

Audit Committee Annual Report 2009/10



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Tunbridge Wells Borough Council

Audit Committee Annual Report – 2009/10



Foreword by Cllr Bob Atwood, Chairman of the Audit Committee

I am delighted to introduce the second annual report of the Audit Committee, covering the year to 31 March 2010. During the year, the committee increased its membership by appointing a third co-opted member, thus increasing its independence and objectivity even further.

The Audit Committee is responsible for reviewing the Council's governance arrangements (both financial and non financial) and seeks to obtain appropriate assurances in these areas. As members of this Committee, we have endeavoured to follow best practice and to become increasingly challenging of officers whilst always supporting them in their governance priorities.

The Audit Committee deals with a wide range of Council matters and often works in liaison with Scrutiny and Standards Committees. Meetings are held in public, and all members of the Council as well as members of the public are welcome and encouraged to attend.

I would like to take this opportunity to thank my fellow committee members for their attendance and contributions towards these objectives during the year, and also to senior officers of the Council for their serious and professional approach to governance matters and to the business of the Audit Committee in general.

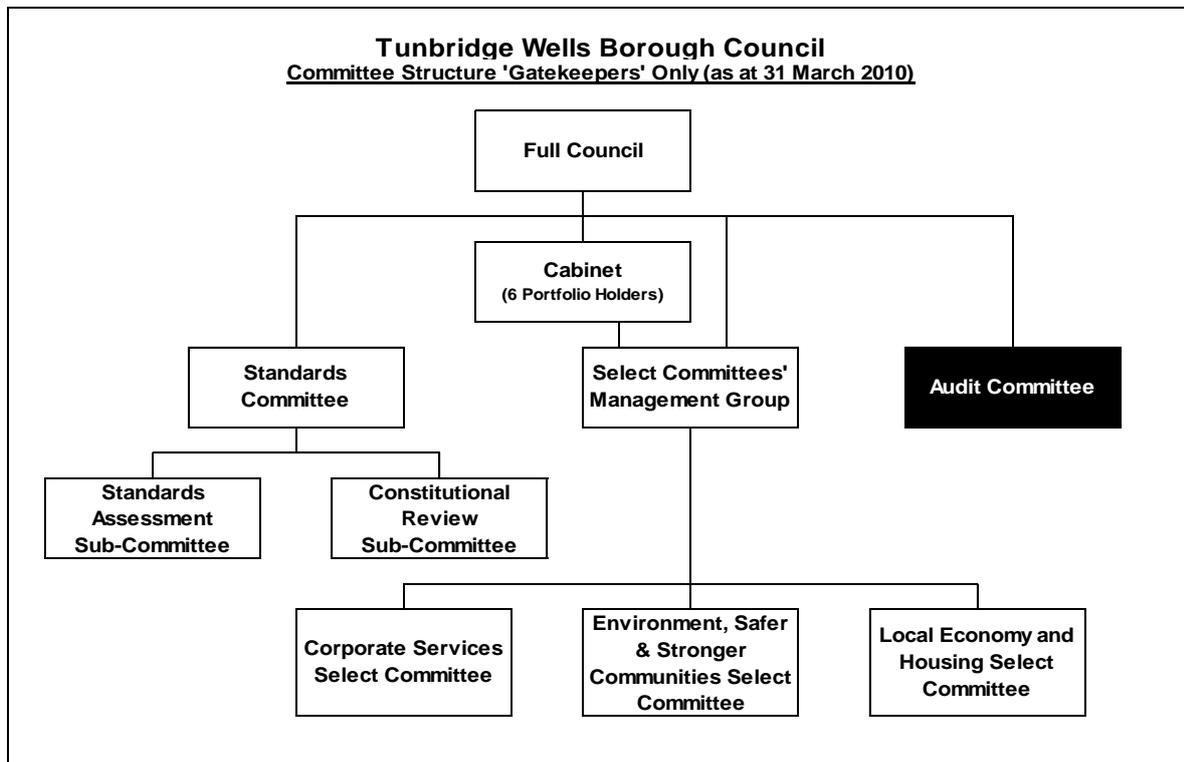
1. Introduction

The Council re-established the Audit Committee as a full committee with effect from June 2007. Its functions had previously been undertaken by the Standards and Overview and Scrutiny Committees. Whilst there is no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issued on governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee:

History of Corporate Governance	
1991	Cadbury Committee set up
1992	Cadbury report
1995	Greenbury Committee
1997	Nolan Committee reports
1998	Hampel Committee report
1999	Turnbull Committee
2001	Enron
2002	Sarbanes-Oxley Act
2003	Higgs & Smith reports
2003	Combined code

Audit Committees differ from the Scrutiny Committees in that the role of scrutiny is to review policy and challenge whether the executive has made the right decisions to deliver policy goals. The Audit Committee, however, exists 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 affects the control environment, and oversight of the financial reporting process.

