

# North Level District Internal Drainage Board

## Annual Report of the Governance and Audit Committee

2009 / 2010

## **Foreword by the Chairman**

Welcome to the second Annual Report of the Governance and Audit Committee. This report has been written to give members of the Board and the general public an overview of the work that the Committee has undertaken in its second year of operation.

After a full year as a Committee we feel that those members new to Governance and Audit have gained useful knowledge in the past year. We have received the 2009 Annual Governance report from our auditors Grant Thornton, we have reviewed various policies and submitted same to the Board for their approval. From a standing start we have now reviewed the majority of the Boards Policies all of which have been presented to the full Board and have been subsequently adopted.

We feel that we have made considerable progress in this our second year. This report shows how we have implemented the key duties and responsibilities of the Committee and how we are endeavouring to put governance to the fore of the Board.

J. SLY

Chairman of the  
Governance and Audit Committee.

## **Membership**

The Committee is appointed by the Board and consists of five members:- one member representing each of the following, Peterborough City Council, South Holland District Council and Fenland District Council and two elected members. The Chairman of the Committee is elected from the Committee annually.

## **Governance and Audit Committee**

J. Sly representing - Peterborough City Council

Cllr. C.J.T.H.Brewis - South Holland District Council

Cllr. M. Cotterell. MBE - Fenland District Council

J.A.Clarke - Elected Member

N. J. Harris - Elected Member.

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## **Conclusion and Executive Summary**

The Committee have been conscious of the need to monitor the actions and recommendations arising from Internal audit. Numerous policies have been considered during the year all of which have been adopted by the Board. The Committee are focused on improving performance, effectiveness and value for money whilst reducing any risks identified. The Risk Management Policy, Strategy and Register have been re-written and a detailed Strategic Plan has been produced, these being two lengthy documents.

## **Background**

The North Level District I.D.B's Governance and Audit Committee was established by the Board in October 2008. In recent years, there has been a significant increase in the amount of regulation and guidance issued on governance arrangements for both private and public sector bodies. Given the financial crisis that we have seen and the effects on the economy over the last two years, the correct approach now is not to ignore the contribution of governance but to strengthen it. Good governance, overseen by a responsible Governance and Audit Committee can address the management of risk in a way that underpins the regulation of the Board.

Our Governance and Audit Committee exists to provide independent assurance that there are adequate controls in place to mitigate key risks and provide assurance that the Board is operating effectively. We are not a substitute for the executive function in the management of internal audit, risk, corporate governance, stewardship reporting, internal control or any other review or assurance function. It is our role to

offer opinions and / or make recommendations on the way such management is conducted.

## **Our Terms of Reference**

We were established to assure the Board and the general public of the objectivity and fairness of the financial reporting and performance of the Board and the adequacy of the risk management framework and associated controls within the Board. The Committee will ensure that any issues arising from the preparation or, auditing and certifying of the Boards annual Financial Statement and related reports are properly dealt with proportionately and promptly.

Our main role is to:-

- To review the financial statements
- To review the internal control systems including risk management
- To review all policies
- To review the internal audit programme
- To consider the appointment of the external auditors and their independence

We `provide assurance` to the Board and encourage the adoption of best practice in Governance of the Board.

## **Work Programme**

The Committee normally meet three times a year, but should circumstances dictate extra meetings are convened.

The Key areas of work covered are as follows:-

- Internal Control Environment
- Audit
- Regulatory Frameworks
- Accounts
- Risk Management
- Fraud

## Internal Control Environment

As part of our duties the Governance and Audit Committee has a significant role to play in approving the Annual Governance Statement.

