

## Accounts, Audit and Risk Committee Annual Report 2010/11

### 1. Chairman's Foreword

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- 1.1 I am very pleased to present this Annual Report for 2010/11 to both the Committee and to full Council. This is my second year as Chairman of the Accounts, Audit and Risk Committee, and I am delighted to be reporting that the Council continues to demonstrate a strong and embedded culture of good governance underpinned by an effective corporate governance framework.
- 1.2 The report shows that the Accounts, Audit and Risk Committee has undertaken its role effectively, covering a wide range of topics and ensuring that appropriate governance and control arrangements are in place to protect the interests of the Council and the district generally.
- 1.3 I would like to thank all the members who served on the Committee during 2010/11, the Audit Commission (external auditors), PricewaterhouseCoopers (Internal Audit) and to Council officers who have supported the work of the Committee and more specifically me in my role as Chairman.

Councilor John Donaldson  
Chairman

### 2. Purpose of Report

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- 2.1 The Accounts, Audit and Risk Committee is required by the Constitution to make an annual report to the Council. The Committee agreed that as well as being best practice, this would be a useful tool to document and communicate the AARC achievements.
- 2.2 The Head of Finance, in consultation with the Chairman, was tasked with preparing the Annual Report and ensuring it is considered at the next appropriate meeting of Full Council and on an annual basis thereafter.

### 3. Role of the Committee

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- 3.1 The Accounts Audit and Risk Committee is a regulatory Committee. The purpose of the committee is to oversee the financial processes of the Council; the Audit Commission recommended that all local authorities establish a committee of this nature.
- 3.2 The Accounts, Audit and Risk Committee (AARC) operates in accordance with the "Audit Committees, Practical Guidance for Local Authorities" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2006. The Guidance defines the purpose of an Audit Committee as follows:

"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."

3.3 The Council's Accounts, Audit and Risk Committee has an ongoing role in ensuring a responsive and effective internal audit function and the effective management of the Council's risks and provides 'robust challenge' to the internal control and other governance arrangements of the Council.

3.4 The terms of reference of the AARC are defined within the Council's Constitution; the relevant extract is below;

- Ensuring that the Council's corporate governance arrangements are adequate and operating effectively in practice
- Considering the Council's Code of Corporate Governance and the Annual Governance Statement before approval by the Executive
- Monitoring the effectiveness of the Council's risk management procedures, the internal control environment and counter fraud and corruption arrangements and report any concerns to the Executive
- Endorse the annual Risk Management Strategy and recommend it to the Executive for adoption
- Approval of the Council's Statement of Account
- Considering any reports of internal or external auditors and agreeing the action to be taken from those reports including any recommendations to the Council
- To consider and make recommendations on the internal audit plan
- To consider a report on the effectiveness of the internal audit system at least annually
- To consider risks associated with significant partnerships entered into by the Council and to receive reports on the management of those risks
- To receive the District Auditor's management letter and make recommendations arising from it
- To produce an annual report to Council on the activities of the committee.

#### **4. Membership, Meetings and Attendance**

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##### **4.1 Membership**

4.2 The Audit Committee comprises of eight elected members representing all political parties:

- Councilor John Donaldson (Chairman)
- Councilor Trevor Stevens (Vice-Chairman)
- Councilor Ken Atack
- Councilor Tim Emptage
- Councilor Nick Mawer
- Councilor Lawrie Stratford
- Councilor Rose Stratford
- Councilor Barry Wood

4.3 Having the right skills, knowledge and experience are key attributes for members of an audit committee to have in order for this key assurance function to be effective.

4.4 Specifically members should have the ability to question, probe and seek clarification about complex issues, and should have experience in some of the core functions of the Committee; financial awareness is essential, but a broad understanding of the financial, risk and control, and governance issues facing local authorities and the Council specifically is more important than having an accounting background or professional qualification.

#### 4.5 Meetings

4.6 The Accounts, Audit and Risk Assurance Committee met seven times during the 2010/11 year.

4.7 A high level of commitment from Committee members is demonstrated through the level of attendance which is summarized below:

	<b>Audit Meetings(7)</b>	<b>Attendance</b>
Councilor John Donaldson (Chairman)	6	86%
Councilor Trevor Stevens (Vice-Chairman)	7	100%
Councilor Ken Attack	6	86%
Councilor Tim Emptage	6	86%
Councilor Nick Mawer	7	100%
Councilor Lawrie Stratford	5	71%
Councilor Rose Stratford	5	71%
Councilor Barry Wood	6	86%

#### 4.8 Other Members

4.9 The Committee was also grateful for the attendance at the September meeting and contribution of the Portfolio Holder of Resources – Councilor James Macnamara.