The Committee **is not a substitute for the executive function** in the management of internal or external audit, risk management, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is the Committee's role to examine these functions, and to offer opinions or recommendations on the way the management of these functions is conducted.



There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the committee will:

- raise greater awareness of the need for internal control and the implementation of audit recommendations;
- increase public confidence in the objectivity and fairness of financial and other reporting;
- reinforce the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement);
- provide additional assurance to the Authority and its stakeholders through the results of its reviews.

2. Terms of reference and responsibilities

The Committee's detailed terms of reference are set out in the Council's Constitution and are based on the Chartered Institute of Public Finance and Accounting (CIPFA) model; however in summary they are to provide independent assurance to the Council in relation to the area of governance. This is achieved by:

- Providing a forum for monitoring governance arrangements;
- Reviewing the effectiveness of the Council's risk management, internal control and its overall assurance framework;
- Reviewing the effectiveness of the Council's financial and non-financial performance to the extent that it might impact on the above;
- Reviewing the performance of the Council's Internal Audit section and receiving and discussing monitoring reports from both internal and external sources;
- Receiving and reviewing external audit reports and liaising with external auditors on significant matters identified;
- Advising upon and reviewing any other matters referred to the Audit Committee by the Executive or other regulatory committees;
- Considering, accepting and taking a view on the Annual Statement on Accounts and the Annual Assurance Statement; and
- Making recommendations to the Authority for action to address any deficiencies.

3. Membership

The Audit Committee comprises of nine members, three of whom are co-opted independent members. The Committee met on six occasions in 2009/10. Committee agenda papers and minutes are available on the Council's website www.tunbridgewells.gov.uk

2009/10 Audit Committee Members

Cllr R Atwood
Chairman



Cllr C B Noakes
Vice-Chairman



Cllr J Stanyer



Cllr G Hall



Cllr M J Howell
(retired 06/05/10)



Cllr J O Miller



Mr A Cockell

Independent member



Mr D Greene

Independent member



Mr J Hedges

Independent member



4. Committee Attendance 2009/10

The Committee has been well supported throughout the year by both members and officers, and attendance records are set out in the table below.

Member/Officer	27/5/09 (Special)	23/6/09	22/9/09	7/12/09	16/2/10	30/3/10
<u>Audit Committee Members</u>						
Cllr Robert Atwood (Chairman)	Y	Y	Y	Y	Y	Y
Cllr Barry Noakes (Vice-Chairman)	Y	A	Y	Y	Y	Y
Cllr Julian Stanyer	Y	Y	Y	Y	Y	Y
Cllr Glen Hall	A	A	Y	N	Y	N
Cllr Melvyn Howell	Y	Y	Y	Y	Y	Y
Cllr John Miller	Y	Y	Y	Y	Y	Y
<u>Independent members</u>						
Aaron Cockell	Y	A	A	Y	Y	A
James Hedges	Y	A	Y	Y	Y	Y
David Greene	Y	Y	Y	Y	A	Y
<u>Other Councillors</u>						
Cllr James Scholes	-	Y	Y	-	-	-
<u>Officers</u>						
Head of Finance & Governance (LC)	Y	Y	Y	Y	Y	Y
Internal Audit Manager (IC)	Y	Y	Y	Y	Y	Y
Interim Director of Change & Business Support (PT)	-	-	-	-	Y	A
Interim Finance Manager (SB)	Y	Y	Y	-	Y	-
Director of Change & Business Support (WB)	Y	Y	Y	Y	-	-
Performance & Improvement Manager (RW)	Y	Y	Y	A	-	-
Head of Customer Access & Business Transformation (AC)	-	-	Y	-	-	-
Head of Human Resources (VG)	-	-	-	-	-	Y
Committee Assistant (CC)	Y	Y	Y	Y	-	Y
Service Accountant (JF)	-	-	-	-	Y	-
Corporate Policy & Improvement Officer (JD)	-	-	-	Y	Y	Y
Committee Administrator (CC & WNM)	Y	Y	Y	Y	Y	Y
<u>External Audit</u>						
District Auditor (AM)	A	A	Y	Y	A	A
Audit Manager (TG)	Y	Y	Y	Y	Y	A
Principal Auditor (GS)	Y	Y	Y	Y	Y	Y

