

REPORT TO COUNCIL ON THE WORK OF THE AUDIT COMMITTEE 2011/12

Reporting Officer: Head of Audit and Enforcement

SUMMARY

In accordance with best practice guidance the Audit Committee is required to submit an annual report to Council outlining the Committee's activities over the previous 12 months. Accordingly, this report summarises for the Council the work of the Audit Committee during 2011-12 in undertaking its responsibilities for overseeing and challenging the key areas within its remit, specifically:

- Internal Control;
- Risk Management;
- Internal Audit;
- Additional financial assurances;
- Anti Fraud; and,
- Annual Accounts and External Audit.

The report provides an opportunity for Members to review the work of the Committee and comment on its contribution and performance.

This report details the key areas reviewed by the Committee in 2011-12. The Committee has had an impact on all areas of its remit, most notably:

- Raising the profile of Internal Audit through its review of its activities and acknowledged support for the service
- Receiving and reviewing
 - the Internal Audit Operational Plan for 2012/13
 - the periodic progress reports presented by the Head of Audit & Enforcement;
 - Internal Audit's Terms of Reference
 - Internal Audit Strategy
 - the Head of Audit Annual Assurance Statement
 - an independent report on the Annual Review of the Effectiveness of the Systems of Internal Audit from the Head of Audit at the City of London
 - a report on the progress of implementing ICT recommendations
 - quarterly reports on the risk management process;
 - reports on Revised Treasury Management Practices
 - the Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15
 - a verbal overview from External Audit on the changes to the accounts under International Financial Reporting Standards (IFRS)
 - a Briefing Note on the Consultation on the Future of Local Public Audit
 - the External Audit Annual Audit Letter, Annual Grants Letter and Annual Audit Plan
 - the External Audit report on the Pension Fund Annual Report and Accounts
 - the Balances and Reserves Statement 2012/13
 - a Consolidated Fraud Report assessing our internal practices against the Audit Commission's recommended good practice

- the bi-annual Corporate Fraud reports
- A Fraud Plan indicating how anti-fraud resources will be utilised in 2012-13 and detailing the expected benefits to the council;
- Approving the 2010/11 Statement of Accounts and External Audit Report, and presenting a robust challenge by addressing questions and seeking assurances from both officers and the external auditors.
- Monitoring the production of the Annual Governance Statement and its supporting evidence, and recommending the adoption of the statement to the Leader and Chief Executive.
- Reviewing and setting its work programme.
- Keeping up to date on changing legislation and emerging issues.

RECOMMENDATION: That the annual report be noted.

INFORMATION

1. Background

The Audit Committee has a wide ranging brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of risk management, internal control including audit, anti-fraud and the financial reporting frameworks. The Audit Committee also approves the Annual Accounts and receives regular reports on the work of the external auditor.

2. Membership

- 2.1 The Committee membership is shown below. They have a wide range of skills and bring both technical and professional experience to the role. The Independent Chairman is a qualified accountant with wide experience in the private and public sector.

Mr. John Morley, (Independent Chairman), Councillors G. Cooper, Graham, Harmsworth and Lewis.

- 2.2 During the course of meetings members are briefed on relevant issues in relation to local government accounts, External Audit, Internal Audit, Use of Resources, Anti-Fraud arrangements, and risk management.

3. Internal Control

- 3.1 In compliance with the Accounts and Audit Regulations 2011, the Committee has reviewed the effectiveness of the systems of internal control by receiving regular reports from those areas that contribute to the control framework, specifically;

- Internal Audit;
- External Audit
- Risk Management;
- Anti Fraud activities;
- Annual Governance Statement steering group.

- 3.2 The Committee has received reports from the Annual Governance Statement Steering Group This group reviews and challenges the assurances used to support the Annual

Governance Statement that accompanies the statutory accounts. It also reviewed the resultant draft Annual Governance Statement 2010-11 and recommended its approval to the Leader and Chief Executive and will do the same for 2011-12

4. Risk Management

- 4.1 Regular reports on the Council's corporate risks are produced and presented to the Audit Committee, which presents a further challenge to the identified risks.
- 4.2 The Committee received assurance that the Corporate Risk Management Group (CRMG) continued to meet regularly and to challenge and review the risks and mitigation strategies.
- 4.3 All corporate risks have a Risk Management Action Plan, which is effectively a strategy for reducing the effect of the risk.