#### 4.10 Officers

4.11 The Committee continues to be well supported by Officers, providing reports either in accordance with the Committee's work programme, or at the request of the Committee.

4.12 During the year the following officers attended meetings;

- Mary Harpley - Chief Executive
- Karen Curtin – Head of Finance (151 Officer March 2011 onwards)
- Martin Henry – 151 Officer (April 2010 – Feb 2011)
- Karen Muir – Corporate System Accountant
- Jessica Lacey – Technical Accountant
- Jeff Brawley – Benefits Investigation Manager
- Claire Taylor - Corporate Strategy and Performance Manager
- Rosemary Watts – Risk & Insurance Manager
- Natasha Clark - Senior Democratic and Scrutiny Officer
- Chris Dickens – Chief Internal Auditor (PWC)
- Katherine Bennett – Internal Audit Manager (PWC)

#### 4.13 External Audit

- 4.14 Our External Auditors, the Audit Commission, routinely attend all the Committee meetings making a welcome contribution to governance processes within the Council and the development of committee members.

## **5. Work Programme**

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- 5.1 Appendix A contains a schedule of the agenda items considered by the Committee throughout the 2010/11 year.

- 5.2 The Committee reviewed a number of items in the course of the year in order to assure itself of the adequacy of the Council's internal control arrangements. These included:

### **5.3 Financial Statement & Annual Governance Statement Approval**

- 5.4 Comprehensive review of statements - the Committee members met with the Head of Finance and finance officers to undertake a comprehensive review of the financial statements and Annual Governance Statement one week prior to adoption at the committee meeting, this resulted in a thorough understanding of the key statements and identification of some small amendments to the accounts.

- 5.5 Approval of the draft set of accounts – the Committee approved the draft statement of accounts, enabling the External Auditors to start their statutory audit of the Statement of Accounts.

### **5.6 Transition to International Financial Reporting Standards (IFRS)**

- 5.7 The International Financial Reporting Standards (IFRS) are to be adopted with effect from the 2010/11 financial year, replacing UK Generally Accepted Accounting Practice (GAAP). The Finance team continues to work with the external auditors to support the transition to IFRS reporting.

- 5.8 The Committee was pleased to note that the Audit Commission had identified Cherwell District Council as being engaged positively in the transition process to IFRS as many council's were unprepared.

- 5.9 A regular report on progress has been taken to the Committee during the year.

### **5.10 Treasury Management**

- 5.11 In response to problems in the financial markets during the 'credit crunch', CIPFA revised the Code of Practice for Treasury Management and Prudential Indicators. A key recommendation of the revised Code was that there was a mechanism for reviewing Council's Treasury Management and Prudential Indicators (including the Investment Strategy) through scrutiny by the Audit Committee. We considered the 2011/12 Treasury Management Strategy & Prudential Indicators at our meeting in March 2011. The committee has received regular reports on compliance with strategy during the year.

### **5.12 Risk Management**

- 5.13 The committee owns and regularly monitors the Corporate Risk register as part of its terms of reference and recommends amendments where appropriate. The committee received and considered reports on the management of strategic risks on a regular basis and agreed a new review programme. During 2010/11, all the Council's strategic, corporate, partnership and operational risks were redefined to ensure a greater focus on the most significant risks identified. The Committee reviewed the CIPFA good practice guidance on risk management and received a briefing from the Council's internal auditors. This covered the auditor's approach to risk management and also the best practice on the 'top ten' governance risks identified by CIPFA for 2011.
- 5.14 During 2010/11 two additional risks were identified and added to the register. These were the strategic risks associated with the programme of shared management with South Northamptonshire Council. The rationale behind this is the impact failure of the programme will have on the delivery of the Council's Medium Term Financial Strategy and therefore the strategic objectives of the organisation.
- 5.15 The second risk was corporate fraud and the rationale behind this is the impact failure to control this risk would have on the Council's reputation and possibly the delivery of key services or objectives.