Key: Y = Attendance, N = Non Attendance, A = Apologies Received, N/A = Not a Member

5. The Committee completed the following programme during 2009/10

Function/Issue	27/5/09 (Special)	23/6/09	22/9/09	7/12/09	16/2/10	30/3/10
AUDIT ACTIVITY						
Internal Audit						
1. Annual Plan 2010/11						X
2. Audit Status Reports	X	X	X	X	X	X
3. Annual Report 2008/09		X				
4. Audit Committee Annual Report 2008/09	X					
5. Parking & Decriminalisation – Audit Report	X					
6. Payroll Report 2008/09	X					
7. Audit Progress Report					X	
8. National Fraud Initiative				X		
9. ICT & Associated Policies			X			
10. Section 106 – Audit Report			X			
11. Bank Charges – Audit Report			X			
12. Personnel & Training – Audit Report				X		
13. Housing Benefit Overpayment – Audit Report			X			
14. Camden Centre – Audit Report			X			
External Audit						
15. Annual Audit Letter 2008/09					X	
16. Audit & Inspection Plan - Fees		X				
17. Organisational Assessment Report 2009					X	
18. Triennial Review of Internal Audit						X
19. Certification of Claims & Returns 2008/09						X
20. Statement of Accounts & Audit Commission Report on Financial Statements 2008/09			X			
REGULATORY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS						
21. Review of Confidential Reporting Code						X
22. Corporate Improvement Plan		X	X	X	X	X
23. Strategic Risk Review				X		X
24. Strategic Risk – Annual Report		X				
25. Business Continuity – Report 2008/09		X				
26. Annual Governance Statement		X	X			
27. Mid Kent Internal Audit Partnership	X			X		
28. Treasury Management Strategy					X	X
29. Property Investment Portfolio					X	
30. Start Time of Meetings 2009/10	X					
ACCOUNTS						
31. Outline Statement of Accounts 2008/09	X					
32. Statement of Accounts 2008/09		X				
33. Compliance with International Standards of Auditing		X				X
34. Transition to International Financial Reporting Standards (IFRS)					X	
35. International Financial Reporting Standards (IFRS)	X					
36. Use of Resources & Managing Performance (KLOE) 2009	X					

6. Assurance

The Audit Committee has considered the following areas to assist it in gaining assurance of the governance arrangements within the organisation as part of its annual work programme.

Risk Management
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's risk management arrangements• Seek assurance that action is being taken on risk-related issues identified by auditors and inspectors

This has been achieved by:

- Receiving regular progress reports on the risk register, considering the movements in individual risks and their categorisation, and influencing the format and presentation of risk reports;
- Receiving progress reports on internal and external audit issues.

Internal Control assurance
<ul style="list-style-type: none">• Consider the effectiveness of the Authority's control environment• Be satisfied that the Authority's assurance statements including the Annual Governance Statement (formerly SIC) properly reflect the control environment and any actions required to improve it

This has been achieved by:

- Considering the review of internal control for 2008/09 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2008/09;
- Approving the Authority's Annual Governance Statement for 2008/09 and the action plan to address significant improvements. These were incorporated into the Corporate Improvement Plan and actions have been monitored by the Committee throughout the year;
- Representation on the Corporate Governance Working Group which has met throughout 2009/10.

