arrangements are included so that we are able to achieve our aims.

Looking Ahead to 2011/12

In order to allow the Governance and Audit Committee to meet best practice and provide the independent added value to the control environment, issues to be addressed in the year 2011/12 will be to :

- Develop and oversee the action plan for the Annual Governance Statement to address issues of:
 - Member training and development
 - Scrutiny
 - Financial Statements
 - Outcomes performance management
 - Partnerships
 - Risk Management
 - Value for Money
 - Transformation
- Raise awareness of the role of the Audit Committee by developing a web page, including assurance on corporate governance
- Make sure that action plans are agreed and performance managed for risks identified by auditors and inspectors.
- Work with the Lincolnshire Audit Committee Forum to share best practice and streamline the assurance framework for Lincolnshire public services.
- Focus on embedding risk management throughout the organisation, linked to performance management.
- Further embed risk management in both County-wide and District partnerships.
- Ensure that the fraud strategy meets best practice and develop county wide working to meet the needs of the strategy, share information and best practice.
- Ensure that the work plan meets the needs of good governance and best practice.
- Ensure that member training and development meets the needs assessments of individual members and develops the Authority's ability to improve services and meet the needs of modern local government.
- Consider the reports of the Standards Committee.