



Sandwell
Metropolitan Borough Council

Annual Report of the Audit Committee 2014/15



1. Background

The Audit Committee is a key component of the council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It also provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes, and oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

The key benefits of an Audit Committee can be seen as:-

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and similar review processes;
- providing additional assurance through a process of independent review;
- raising awareness of the need for internal control and the implementation of audit recommendations.

The terms of reference for the Committee can be found at Appendix A of this report.

Audit Committee Self Assessment/Review of Effectiveness

In order to review its effectiveness the Committee commenced a self-assessment exercise in January 2015. This was based on the Chartered Institute of Public Finance and Accountancy (CIPFA) "Audit Committees – Practical Guidance for Local Authorities".

2. Business

During the year the Committee conducted the following business:

External Audit (KPMG)
• Annual Audit Letter
• Report to those Charged with Governance ISA260
• Certification of Grants and Returns
• External Audit Plan

Audit Services
• Internal Audit Plan
• Internal Audit Annual Report
• Internal Audit Charter
• Internal Audit Progress Reports
• Strategic Risk Register and Assurance Map
• Risk Management Strategy
• Annual Governance Statement and Update
• CIPFA Updates
• Audit Committee – Terms of Reference review
• Review of the Effectiveness of Internal Audit, the Role of the Head of Audit in Public Sector Organisations and the Role of the Chief Financial Officer in Local Government
• Audit Committee Annual Report
• Annual Counter Fraud Report
• Audit Committee Self-Assessment

Other
• Statement of Accounts
• Revised Financial Regulations and Procurement and Contract Procedure Rules
• Local Government Ombudsman Annual Review
• Strategic Risk – Security of Information Update

3. Conclusion

During 2014/15 the Committee was able to confirm:

- That the system of internal control, governance and risk management in the authority was adequate in identifying risks and allowing the authority to understand the appropriate management of these risks.
- That there were no areas of significant duplication or omission in the systems of internal control, governance and risk management that had come to the Committee's attention, and had not been adequately resolved.

4. Sources of Assurance

The Committee gained assurance in order to produce the above conclusion, from the following sources:

The work of Internal Audit

The council's Internal Auditors gave the following opinion in their Annual Report for 2014/15:

"Based on the work undertaken during the year, the implementation by management of the recommendations made and the assurance made available to the authority by other providers as well as directly by Internal Audit, Internal Audit can provide reasonable assurance that the council has adequate and effective governance, risk management and internal control processes".

However, they did note a number of issues that still required further action and further details of these can be found in the Annual Internal Audit Report.

The work of External Audit (KPMG)

The external auditors regularly report back to the Audit Committee on their programme of activity. During the year they issued an unqualified value for money conclusion and an unqualified opinion on the financial statements. Again, assurance is obtained from these as appropriate.

The Governance Statement

The Governance Statement operated throughout the year ended 31 March 2015, and up to the date of the approval of the annual report and accounts. Based on the council's established risk management approach, the following issues were assessed as being significant for the purpose of the 2014/15 Annual Governance Statement. Over the coming year appropriate steps to address these matters and further enhance governance arrangements will be taken:

Children's Services

Resilience of the Medium Term Financial Strategy

Business Continuity Planning

Health and Social Care Reforms

Disposal of Council Property

Combined Authority

Register of Interests for elected members

Subject Access Requests

Senior Management Restructure and Chief Financial Officer

The use of Risk Management

The council's strategic risk register and accompanying assurance map was presented and reviewed at a number of the Audit Committee meetings held during the year.

5. The Committee's Main Achievements

The Committee believes its key achievements during the year were:-

- Effective challenge and questioning of officers through the review of specific risks and the regular review of the strategic risk register and assurance map.
- Providing additional assurance to the council through a process of ongoing independent review.
- Reviewing the Terms of Reference for the Committee in order to ensure they remain fit for purpose and reflect best practice.
- Maintaining an ongoing awareness of the future of local public audit following the abolition of the Audit Commission and the passing of the Local Audit and Accountability Act.
- Commencing a self-assessment exercise based on the CIPFA model for an adequate and effective Audit Committee.

- Improving its knowledge base through receipt and consideration of CIPFA's Audit Committee Updates.
- Raising the profile of risk and internal control issues across the council and of the need to ensure that audit recommendations are implemented.
- Having an independent member as Vice-Chair, in order to continue to broaden the Committee's experience and independent view point.
- Reviewing the Internal Audit Charter in line with the Public Sector Internal Audit Standards.

Appendix A**Terms of Reference for the Audit Committee****Audit Committee –Terms of Reference****Statement of purpose**

Our Audit Committee is a key component of the council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

To monitor the effective development and operation of risk management in the council.

To monitor progress in addressing risk-related issues reported to the committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

Internal Audit

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve risk based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;
- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To support the development of effective communication with the head of internal audit.

External Audit (KPMG)

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

To receive detailed training in respect of the process associated with the preparation, sign off, audit and

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full council on a regular basis on the committee's performance in relation to the terms of reference, and the effectiveness of the committee in meeting its purpose.