Audit Activity
<ul style="list-style-type: none">• Approve (but not direct) Internal Audit's strategy; plan and monitor performance• Review summary Internal Audit reports where they've received a 'limited' or 'minimal' assurance and seek assurances that action has been taken where necessary• Receive the annual report of the Internal Audit Manager• Consider the reports of external audit and inspection agencies• Ensure there are effective relationships between internal and external audit, and inspection agencies

Internal Audit

The Committee has:

- Considered and agreed the Internal Audit Strategy and Annual Audit Plan for 2009/10;
- Agreed the Internal Audit annual plan for 2010/11;
- Received and considered the Internal Audit Manager's Annual Report for 2008/2009, including the opinion on the Authority's control environment which was incorporated into the Annual Governance Statement;
- Received regular reports on the Internal Audit team's progress against the Plan;
- Received regular status reports setting out the position regarding the agreement of audit reports and the assurance opinions provided for each review area;
- Considered specific Internal Audit reports with regard to Parking & Decriminalisation, Payroll, Section 106 Agreements, Bank Charges, Personnel & Training, Housing Benefit Overpayments and the Camden Centre;
- Received progress reports on the National Fraud Initiative (NFI) with further progress reports to be brought forward in 2010/11;
- Reviewed the Confidential Reporting Code;
- Obtained assurance that Internal Audit was compliant with the (CIPFA) Code of Practice for Internal Audit via the recently completed Audit Commission Triennial review of Internal Audit;
- Agreed that with effect from the 1 April 2010 TWBC Internal Audit will form part of the MIDKIP Audit Partnership (Maidstone, Ashford, Tunbridge Wells and Swale) to jointly deliver internal audit services to the partner authorities.

External Audit

The Committee has:

- Received and agreed the Annual Audit & Inspection Letter for 2008/09, including the Use of Resources report;
- Considered and agreed the Audit & Inspection Plan for 2009/10;
- Considered and agreed the certification of grant claim reports;
- Received progress reports on the action taken in response to external audit recommendations via the corporate improvement reports.

Accounts

- **Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit**

The Committee has sought assurance by:

- Considering changes both to the format of the Accounts and the accounting policies used to prepare the accounts;
- Approving the Statement of Accounts for 2008/09 and later amendments;
- Receiving and considering the Annual Governance Report 2008/09, and agreeing the signing of the letter of representation by the Chairman of the Audit Committee, Head of Finance and Governance, Chief Executive and the Leader of the Council;
- Considering the Treasury Management Strategy.

7. Review of the Audit Committee's Effectiveness

The Audit Committee forms a key part of the governance framework within the Authority and was assessed as part of the Authority's Organisational Assessment which in turn was part of the Comprehensive Area Assessment (CAA). Where CAA focuses on the Kent area, the Audit Commission has been charged with assessing local authorities individually by an annual Organisational Assessment:

Organisational Assessment	<i>Score 2009</i>
Managing Performance	4 out of 4
Use of Resources	3 out of 4
Managing Finances	3 out of 4
Governing the Business	3 out of 4
Managing Resources	3 out of 4
Overall Assessment	3 out of 4

Key:

- 1 = An organisation that does not meet minimum requirements, Performs Poorly
- 2= An organisation that meets only minimum requirements, Performs Adequately
- 3= An organisation that exceeds minimum requirements, **Performs Well**
- 4= An organisation that significantly exceeds minimum requirements, **Performs Excellently**

It is regarded as best practice to periodically review the Audit Committee's effectiveness. Prior to last year's annual report we undertook a self assessment using the CIPFA checklist – "Measuring effectiveness of the Audit Committee". This covered seven elements:

- Terms of Reference
- Internal Audit Process
- External Audit Process
- Membership
- Meetings
- Training
- Administration

Set out in Appendix A is the updated position for this year. It has been agreed that as part of the MIDKIP Audit Partnership an independent peer review will be undertaken by I&DeA in the forthcoming year where each authority's Audit Committee's effectiveness will be evaluated so that we are able to benchmark the performance of the respective committees and draw on examples of best practice both within the partnership and nationally.

8. Summary update

Terms of Reference

The Committee's Terms of Reference follow the CIPFA model and form part of the Council's Constitution and are periodically reviewed to ensure they accurately reflect the role of the Committee. The Constitution has been subject to substantial review in 2009/10.

Membership

The Committee has been well attended. It includes both elected (6) and independent (3) co-opted members and the Audit Commission has identified this as a strength which represents best practice.

Training

The Authority has attained member charter status and there is an established member induction process. In addition members receive regular briefing sessions on specific areas including governance arrangements. A number of Audit Committee members attended the 2009 Kent Audit Group conference together with other members from Audit Committees in Kent.

