

Audit Committee Annual Report 2008/09



Contents	Page
Foreword by Cllr Bob Atwood, Chairman of the Audit Committee	1
1. Introduction	2
2. Terms of reference and responsibilities	3
3. Membership	4
4. Committee Attendance 2008/2009	5
5. The Committee completed the following programme during 2008/09	6
6. Assurance	7
7. Review of the Audit Committee's Effectiveness	9
8. Key Summary points of review	10
9. 2009/2010 Work Programme	11
Appendix A - Measuring the Effectiveness of the Audit Committee	12

Tunbridge Wells Borough Council

Audit Committee Annual Report – 2008/09



Foreword by Cllr Bob Atwood, Chairman of the Audit Committee

The Audit Committee in its present form was established by the Council in 2007; however this is the Committee's first annual report, designed to give Members, Officers and other interested parties an overview of its activities. Often, interest in Audit Committees is limited, particularly when other more pressing matters seem to take precedence. However the establishment, support and efficient running of an Audit Committee is today an essential element of best practice relating to the Governance of all major bodies in both the private and public sectors, and I am delighted to be appointed as its new Chairman. We aim to be good at what we do, and to get even better!

This report covers the Council's year to 19 May 2009, and I would like to take this opportunity to thank Cllr Len Price for his excellent chairmanship to date, and to Committee members and Officers for their valuable contributions which have already resulted in significant improvement in the Committee's functions.

1. Introduction

The Council re-established the Audit Committee as a full committee with effect from June 2007. This function had previously been undertaken by both Standards and then the Overview and Scrutiny Committee. Whilst there is no statutory obligation to have such a 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 both 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 weakens the control environment, and to oversee the financial reporting process.

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

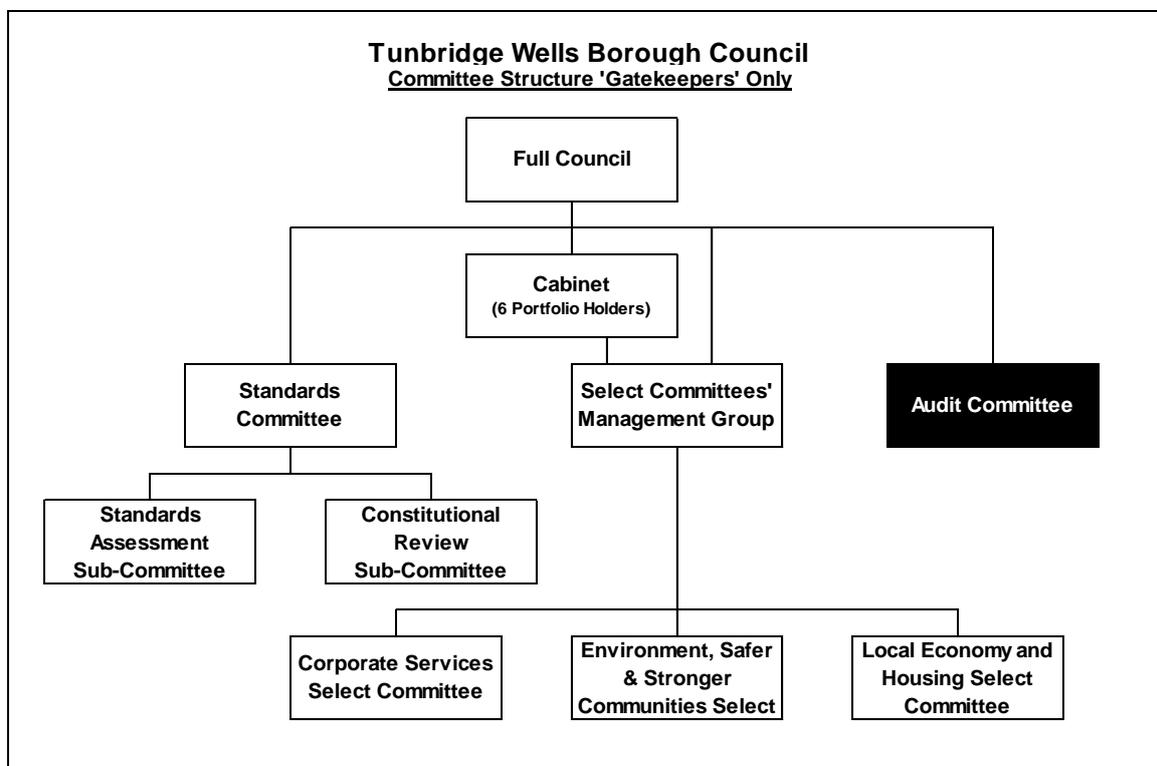
There are many benefits gained from an effective Audit Committee.. In fulfilling its role the committee will:

- 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 Assurance 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; 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.
- The receipt and review of External Audit reports and liaison 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.
- Making recommendations to the Authority for action to address any deficiencies.



3. Membership

The Audit Committee is now comprised of nine members, three of whom are co-opted independent members. The Committee met on six occasions in 2008/2009. Committee agenda papers and minutes are available on the Council's website www.tunbridgewells.gov.uk

2008/09 Audit Committee Members

Cllr L W Price
Chairman



Cllr C B Noakes
Vice Chairman



Cllr R C Atwood



Cllr G Hall



Cllr M J Howell



Cllr J O Miller



Mr A Cockell
Independent member



Mrs J C McCullough
(Resigned 12/2/09)
Independent member



Mr J Hedges
(Appointed 19/2/09)
Independent member



4. Committee Attendance 2008/2009

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	2/4/08	25/6/08	22/7/08 (Special)	25/9/08	11/2/09	31/3/09
<u>Members</u>						
Cllr Len Price Chair) (100%)	Y	Y	Y	Y	Y	Y
Cllr Barry Noakes (Vice chair) (83%)	Y	Y	A	Y	Y	Y
Cllr Simon Bannister	X	N/A	N/A	N/A	N/A	N/A
Cllr Glen Hall (100%)	Y	Y	Y	Y	Y	Y
Cllr Melvyn Howell (83%)	Y	A	Y	Y	Y	Y
Cllr John Miller (83%)	Y	Y	Y	Y	Y	N
Cllr Robert Atwood (100%)	N/A	N/A	Y	Y	Y	Y
Aaron Cockell (Independent) (100%)	Y	Y	Y	Y	Y	Y
Mrs C McCullough (Independent) (80%)	Y	Y	Y	A	Y	N/A
James Hedges (independent) (100%)	N/A	N/A	N/A	N/A	N/A	Y
<u>Officers</u>						
Head of Finance & Governance (SC)	Y	Y	Y	Y	Y	A
Internal Audit Manager (IC)	Y	Y	Y	Y	Y	Y
Financial Services Manager (LC)	-	Y	-	Y	Y	Y
Interim Finance Manager (SB)	-	Y	-	Y	-	-
Director of Change & Business Support (WB)	-	-	-	Y	-	Y
Deputy Monitoring Officer (PF)	-	-	Y	-	-	-
Performance & Improvement Manager (RW)	-	-	-	-	-	Y
Director of Planning & Development (RC)	-	-	Y	-	-	-
Head of Customer Access & Business Transformation (AC)	-	-	-	-	Y	-
Director of Services to the Community (RP)	-	Y	-	-	-	-
Committee assistant (CC)	Y	Y	Y	Y	Y	Y
<u>External Audit</u>						
District Auditor (AM)	-	-	-	Y	Y	Y
Audit Manager (TG)	Y	Y	Y	Y	Y	Y
Principal Auditor (GS)	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 2008/09

Function/Issue	2/4/08	25/6/08	22/7/08 (Special)	25/9/08	11/2/09	31/3/09
<u>AUDIT ACTIVITY</u>						
<u>Internal Audit</u>						
Audit Strategy & Annual Plan	X					
Audit Status Reports	X	X		X	X	X
Annual Report 2007/08		X				
Data Protection Review 2007/08		X				
IT Change Control Review 2007/08					X	
IT Network Control Review 2007/08					X	
Audit Progress Report 2008/09					X	
Audit Plan 2009/10						X
National Fraud Initiative 2008/09					X	
<u>External Audit</u>						
Annual Audit Letter 2006/07	X					
Audit & Inspection Plan 2008/09	X					
Regularity Report	X					
Housing & Council Tax Benefit					X	
Annual Audit & Inspection Letter 2007/08						X
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>						
Corporate Improvement Plan	X	X		X	X	
Strategic Risk	X					X
Strategic Risk - Report 2007/08		X				
Business Continuity - Report 2007/08		X				
Annual Governance Statement		X un-audited		X audited		
Start Time of Meetings		X				
Audit Committee Membership					X	
Treasury Management Review					X	
Governance of Development Partner			X			
<u>ACCOUNTS</u>						
International Financial Reporting Standards					X	
Financial Report & Statement of Accounts 2007/08		X un-audited		X audited		

