

# **Annual Report of the Audit Committee 2013/14**

**24 July 2014**

## **Report Distribution:**

Audit Committee on 30 July 2014

Council on 11 September 2014



## 1. Introduction

- 1.1 In line with best practice guidance, the Audit Committee is required to submit an annual report to Council outlining the Audit Committee's activities over the previous year. This report summarises, for the Council, the work of the Audit Committee during the 2013/14 municipal year and how it has undertaken its responsibilities for reviewing and scrutinising the key areas within its remit. Specifically these include:
- Internal Control;
  - Risk Management;
  - Corporate Governance;
  - Internal Audit;
  - External Audit;
  - Anti Fraud and Anti Corruption;
  - Annual Accounts/ financial reporting requirements; and
  - Treasury Management.
- 1.2 Accordingly, in compliance with the Accounts and Audit (England) Regulations 2011, the Audit Committee has reviewed the effectiveness of the Council's systems of internal control, risk management framework and corporate governance arrangements, by receiving regular reports from the areas above that contribute to the overall control framework.
- 1.3 This report provides an opportunity for Members to review the work of the Audit Committee and comment on its contribution and performance.

## 2. Key Activities of the Audit Committee

- 2.1 The Terms of Reference of the Committee are attached at [Appendix A](#). These were last amended at the Council meeting held on 9 May 2013, following a review by the Corporate Services & Policy Partnerships Committee. The updated Terms of Reference outlines the different roles and responsibilities that surround the Council's wide ranging audit and governance activities, namely: strategy and policy (Leader/ Cabinet Members), service delivery (officers) and review, monitoring and strategic oversight (Audit Committee).
- 2.2 During the year membership of the Audit Committee comprised of:
- Mr. John Morley - Independent Chairman to 5 June 2014;
  - Cllr George Cooper - Vice Chairman, reappointed 5 June 2014;
  - Cllr Richard Lewis - Appointed May 2011, reappointed 5 June 2014;
  - Cllr Raymond Graham - May 2011 to 5 June 2014;
  - Cllr Paul Harmsworth - May 2011 to 5 June 2014;
  - Cllr Tony Eginton - Appointed 5 June 2014; and
  - Cllr Susan O'Brien - Appointed 5 June 2014.
- 2.3 In line with best practice, during the 2013/14 municipal year the Audit Committee was chaired by an independent Chairman. The 2013/14 independent Chairman was a qualified accountant with substantial relevant experience in the private and public sectors. This post is in the process of being re-appointed by the Council.
- 2.4 In addition, Internal Audit has recently highlighted that the 2013/14 Audit Committee membership was in slight breach of the Council's Constitution. Specifically, the Council's

Constitution states that members of the Audit Committee should not sit concurrently on the Council's Executive Scrutiny Committee. Unfortunately this has inadvertently not been complied with in 2013/14 or in previous years. However, as soon as the matter was brought to the attention of officers by Internal Audit, corrective action was taken to ensure that in future all Audit Committee membership will be in full adherence to the Council's Constitution.

2.5 The role delegated by the Council to the Audit Committee is to provide independent assurance over the system of internal controls, the risk management framework and the corporate governance arrangements in operation at the Council.

2.6 The Audit Committee has fulfilled this role by undertaking the following key activities:

**a) Oversight of Internal Audit**

- The Audit Committee oversaw the activity of the Council's Internal Audit service to assist it in its role. During the year, the Audit Committee has reviewed the 2012/13 Internal Audit Annual Report, received Internal Audit progress report updates, scrutinised Internal Audit performance and approved the 2014/15 Internal Audit Plan as well the updated Internal Audit Charter.
- The Committee also reviewed the key findings from Internal Audit reviews and sought explanations from the Head of Internal Audit about the recommendations emanating from 'limited' or 'no' assurance audits. It monitored the number of outstanding high and medium risk recommendations and was pleased to note a substantial reduction in the number of outstanding Internal Audit recommendations this year.
- The Committee played an important role in raising the profile of Internal Audit by supporting it in its role of assisting management in the Council. During the year it encouraged the modernising of the Internal Audit department, and the introduction of more streamlined reporting.
- Internal Audit is now adopting a more collaborative approach in working with management to help achieve positive outcomes for the Council. In addition the Audit Committee was informed of the increased amount of consultancy work carried out by Internal Audit.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with the Head of Internal Audit this year.
- The Audit Committee is satisfied that Internal Audit is effective and adds value to the Council.