It is acknowledged that further specific training would benefit Audit Committee Members, and arrangements will be put in place for this to happen; opportunities will be explored to deliver joint training with other MIDKIP Audit Partnership members in the coming financial year.

Internal Audit

Internal Audit meets the requirements of, and has carried out, a self-assessment against the CIPFA's Code of Practice for Internal Audit (2006).

This assessment was subject to review by the Audit Commission recently as part of a triennial review, and was considered by the Audit Committee at its March 2010 meeting (100330/AU003). With the Authority now part of the MIDKIP Audit Partnership from 1 April 2010 the Audit Commission has indicated that it will now undertake annual reviews of the standards operated within the partnership and will no longer undertake the triennial review.

Internal Audit provides regular reports for consideration by the Committee and has adapted the format of reports where possible to meet the needs of the Committee; this has included follow up reviews of areas where 'limited' assurance has been reported. These will be reported on as part of the Internal Audit Manager's annual report that is considered at the June meeting.

External Audit

Audit Commission feedback following Use of Resources work indicates that the Audit Committee is a strong forum and takes regular reports forward for the Committee to consider. The Audit Commission continues to be represented at all Audit Committee meetings.

Annual Accounts

The Audit Committee fully discharges its obligations by reviewing the Annual Governance Statement, and by satisfying itself that the Council's Annual Accounts are properly prepared in accordance with the applicable Accounting Standards and Recommended Practices.

Future Challenges

The Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. Next year the Committee will need to satisfy itself that the new Internal Audit partnership arrangements are working satisfactorily, will be reviewing governance arrangements for associated companies and partnerships, and will need to ensure that the annual accounts are properly prepared in accordance with a new requirement to adopt International Accounting Standards.

9. 2010/11 Work Programme

- The Committee faces a challenging year ahead and the Committee's detailed work programme for the forthcoming year is set out below.

Function/Issue	25/5/10 (Special)	22/6/10	21/9/10	16/11/10	8/3/11
<u>AUDIT ACTIVITY</u>					
<u>Internal Audit</u>					
Annual Plan 2011/12					X
Audit Status Reports		X	X	X	X
Annual Report 2009/10		X			
Audit Committee Annual Report 2009/10	X				
National Fraud Initiative				X	
<u>External Audit</u>					
Annual Audit Letter 2009/10					X
Audit & Inspection Plan 2010/11 & Fees		X			
Certification of Claims & Returns 2009/10					X
Statement of Accounts & Audit Commission Report on Financial Statements 2009/10			X		
<u>REGULATORY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>					
Corporate Improvement Plan		X	X	X	X
Strategic Risk Review				X	X
Strategic Risk – Annual Report		X			
Business Continuity – Report 2009/10		X			
Annual Governance Statement		X	X		
Start Time of Meetings 2010/11		X			
<u>ACCOUNTS</u>					
Compliance with International Standards of Auditing	X				
Outline Statement of Accounts 2009/10	X				
Financial Report & Statement of Accounts 2009/10 (un-audited)		X			

Appendix A - Measuring the Effectiveness of the Audit Committee

Self-assessment Checklist (update)

Issue	Yes	No	N/A	Comment
Terms of Reference				
Do the terms of reference follow the CIPFA model?	Y			The Committee terms of reference follow the CIPFA model and form part of the Council's Constitution.
Have the Committee's terms of reference been approved by full Council?	Y			The Committee's terms of reference have been approved by full Council.
Internal Audit Process				
Does the Committee approve the strategic audit approach and the annual programme?	Y			The Committee has approved the strategic audit approach (April 2008) and approved the 2010/11 Annual Plan at its March 2010 meeting.
Is the work of Internal Audit reviewed regularly?	Y			Regular reports are taken to the Committee to inform members of the progress in respect of the Plan and the agreement of recommendations. Audit status reports are taken to Audit Committee meetings to inform members of assurance opinions and progress of agreement of recommendations.
Are summaries of quality questionnaires from managers reviewed?	Y			Quality questionnaires were recently introduced in January this year; the overall rating of the service from the clients was excellent/good.
Is the annual report, from the head of audit, presented to the Committee?	Y			The annual report is considered at the June meeting each year together with the Annual Assurance statement, which assists the Committee in gaining assurance of the governance framework within the organisation.