The Committee considers the annual review of the effectiveness of the system of internal control. The committee must satisfy itself that the system of internal control has operated effectively throughout the reporting period. The review for 2009/10 has focused on the following business critical aspects:

1. Establishing principle **statutory obligation** and organisational objectives
2. Effective mechanisms in place to establish appropriate **corporate objectives**
3. Effective corporate **governance arrangements** are embedded within the Board
4. Effective **performance management** arrangements are in place
5. The Board has robust systems and processes in place for the identification and management of **strategic and operational risk**
6. The Board has **robust system of internal control** which includes systems and procedures to mitigate principal risks
7. The Board has robust arrangements regarding the **statutory roles of the Chief Financial Officer** and Financial Control
8. Appropriate **assurance statements** are received from designated internal and external assurance providers
9. The Board has made adequate arrangements to identify, receive and evaluate reports from defined internal and **external assurance providers** to identify areas of weakness in controls
10. There is a robust mechanism to ensure that an appropriate **action plan** is agreed to address identified control weaknesses and is implemented and monitored
11. The **Annual Governance Statement** has been drafted in accordance with the statutory requirements and timetable set out in the Accounts and Audit Regulations 2003 and is in accordance with CIPFA guidance

The Committee is the guardian of corporate governance within the Board.

There are eight characteristics of effectiveness:

- Understand **other sources of assurance**
- Understand the **whole organisation**, its needs and objectives
- Be seen as a **catalyst for change**
- **Add value** and assist the organisation in **achieving its objectives**
- Be involved in **service improvements** and projects as they develop
- Be **forward looking**
- Be **innovative and challenging**, shaping the values and standards of the organisation
- Ensure the **right resources** are available

## Audits

Internal and External Audit activity is one of the principle ways the Committee gains assurance on the effectiveness of the control environment.

## **Internal Audit**

### **➤ Purpose of Annual Report**

1. The Annual Internal Audit Report of North Level District Internal Drainage Board (the Board) aims to present a summary of the audit work undertaken over the past year. In particular:
  - Include an opinion on the overall adequacy of and effectiveness of the internal control system and the extent to which the Board can rely upon it;
  - Inform how the plan was discharged and of overall outcomes of the work undertaken;
  - Draw attention to any issues particularly relevant to the Statement of Assurance

### **➤ Scope of Work**

2. The statutory legislation for the appointment of an Internal Auditor is the Local Government Act 1972 (Section 151) and the Accounts and Audit Regulations 2003 as amended. The regulations state “a relevant body shall maintain an adequate and effective system of internal control in accordance with the proper internal audit practices”
3. The purpose of Internal Audit as an independent appraisal function established within the organisation is to provide the Board and the Chief Executive (as section 151 Officer) with an independent and objective opinion on risk management, control and governance processes and their effectiveness in achieving the organisation’s agreed objectives.
4. G. Parkes was appointed as our Independent Internal Auditor in 2005-06 and agreed the approach for the audit work required to be carried out.
5. The Audit Plan for the financial year ending 31 March 2010 was agreed with the Boards Chief Executive and the Audit Committee and allows for some substantive work to be undertaken in addition to some systems reviews, to compensate for the small number of staff employed by the Board.
6. All work in this plan has been delivered.
7. As part of the internal Audit plan the Internal Auditor reported to the Committee on 11<sup>th</sup>. January 2010 explaining in detail the procedures used and controls in place when carrying out his audit of payroll.
8. It was agreed by the Committee that, in future years, more detailed information would be included in the Internal Audit Report. Areas that have been investigated and reported to the Audit Committee would be included in the Annual Report.

## **Overall Conclusions**

Based on the work undertaken and within the confines of the small number of staff employed by the Board, G.Parkes confirmed that the financial controls and procedures put in place by the Board are sufficient to enable the Board to operate efficiently and effectively. There are no matters which he wished to report to the Members.

## **External Audit**

The following reports were also received from the Boards external auditors, Grant Thornton:-

- Letter of Appointment
- Letter of Representation
- Annual Governance Report Audit 2008/2009 – November 2009
- Action Plan – November 2009
- Use of Resources Audit 2008 /2009 – November 2009
- Financial Statements Audit 2008 / 2009 – November 2009

The Committee will be monitoring progress against the recommendations contained in the above reports.

The Committee has met the Internal Auditor to discuss the Internal Audit plan and Annual Report and also met officers from the appointed External Auditors, Grant Thornton, who will be the Boards External Auditors for the five year period 2009 to 2013. Further meetings are planned with Grant Thornton to discuss issues arising from the Audit of the accounts for the year ended 31<sup>st</sup>. March 2010.

