

ANNUAL REPORT ON THE WORK OF THE AUDIT COMMITTEE 2012/13

Reporting Officer: Head of Internal Audit

SUMMARY

1. 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 twelve months. Accordingly, this report summarises for the Council the work of the Audit Committee during 2012/13 in undertaking its responsibilities for overseeing and challenging the key areas within its remit, specifically:
 - Internal Control
 - Risk Management
 - Internal Audit
 - Anti Fraud
 - Annual Accounts and External Audit.
2. The report provides an opportunity for members to review the work of the Committee and comment on its contribution and performance.
3. This report details the key areas reviewed by the Committee in 2012/13, based around the four meetings of the Committee in June, September and December 2012, and March 2013. The Committee has had an impact on all areas of its remit. Notable areas were:
 - 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 2013/14
 - the periodic progress reports presented by the Head of Internal Audit
 - Internal Audit's Terms of Reference
 - the Internal Audit Strategy 2013/14
 - 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 and Risk Management at the City of London
 - quarterly reports on the risk management process;
 - Treasury Management updates
 - the Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16, including revisions updates
 - 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 2013/14
 - Corporate (Consolidated) Fraud reports
 - the Corporate Fraud Investigation Team Work Plan 2012/13.
 - Approving the 2011/12 Statement of Accounts and External Audit Report, and presenting a robust challenge through asking 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 this Audit Committee Annual Report to Council and referring it to Council for approval
- Reviewing and setting its work programme
- Keeping up to date on changing legislation and emerging issues.

RECOMMENDATION: That the annual report be noted.

INFORMATION

4. 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 reviews the Annual Accounts and receives regular reports on the work of the external auditor.

5. Membership

- 5.1 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.

- 5.2 During the course of meetings Members were briefed on relevant issues in relation to local government accounts, external audit, internal audit, use of resources, anti-fraud arrangements and risk management.

6. Internal Control

- 6.1 In compliance with the Accounts and Audit (England) 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.

- 6.2 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 2011/12 and recommended its approval to the Leader and Chief Executive and will do the same for 2012/13.

7. Risk Management

- 7.1 Regular reports on the Council's corporate risks are produced and presented to the Audit Committee, to provide evidence that significant risks are identified and that they are managed through appropriate mitigating actions.
- 7.2 The Committee received assurance that the Corporate Risk Management Group continued to meet regularly and that it challenged and reviewed the risks and mitigation strategies. All corporate risks have a Risk Management Action Plan, which is effectively a strategy for reducing the effect of the risks.

8. Internal Audit

- 8.1 The Council's internal audit service is mainly provided by an in-house team, with IT audit outsourced to a private firm. Audits completed at least to draft report stage by the end of May 2013 was 90%, as shown in Table 1 below compared with earlier years.

Table 1 Adjusted plan: fully completed audits or draft report issued

Audit Work Planned	Percentage of plan			
	Target	2012/13	2011/12	2010/11
Complete (finalised) or draft issued at year-end	90	90	84	90

- 8.2 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. In the year 99% of audit recommendations were accepted, against a target of 95%. Acceptance and then implementation of audit recommendations will improve overall control. Over the year an average implementation rate of 72% against agreed target dates was achieved at follow up review stage. The robust system of multiple follow up reviews and reporting results to this Committee ensures that there is effective challenge where recommendations have been outstanding for long periods of time, and despite regular audit follow up reviews. Table 2 compares the two performance measures with earlier years. The implementation rate in 2012/13 has been impacted by the amount of structural change that has occurred during the year.

Table 2 Recommendations agreed and implemented

	Percentage			
	Target	2012/13	2011/12	2010/11
Recommendations agreed by management	95	99	99	99
Average implementation rate	75	72	80	80

- 8.3 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 indicated no or limited assurance. The Committee could ask officers to appear before it, if it considered it necessary.
- 8.4 The audit plan and strategy approved by the Committee for 2012/13 was risk based and used a methodology adopted five years ago. Using this methodology the highest

risked-ranked audits are undertaken each year with the risks being re-evaluated annually to take account of emerging and receding issues.

- 8.5 There is an annual review of internal audit and this year it was carried out by the current interim Head of Internal Audit, who has carried out similar reviews elsewhere. The service was also reviewed against the new Public Sector Internal Audit Standards and found to be broadly compliant. The result of this review is the subject of a separate report to this Committee. A number of recommendations were made for the in-coming Head of Internal Audit to consider.

9. Anti-Fraud

- 9.1 During the year the Audit Committee received summarised reports of the outcome of internal audit investigations into alleged fraud and irregularity. It also received two Consolidated Fraud Reports on the combined efforts of the Internal Audit and Corporate Fraud Investigation teams to combat fraud and loss.
- 9.2 For the majority of the year the Internal Audit service and the Corporate Fraud Investigation Team were both within the remit of the Head of Audit. In late 2012 the reporting line of the Corporate Fraud Investigation Team was moved to Residents Services. Both the Internal Audit and Corporate Fraud Investigation teams work together to provide a range of anti-fraud measures, in order to prevent fraud from occurring and to investigate instances of suspected fraud. This activity includes proactive detection and reactive investigation, and prosecution in appropriate cases. There is a specific remit for the Corporate Fraud Investigation Team to investigate benefit fraud. Other types of fraud often cut across both teams so there is close liaison between them.
- 9.3 Thirteen audit investigations into fraud or irregularities were concluded in 2012/13 and these have been reported to the committee in updates throughout the year. Largely they have fallen into two categories: no issue at the conclusion of the investigation or issues to be addressed by management action.
- 9.4 Activities of the Corporate Fraud Investigation Team include:
- housing and Council Tax benefit investigations and prosecutions
 - Council Tax/Business Rates inspections
 - social housing fraud investigations and prosecutions
 - proactive on-street Blue Badge examinations and prosecutions
 - internal and external fraud investigations and prosecutions
 - delivery of awareness programmes about benefit fraud
 - development of anti fraud strategies
 - co-ordination and delivery of the Single Investigation Service pilot exercise with the Department for Work and Pensions.
- 9.5 Achievements for the Team include:
- over £340,000 in benefit fraud identified
 - 27 benefit administrative penalties
 - 23 successful benefit prosecutions
 - one successful fraud prosecution
 - 9 Blue Badge prosecutions
 - 42 council properties reclaimed

- 8 Proceeds of Crime cases under review.

10. External Audit

Representatives from Deloitte attend Audit Committee meetings to present various reports and answer questions. Members of the Audit Committee have met the Deloitte auditors independently, in keeping with good governance arrangements.

11. Annual Accounts and Financial Reporting

11.1 The Audit Committee received or approved the following reports:

September 2012

- Statement of Accounts 2011/12
- External Audit Report on the Audit 2011/12
- External Audit's Report on the Pension Fund Audit 2011/12
- External Audit's Annual Audit Letter.

March 2013

- External Audit's 2012/13 Annual Audit Plan
- External Audit's 2012/13 Annual Audit Plan for the Pension Fund
- Annual Grant Audit Letter 2011/12.

11.2 The Committee has maintained an active interest in all financial matters, including treasury management. Reports have been received on the Treasury Management Strategy Statement and Investment Strategy 2013/14 to 2015/16 as well as updates on current issues.

12. Conclusion

The Audit Committee believes it has continued to make 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.

13. Legal and Financial Implications

None arising from this report.

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