Issue	Yes	No	N/A	Comment
External Audit Process				
Are reports on the work of external audit and other inspection agencies presented to the Committee?	Y			External audit reports are presented to Audit Committee, however due to the delay in publication of some of these reports as a result of the Commission's national reviewing process reports are sometimes quite historical by the time they reach the public arena therefore the Committee has expressed concerns over their relevance from an 'assurance perspective'.
Does the Committee input into the external audit programme?	Y			There is limited influence the Committee can have on the core plan of the external auditors however they can request additional local studies although to date this has not occurred. Issues have been raised with regard to the level of the annual audit fee.
Does the Committee ensure that officers are acting on and monitoring action taken to implement recommendations?	Y			Regular monitoring reports are taken to the Committee to provide assurance that recommendations are being actioned. These recommendations form part of the Corporate Improvement Plan.
<p>Does the Committee take a role in overseeing:</p> <ul style="list-style-type: none"> • risk management strategies • internal control statements • anti-fraud arrangements • whistle-blowing strategies? 	<p>Y</p> <p>Y</p> <p>Y</p> <p>Y</p>			<p>Oversees the risk management arrangements / internal control statements. The Chairman of the Committee sits on the Corporate Governance Working Group which considers governance arrangements during the year and is responsible for considering the different elements of the Governance statements which are formally considered by the Audit Committee.</p> <p>Anti-fraud strategies and whistle blowing have previously been overseen by the Standards Committee however governance reports have been considered by the Committee in respect of the above areas.</p>

Issue	Yes	No	N/A	Comment
Membership				
Has the membership of the Committee been formally agreed and a quorum set?	Y			Membership has been agreed and a quorum set. The quorum set for the Committee requires three members to be present including one of the independent members.
Is the Chairman free of executive or scrutiny functions?	Y			Chairman is free of executive functions.
Are members sufficiently independent of the other key committees of the Council?	Y			The Committee is represented by not only elected members but a large percentage of co-opted independent members.
Have all members' skills and experiences been assessed and training given for identified gaps?	Y			Members are offered the opportunity to undergo a detailed training programme as part of the Member Charter Programme.
Can the Committee access other committees as necessary?	Y			Other committees can be accessed and have introduced arrangements whereby all 'gatekeeper' chairmen (Standards/Scrutiny (3) & Audit) meet to discuss their respective work streams to ensure co-ordination of work where feasible. In addition areas of work identified from Internal Audit reviews (e.g. Section 106 agreements) have been referred to other committees (scrutiny) to undertake further specific studies on.
Meetings				
Does the Committee meet regularly?	Y			The Committee normally meets quarterly with additional special meetings scheduled where required.
Are separate, private meetings held with the external auditor and the internal auditor?	Y			Meetings/discussions have taken place with the Internal Audit Manager outside of the Committee. Although discussions have not been held with the external auditor they have previously confirmed that this option is available if required.

Issue	Yes	No	N/A	Comment
Are meetings free and open without political influences being displayed?	Y			Robust debate and challenge is evident within the Committee; the Audit Commission has evidenced this. The Commission's view is that TWBC has a strong Audit Committee.
Are decisions reached promptly?	Y			Generally decisions are reached promptly and detailed minutes are produced setting out the discussions leading to the final recommendations.
Are agenda papers circulated in advance of meetings to allow adequate preparation by members?	Y			The distribution of papers appears to have improved and papers are despatched in a timely manner.
Does the Committee have the benefit of attendance of appropriate officers at its meetings?	Y			Section 151 officer and Internal Audit Manager attend all meetings together with the Financial Services Manager and representation from the Audit Commission.
Training				
Is induction training provided to members?	Y			All members receive induction training together with a series of member briefings on specific topics throughout the year. The authority has obtained Member Charter status. The authority has recently entered into a four way audit partnership. Options will therefore be explored to identify potential joint training opportunities.
Is more advanced training available as required?	Y			Training needs are identified as part of the Member Charter process. The authority has recently entered into a four way audit partnership. Options will therefore be explored to identify potential joint training opportunities.
Administration				
Does the authority's s151 officer or deputy attend all meetings?	Y			Either the Section 151 or Deputy Section 151 Officer attends all meetings.

Issue	Yes	No	N/A	Comment
Are the key officers available to support the Committee?	Y			Section 151 Officer, Internal Audit Manager, Monitoring Officer and specific additional officers on request.