## **Accounts**

Some of the most technically complex subjects the Governance and Audit Committee had to address were those relating to the annual accounts. The Financial Statement for the last financial year was reviewed. The Committee raised no concerns.

## **Risk**

One of the key roles of the Committee is to consider the effectiveness of the Boards risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements. The Committee considered a revised Risk Management policy which has subsequently been adopted by the Board. It is the Committees role to consider how officers have identified the significant risks that face the Board and how they have been identified, evaluated and managed. The effectiveness of the internal control in managing the significant risks having regard to any weaknesses in the internal controls.

## **Fraud**

The Board have adopted a Fraud and Corruption Policy and a Whistle-Blowing Policy which will be periodically reviewed.

## **Corporate Governance and Internal Control**

The Committee will become one of the key areas of corporate governance within the Board. Members of the Committee must be fully aware of the Boards structure of corporate governance and their place within that structure. As part of their duties the Governance and Audit Committee will have a significant role to play in approving the Annual Governance Statement.

## **Audit Activity**

Internal and External Audit activity is one of the principle ways the Committee gains assurance on the effectiveness of the control environment.

## **Regulatory Framework**

The regulatory framework within which the Board works is an essential area of understanding for all members of the Governance and Audit Committee.

## **Value for Money and Efficiency Issues**

The Committee is charged with considering the extent and success of the Boards programme and processes for achieving value for money. Based on the Use of Resources assessment an `except for` value for money conclusion was given. This being due the Board not having a Strategic Plan, Financial Plan, and an adequate Risk Management Plan, Strategy and Register in place. These issues having been addressed during this year.

## **Risk Management**

Part of the Governance and Audit Committees remit involves the independent review of the effectiveness of the Boards risk management arrangements. The Risk Management Strategy, Policy and Register being reviewed on 11<sup>th</sup> January 2010.

## **Counter Fraud**

The Boards officers are responsible for establishing and implementing arrangements to counter fraud and corruption. The Governance and Audit Committee is responsible for overseeing these arrangements.

## **Self Assessment**

The Committee will review its own performance and terms of reference to ensure that it is operating effectively. It will recommend to the Board any changes considered necessary. The self assessment covering the following:-

- Establishment, operation and duties
- Internal Controls

- Financial Reporting and Regulatory matters
- Internal Audit
- External Audit

The Committee felt that in its second year real progress had been made and that an overall assessment could be classed as 'good' with many of the issues highlighted in the first External Audit carried out by Grant Thornton having now been addressed

The Committees strengths can be highlighted as follows:-

- The Committee work hard together
- The Committee has worked hard with the External Auditors so as to address the issues raised in their first Audit of the Boards Accounts and have built up a sound working partnership with them.
- Have acquired further knowledge and new skills
- Act independently of outside persuasion
- The Committee has raised awareness of its roles and responsibilities throughout the Board increasing greater understanding of its remit amongst both Board Members and officers

## **Internal Audit**

The 2003 Accounts and Audit Regulations requires bodies to review the effectiveness of their system of internal audit annually and for the findings of the review to be considered by a committee of the body, or by the body as a whole, as part of the consideration of the system of internal control.

The purpose of the System of Internal Audit is to provide a reliable assurance on internal control and the management of risks of the Board. The Committee suggested that improvements could be made to the Internal Audit by documenting that recommendations have actually been implemented.

## **Communication**

During 2009/2010 the Boards Statement of Accounts, adopted Policies and the Strategic Plan have been displayed on the website.

## **The Challenges for 2009/2010 were as follows:-**

- Our first priority for 2009/2010 is to work with the external auditors, Grant Thornton to resolve the issues arising with the Audit of Accounts for the period 31<sup>st</sup>. March 2009 and agree an acceptable format for future years.
- It is considered paramount that the Committee furthers its understanding of the role of external audit.
- Understanding Value for Money
- Understanding the Concepts of materiality.

We are pleased to report that the above challenges have all been addressed.

## **Challenges for 2010/11**

- To achieve an unqualified opinion on the Boards Financial Statements.
- To achieve an unqualified opinion on the Boards Use of Resources.
- To continue to build a professional working relationship with our External Auditors and present our accounts in a professional and meaningful way for the benefit of all our stakeholders.
- To review and update Policies.