5. Internal Audit

- 5.1 The Council's Internal Audit is mainly provided by an in-house team, with IT audit outsourced to a private firm. There was some staff turnover this year and consequently the number of reports issued to draft stage fell from 90% in 2010-11 to 85% in 2011-12.
- 5.2 High levels of assurance are key to the production of the Head of Audit's assurance statement, which in turn supports the Annual Governance Statement. Consistent with last year 99% of audit recommendations were accepted, against a target of 95%. Acceptance and implementation of audit recommendations is a key element of improving overall control. Implementation rates of around 80% were achieved at follow up and the committee continues to present a challenge where recommendations have been outstanding for long periods of time.
- 5.3 During the year, the Audit Committee received regular updates on performance and summaries of audit reports. The Committee plays an important role in raising the profile of Internal Audit by supporting it in its role of assisting management in the Council. Senior officers are required to provide a commentary on the actions they are taking where a report received no or limited assurance and the Committee can, if it considers it necessary, ask officers to appear before it.
- 5.4 The audit plan and strategy approved by the Committee for 2012-13 is risk based and uses a methodology adopted four years ago. Using this methodology, the highest risk-ranked audits are undertaken each year with the risks being re-evaluated annually to take account of emerging and receding issues.
- 5.5 In line with CIPFA guidance, an annual review of Internal Audit was undertaken. This year, the Head of Audit at the City of London, who was recommended by one of the Audit Committee members, carried out an independent review. He included within his review an assessment of the Head of Audit role based on, The Role of the Head of Audit in Public Sector Organisations, which was issued by CIPFA in 2011. The service and the Head of Audit were found to be compliant. Two good practice suggestions were made for the Head of Audit and one for the council. These will be considered in the coming year.

6. Anti-Fraud

6.1 During the year, the Audit Committee received reports summarising the outcome of Internal Audit investigations into alleged fraud and irregularity. Twenty such investigations were concluded in 2011/12 and reported to the committee in updates throughout the year. Largely they have fallen into three categories:

- No issue at the conclusion of the investigation.
- Issues to be addressed by management action
- Disciplinary issues

6.2 The Head of Audit has responsibility for the Corporate Fraud Team. A fraud report is presented to the committee biannually. During the year the team has investigated fraud related issues in the following areas

- Housing and Council Tax Benefit
- Social Housing
- Identity and recruitment
- Blue Badges
- Council tax discount
- Internal issues

6.3 Team achievements include

- 38 successful prosecutions
- 37 cautions
- 17 administrative penalties
- 28 council properties reclaimed
- 46 Blue Badges seized
- Identified over £440,000 in benefit fraud
- Recovered £200,0000 in overpayments
- Obtained £4,000 using Proceeds of Crime Legislation.

7. External Audit

The external auditors have attended each meeting of the committee. The Head of Audit has met with Deloitte's Audit Manager to discuss the respective approaches to audit. The relationship is now well established. Deloitte are currently reviewing Internal Audit reports for their 2011-12 audit and we expect that they will be able to place reliance on the work. This year we will be carrying out some specific testing on grants under the direction of Deloitte and on which they will place reliance. Representatives from Deloitte continue to attend Audit Committee meetings to present various reports and answer questions. The Chairman of the Audit Committee has met the Deloitte auditors independently, in keeping with good governance arrangements.

8. Annual Accounts and Financial Reporting

8.1 The Audit Committee received or approved the following reports:

September 2011

- 2010-11 Statement of Accounts
- External Audit Report on the Audit for the Year Ended 31 March 2011
- External Audit's Report on the Pension Fund Annual Report and Accounts

- External Audit's Annual Audit Letter and Annual Grant Audit Letter

March 2012

- External Audit's 2011/12 Annual Audit Plan.

8.2 The Committee have maintained an active interest in all financial matters, including Treasury Management and in the move to International Accounting Standards. Reports have been received on Revised Treasury Management Practices, Treasury Management Strategy Statement and Investment Strategy 2012/13 to 2014/15, International Accounting Standards.

9. Conclusion

The Audit Committee believes it has made a significant contribution to ensuring that the key elements of the Governance Framework are given proper consideration and are appropriately challenged. It will continue to develop this role and contribute to strengthen internal control, risk management and governance throughout the authority.

10. Legal and Financial Implications

None arising from this report.

BACKGROUND PAPERS: Terms of reference for Audit Committee; Annual Governance Statement Framework