#### **5.16 Internal Audit**

- 5.17 Following an extensive tender and selection process, PricewaterhouseCoopers were appointed to provide the Council's internal audit service, on a fully outsourced basis, with effect from 1st April 2009.
- 5.18 Internal Auditing standards, including the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom (The CIPFA Code) require the Head of Internal Audit to provide those charged with governance with an opinion on the overall adequacy and effectiveness of the Council's:
- Risk management
  - Control
  - Governance processes.
- 5.19 The reporting process for Internal Audit requires a report of each audit to be submitted to the relevant service manager and/or chief officer. The report includes recommendations for improvements that are included within an action plan (and graded as high, medium or low), and requires agreement or rejection by service manager and/or chief officers. These reports and recommendations are reviewed by the committee and officers are challenged on the responses and action plans.
- 5.20 The Internal Audit Annual Report 2010/11 provides assurance from the internal audit assignments undertaken during the year. The opinion provided by Internal Audit is "moderate assurance" on the adequacy and effectiveness of the system of internal control overall. This is the same result as for 2009-10 demonstrating a sustained improvement.

#### **5.21 External Audit**

- 5.22 External audit is undertaken by the Audit Commission and provides assurance regarding the controls the Council has in place. Where the auditor identifies weaknesses in the Council's arrangements, these are highlighted in the Annual Audit and Inspection Letter. The 2009/10 letter was published in November 2010.

5.23 The key messages from the Audit Commission's report were:

- The Council faces some major challenges. These include responding to the government's Spending Review which requires every council across the country to make large financial savings. The Council has been anticipating the spending review for some time. It has made plans to make significant savings through its Medium Term Plan and Financial Strategy. This includes a review of all services in conjunction with the Council's latest public consultation and residents priorities.
- The letter gave an unqualified opinion on the 2010/11 financial statements and commented that there were only minor presentational errors in the statements adopted.
- The Annual Audit Letter acknowledged that its review did not identify any significant weaknesses in the internal control arrangements.
- The Audit Commission issued an unqualified conclusion on value for money stating that the Council had satisfactory arrangements to secure economy, efficiency and effectiveness in its use of resources.

#### **5.24 Internal Audit and External Audit Work Programmes for 2010-11**

5.25 The committee reviewed the scope and depth of external and internal audit work to ensure that it gives the Council good value for money. The progress against the work plans were monitored at every Committee meeting through the year and no issues were identified.

#### **5.26 Consultation of the Accounts and Audit Regulations 2003**

5.27 The Committee provided a response on the consultation which suggested changes to the approval of the financial statements, review by audit committees and a standalone Annual Governance Statement

### **6. Training and Development**

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6.1 During 2010/11, the Committee has sought to increase its effectiveness through additional training and greater engagement with the internal audit function. The following sessions were held during 2010/11:

<b>Date</b>	<b>Topic</b>	<b>Facilitator</b>
17 May 2010	Code of Governance - AGS	Liz Howlett
16 June 2010	Financial Statement Review	Karen Curtin
13 December 2010	Fraud	Jeff Brawley
13 December 2010	IFRS	Audit Commission
27 May 2010	Local Government Finance Review	Phil O`Dell, Karen Curtin
19 January 2010	Risk	PriceWaterhouseCoopers
2 June 2011	Treasury	Sector, Karen Curtin

- 6.2 Although the topics relate to financial issues, the sessions are not exclusive to the Committee and are open to all members.
- 6.3 We propose to continue to hold regular update/briefing sessions on issues within our terms of reference throughout 2011/12.

## 7. Effectiveness of the Committee

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- 7.1 The National Audit Office produces a checklist for audit committees which is based on 5 good practice principles relating to 1) the role of the committee, 2) membership, 3) skills, 4) scope of work and 5) communication. This checklist has been completed for 2010/11 and this indicates that the audit committee is working effectively. This checklist will be completed annually and will form the basis for areas of improvement or training needs for the committee's work programme.
- 7.2 When control weaknesses have been identified the AARC has challenged the responsible officers, ensured that arrangements are put in place to strengthen governance arrangements and monitored progress against action plans.
- 7.3 For the year April 2010 to March 2011 the Committee has provided:
- an independent assurance that the council's risk management framework and associated control environment are adequate
  - an independent scrutiny of the authority's exposure to risk which may weaken the control environment
  - comprehensively reviewed the financial statements and annual governance statement and
  - monitored the transition to IFRS.

## Document Information

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Appendix No	Title
1	<i>Agenda Topics in 2010/11</i>
<b>Background Papers</b>	
CIPFA Treasury Management Code of Practice Council Constitution National Audit Office – Audit Committee Self Assessment Checklist	
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