**b) Oversight of External Audit**

- The Audit Committee reviews the activity of the Council's External Auditors (Deloitte) to assist it in its role of monitoring the system of internal controls, the risk management framework and governance arrangements of the Council's operations. The Audit Committee has received and considered the annual external audit report, as well as the external audit plan. The Committee also received external audit progress report updates and reviewed external audit performance.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with External Audit this year.
- The Audit Committee is satisfied that External Audit is effective and adds value to the Council.

**c) Prevention and Detection of Fraud and Corruption**

- Hillingdon Council operates a zero tolerance policy towards fraud and corruption. Responsibilities for the Council's anti-fraud and anti-corruption arrangements are spread across three corporate directors.

- The Corporate Fraud Investigations Team (CFIT) carries out a range of investigations, although predominantly its focus has been on benefit fraud.
- Hillingdon has been recognised by the Department for Work and Pensions as running the best performing Single Fraud Investigation Service pilot, acknowledging innovative team working and high quality benefit fraud investigations which have produced positive outcomes.
- The process of presenting cases to court has been streamlined and this has reduced the time taken for cases to be prepared. Direct working with the Crown Prosecution Service has also been expanded.
- The National Fraud Initiative (NFI), detecting potential fraud by matching electronic data sets within and between public and private sector bodies, formally transferred to the CFIT in January 2014. The Team is now resourced to manage, analyse and investigate any data matches arising.
- The Committee has responsibility for the oversight of the effectiveness of the Council's policies and procedures to prevent and detect fraud and corruption. It has received consolidated reports from the CFIT on a bi-annual basis. During 2013/14 there has been a focus on tenancy fraud and in particular benefit fraud.
- The Audit Committee is generally satisfied with the effectiveness of the Council's anti-fraud and anti-corruption arrangements and notes the high performance of the CFIT on benefit fraud in particular.

**d) Risk Management**

- The Audit Committee approved the Council's Risk Management Policy and Guidance in March 2013. The Committee has monitored and reviewed the Council's risk management arrangements during the year through a bi-annual risk management report, including the Corporate Risk Register. It sought assurances that action was being taken on risk related issues.
- The Audit Committee is satisfied that these arrangements enable it to provide sufficient challenge to officers around the identification and management of the key risks to the Council.

**e) Approval of Accounts**

- In September 2013 the Committee approved the Council's annual statement of accounts for 2012/13. This included considering whether appropriate accounting policies have been followed and whether there are concerns arising from the external audit of the financial statements that need to be brought to the attention of the Council. The Committee scrutinised the accounts in some detail and challenged the officers where appropriate. As part of this process the Committee considered the External Auditor's Annual Report to those charged with governance on issues arising from the external audit of the accounts. An unqualified external audit opinion was provided by the External Auditor in September 2013.
- In addition, the Audit Committee reviewed the Balances and Reserves Statement 2014/15, contained within the budget reported to Cabinet and Council in February 2014. This provides further detail on the Council's approach to the management and measurement of balances and outlining technical accounting guidance used alongside analysis of specific risks that lead to a determination of a prudent 'reserves and balances range'. The Audit Committee is satisfied that the Finance Team is effective and adds value to the Council.

**f) Corporate Governance**

- The Audit Committee successfully oversaw the production of the Council's Annual Governance Statement (AGS) for 2012/13 and approved it as part of the Statement of Accounts.

- In addition, the Committee is currently in the process of providing oversight in relation to the production of the AGS for 2013/14.
- During the year the Committee were briefed by senior officers on the Council's approach to cyber security, as well as the improved procurement process being introduced across the organisation.

#### **g) Treasury Management**

- The Treasury Management Strategy Statement (including Prudential Indicators and Annual Investment Strategy) for the forthcoming financial year is submitted to Cabinet prior to agreement at full Council before the start of the financial year. The Audit Committee considered an early draft of the Treasury Management and Investment Strategy in January 2014. The strategy was then approved by Council as part of the budget setting process in February 2014.