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 assurance 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 2007/2008 and agreeing the significant issues to be included in the Council's Annual Assurance Statement for 2007/2008
- Approving the Authority's Annual Assurance Statement for 2007/2008 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.

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 plan for 2008/2009
- Agreed the Internal Audit annual plan for 2009/2110
- Received and considered the Internal Audit Manager's Annual report for 2007/2008, including the opinion on the Authority's control environment which was incorporated into the Annual Assurance 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 Data Protection, IT Change control and IT Network Security.
- Received an outline report on the National Fraud Initiative (NFI) with further progress reports to be brought forward in 2009/2010

External Audit

The Committee has:

- Received and considered the Annual Audit letter for 2006/2007
- Received and agreed the Annual Audit & Inspection letter for 2007/2008 including the Use of Resources report

Considered and agreed the Audit & Inspection Plan for 2008/2009

- Considered and agreed the Housing & Council Tax Benefit subsidy report
- 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 2007/2008 and later amendments

- Receiving and considering the Annual Governance Report 2007/2008, and agreeing the signing of the letter of representation by the Chair, Head of Finance and Governance, Chief Executive and the Leader of the Council.

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 recent Use of Resources review undertaken by the Audit Commission. The published scores are set out below:

Key Line of Enquiry (KLOE)	Score 2008	Score 2007
Financial Reporting	2	1
Financial Management	3	2
Financial Standing	3	2
Internal Control	3	2
VFM	3	2
Overall score	3	2

Key:

- 1 = Below minimum requirements - inadequate performance
- 2 = Only at minimum requirements - adequate performance
- 3 = Consistently above minimum requirements - performing well**
- 4 = Well above minimum requirement - performing well

The above table shows the Authority has improved in every category including internal control, which is the specific category the Audit Committee is assessed under. This reflects the fact that in 2007 the Committee was newly formed, but in 2008 it has been able to further demonstrate that good governance arrangements are embedded in the organisation. The Audit Committee has provided a rigorous, robust and effective forum to ensure assurance can be gained from the governance arrangements in place within the Authority.

It is regarded as best practice to periodically review the Audit Committee's effectiveness. To assist us in carrying out this self assessment we have used the CIPFA checklist – "Measuring effectiveness of the Audit Committee".

The detailed self-assessment is set out in the Appendix A, however in summary seven elements were reviewed:

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

The self-assessment is generally satisfactory, but has identified some issues which will be the subject of an action plan, aimed at constant improvement, in the current year.

8. Key Summary points of review

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.

Internal Audit

Internal audit meets the requirements of, and has carried out a self-assessment against the Chartered Institute of Public Finance Accountant (CIPFA)'s code of Practice for Internal Audit (2006) (Jan 2007).

This assessment has been subject to review by the Audit Commission as part of a triennial review, which will be considered by the Audit Committee in the near future. 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.

External Audit

The Audit Commission has recognised the Audit Committee as a strong forum and takes regular reports forward for the Committee to consider. It is represented at all meetings.

One aspect that needs to be improved is the timeliness of some of the reports, although it is accepted that in part this is limited by the Audit Commission's reporting cycles.

Membership

The Committee has been well attended and it is recognised by the Audit Commission that one of the strengths of the Committee is that it is made up of both elected and independent co-opted members. This has encouraged rigorous challenge of officers at Audit Committee meetings.

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. It is acknowledged that further specific training would benefit Audit Committee Members, and arrangements will be put in place for this to happen.

9. 2009/2010 Work Programme

- The Committee faces a challenging year ahead and has recently decided to extend the co opted membership from two to three, further strengthening the Committee's independence.
- The Committee's detailed work programme for the forthcoming year is set out below.