### **3. Improvements in the Audit Committee's Effectiveness**

- 3.1 The Audit Committee is committed to continuous improvement and has implemented several activities to develop the effectiveness of individual Members and the Committee as a whole. The Committee requested a Training and Development Plan for all Audit Committee Members. A training session is planned for September (date to be confirmed), which will outline to Audit Committee Members the role of the Committee in the organisation, together with providing Members with information on the organisational structure of the Council.
- 3.2 Furthermore, regular training sessions on a range of relevant subjects within the Audit Committee's remit are being built into the Training and Development Plan. Topics include an overview of the Council's Corporate Governance arrangements, the role of Internal and External Audit, fraud prevention, detection and investigation, understanding local government accounts and risk management. These timely and relevant sessions will enable the Audit Committee to perform its duties more effectively. It was noted that the independent Chairman received relevant training during the year as part of his Audit Committee responsibilities in other organisations.
- 3.3 In line with best practice, an independent review of the Audit Committee's effectiveness has been conducted by Internal Audit. Internal Audit concluded that there are areas of good collective understanding across the Committee. They also reported that having an independent Chairman of the Committee has helped the Committee remain independent and objective. However, the audit also raised several low risk recommendations in relation to the Audit Committee Terms of Reference which do not fully comply with best practice.
- 3.4 Linked to this, following amendments to the Audit Committee's Terms of Reference in May 2013, concern was expressed at the deletion of the power the Audit Committee had to require senior managers of Council services to attend meetings. The External Auditors have noted that it is unusual for the Audit Committee of a local authority not to have this power. However, during the year there have been no occasions where the lack of this power has hindered the effectiveness of the Audit Committee in any way. The Internal Audit report on the effectiveness of the Audit Committee is due to be reported to the Audit Committee at its planned meeting of 30 July 2014.

### **4. Conclusion**

- 4.1 The Audit Committee considers that it has continued to make a significant contribution to ensuring that the key elements of the Council's system of internal controls, risk management framework and corporate governance arrangements are given proper consideration and are appropriately challenged. The Committee will continue to develop this role and contribute to strengthen governance throughout the authority.

- 4.2 I would like to thank all Members and officers who have been involved in the work of the Audit Committee throughout the past year.

**Cllr George Cooper**  
Vice Chairman of the Audit Committee  
London Borough of Hillingdon

24 July 2014

## **Terms of Reference**

The Constitution defines the terms of reference for the **Audit Committee** as:

### **Introduction**

The Audit Committee's role will be to:

- Review and monitor the Council's audit, governance, risk management framework and the associated control environment, as an independent assurance mechanism;
- Review and monitor the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and/or weakens the control environment;
- Oversee the financial reporting process of the Statement of Accounts.

Decisions in respect of strategy, policy and service delivery or improvement are reserved to the Cabinet or delegated to Officers.

### **Internal Audit**

1. Review and monitor, but not direct, Internal Audit's work programmes, summaries of Internal Audit reports, their main recommendations and whether such recommendations have been implemented within a reasonable timescale, ensuring that work is planned with due regard to risk, materiality and coverage.
2. Make recommendations to the Leader of the Council and Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and plans.
3. Review the Annual Report and Opinion and Summary of Internal Audit Activity (actual and proposed) and the level of assurance this can give over the Council's corporate governance arrangements.
4. Consider reports dealing with the management and performance of internal audit services.
5. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council and Cabinet Member for Finance, Property and Business Services, to commission work from Internal Audit.

### **External Audit**

6. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
7. Monitor management action in response to issues raised by External Audit.
8. Receive and consider specific reports as agreed with the External Auditor.
9. Comment on the scope and depth of External Audit work and ensure that it gives value for money, making any recommendations to the Corporate Director of Finance.
10. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
11. Following a request to the Corporate Director of Finance, and subject to the approval of the Leader of the Council / Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
12. Monitor effective arrangements for ensuring liaison between Internal and External audit, in consultation with the Corporate Director of Finance.



## **Governance Framework**

13. Maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations. And, where necessary, bring proposals to the Leader of the Council or the Cabinet for their development.
14. Review any issue referred to it by the Chief Executive, a Deputy Chief Executive, Corporate Director, or any Council body.
15. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the corporate risk register and seeking assurances that action is being taken on risk related issues.
16. Review and monitor Council policies on 'Raising Concerns at Work' and anti-fraud and anti-corruption strategy and the Council's complaints process, making any recommendations on changes to the Leader of the Council and the Deputy Chief Executive and Corporate Director of Residents Services.
17. Oversee the production of the authority's Statement of Internal Control and recommend its adoption.
18. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on necessary actions to ensure compliance with best practice.
19. Where requested by the Leader of the Council, Cabinet Member for Finance, Property and Business Services or Corporate Director of Finance, provide recommendations on the Council's compliance with its own and other published standards and controls.

## **Accounts**

20. Review and approve the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from financial statements or from the auditor that need to be brought to the attention of the Council.
21. Consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

## **Review and Reporting**

22. Undertake an annual independent review of the Committee's effectiveness and submit an annual report to Council on the activity of the Audit Committee.