Function/Issue	27/5/09 (Special)	23/6/09	22/9/09	17/11/09	16/2/10	30/3/10
<u>AUDIT ACTIVITY</u>						
<u>Internal Audit</u>						
Mid Kent Internal Audit Partnership	X					
Annual Plan 2010/11						X
Audit Status Reports		X	X	X	X	X
Annual Report 2008/09		X				
Audit Progress Report 2009/10					X	
National Fraud Initiative 2008/09 Update				X		
<u>External Audit</u>						
Annual Audit Letter 2008/09						X
Audit & Inspection Plan 2008/09		X				
Audit & Inspection Plan 2009/10						X
Regularity Report						X
Housing & Council Tax Benefit						X
<u>REGULARITY FRAMEWORK / INTERNAL CONTROL ARRANGEMENTS</u>						
Start Time of Meetings	X					
Use of Resources and Managing Performance KLOEs for 2009	X					
Audit Committee Annual Report 2008/09						
Corporate Improvement Plan		X	X	X	X	X
Strategic Risk				X		X
Strategic Risk - Report 2008/09		X				
Business Continuity - Report 2008/09		X				
Annual Governance Statement		X	X			
		Un-audited	Audited			
<u>ACCOUNTS</u>						
International Financial Reporting Standards	X					
Outline Statement of Accounts						
Financial Report & Statement of Accounts 2008/09		X	X			
		Un-audited	Audited			

Appendix A - Measuring the Effectiveness of the Audit Committee

Self-assessment Checklist

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 2009/2010 Annual plan at its March 2009 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 all Audit Committee meetings to inform members of assurance opinions and progress of agreement of recommendations.
Are summaries of quality questionnaires from managers reviewed?			N	Quality questionnaires are not reviewed. No formal questionnaires are currently used however no adverse issue comments have been raised by the client.
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 Commissions 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?		N		There is limited influence the committee can have on the 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.
Does the committee take a role in overseeing: <ul style="list-style-type: none"> • risk management strategies • internal control statements • anti-fraud arrangements • whistle-blowing strategies? 	Y			Oversees the risk management arrangements / internal control statements.
	Y			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.
	Y			
	Y			

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. In the light of a potential difficulty in respect of the availability of independent members the number of independent members has been increased from two to three.
Is the chair free of executive or scrutiny functions?	Y			Chair is free of executive or scrutiny functions. The Chair however is a substitute member for the Local Economy Select committee however he did not attend in this capacity last year.
Are members sufficiently independent of the other key committees of the council?	Y			<p>Currently have the following representation on Scrutiny committees</p> <ul style="list-style-type: none"> • 2 members sit on Corporate Services Select Committee • 2 members sit on Local Economy select committee as substitutes. • 2 members sit on Environment, Safer & Stronger committee 1 as active member other as substitute member.
Have all members' skills and experiences been assessed and training given for identified gaps?	Y			Members are required to undergo a detailed training programme as part of the Member Charter programme.
Can the committee access other committees as necessary?	Y			<p>Other committees can be accessed and have recently introduced arrangement whereby all 'gatekeeper' chairmen</p> <p>(Standards/Scrutiny (3) & Audit) meet to discuss their respective works streams to ensure co-ordination of work where feasible.</p>

Issue	Yes	No	N/A	Comment
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?		N		These meetings haven't taken place but would be available to the committee if required. The Chair has had informal discussions with the Internal Audit Manager on issues outside of the committee.
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. This is evidenced by a request for one of the Independent Members to attend a neighbouring authority to present to their audit committee on the role of the independent member. 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 be improving however there have been a number of occasions in the last year where papers have been distributed late in the day that would have affected members' ability to prepare fully for the item under consideration. Where this has occurred officers have provided detailed presentations guiding members through the key aspects of the reports. Some of the reports have been from third parties therefore it has been difficult for officers to influence the timing of receipt of these reports.

Issue	Yes	No	N/A	Comment
Does the committee have the benefit of attendance of appropriate officers at its meetings?	Y			Section 151 officer, Internal audit manager attends 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.
Is more advanced training available as required?	Y			Training needs are identified as part of the member Charter process
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
Are the key officers available to support the committee?	Y			Section 151 officer, Internal Audit manager, monitoring officer and specific additional officers on request.