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## SUMMARY

This report summarises for Council the work of the Audit Committee during 2008-9 in undertaking its responsibilities in the oversight and challenge in 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 2008-9. 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 of the function;
- Receiving and reviewing the periodic progress reports presented by the Head of Internal Audit & Corporate Governance;
- Receiving and reviewing the report on the effectiveness of the systems of Internal Audit carried out by the Head of Audit at Southend on Sea;
- Receiving reports and commenting on the risk management process;
- Reviewing and approving annual accounts and presenting a robust challenge in addressing questions and seeking assurances from both officers and the external auditors;
- Reviewing reports on the Icelandic bank situation;
- Monitoring the production of the Annual Governance Statement and its supporting evidence. Recommending the adoption of the statement to the Leader and Chief Executive.

## RECOMMENDATION

That the Council approves the annual report.

## INFORMATION

### 1. Background

1.1. 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. The Terms of Reference for the Audit Committee are reproduced at Appendix 1 for information.

## 2. Membership

2.1. Details of the Committee members are in Table 1. They have a wide range of skills and bring both technical and professional experience to the role. The independent chair is a qualified accountant with wide experience in the private and public sector. Most members served on the committee in 2007-8 and had received development training when the committee was first established. Cllr O'Connor met with the Head of Audit on appointment to discuss roles and responsibilities.

**Table 1**

| <b>Member</b>         | <b>Role</b>        |
|-----------------------|--------------------|
| Mr. John Morley       | Independent Chair  |
| Cllr Paul Buttivant   | Member (part year) |
| Cllr Mary O'Connor    | Member (part year) |
| Cllr. George Cooper   | Deputy Chair       |
| Cllr Phoday Jarjussey | Member             |
| Cllr. Elizabeth Kemp  | Member             |

2.2. During the course of meeting members, they were 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 2003 (and 2006 amendment), 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 (Appendix 2), specifically;

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

3.2. Most of these activities were reported on at every meeting and the Committee's involvement has contributed to a score at level 3 (consistently above minimum requirements) for Internal Control, in the Use of Resources Judgment for 2008 and a predicted level 2 in 2009 under a widely acknowledged much stricter test in the Comprehensive Area Assessment Regime; effectively maintaining position.

3.3. The Committee received regular reports from the Annual Governance Statement Steering Group, which 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 and recommended its approval to the Leader and Chief Executive.

## 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 Corporate Risk Management Group (CRMG) has continued to meet regularly and challenge and review the risks and mitigation strategies. This group is the forum for consideration of all risks and its reports ultimately feed in to the Corporate Management Team, Executive Brief, the Audit Committee and, through an interactive process, back to the groups.

4.3. Assurances were provided to the Audit Committee regarding actions to assist with the control of the main risks being managed by the Council. During the year the PCT's financial position reduced in risk and the top rated risks were the uncertainty around Equal Pay claims, a Possible Public Health Emergency and the Private Sector Leasing Cap Reduction.

4.4. 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. During the year both schools' and IT audit were outsourced to external contractors, although for 2009-10 schools audit was brought back in-house. Staffing and resources have continued to improve with 92% of the plan completed to draft stage by the year end – a 6% improvement from 2007-8. 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. During the year 98% of audit recommendations were accepted, against a target of 95% and an improvement of 1% over the previous year. Acceptance and implementation of audit recommendations is a key element of improving overall control.

5.2. During the year, the Audit Committee received regular updates on performance and summaries of audit reports. Their input has been fundamental in raising the profile of Internal Audit and its important role in 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. The Committee also invited the Director of Education and Children's Services to attend one of its meetings to discuss the issues around obtaining better assurance on the financial management arrangements in schools.

5.3. The audit plan and strategy approved by the Committee for 2009-10 was based on a revised risk based methodology. Using this methodology the highest risk-ranked audits will be undertaken each year with the risks being re-evaluated annually to take account of emerging and receding issues.

5.4. In line with CIPFA guidance, an annual review of the effectiveness of the systems of Internal Audit was undertaken. This year the approach was to invite another Head of Audit to undertake a peer review. The Head of Audit for Southend on Sea carried out the review on a reciprocal basis. She met with the Chair of the Audit Committee prior to undertaking the exercise. The service was found to be largely compliant and an action plan was formulated to cover any gaps.

## **6. Additional Financial Assurance**

6.1. During the year, the Icelandic banking crisis was very much to the fore. In addition to audit reports on treasury management and banking, the committee received regular updates on the Icelandic investments from treasury management officers. The Chairman of the committee also received ongoing briefings from the Director of Finance.

## **7. Anti-Fraud**

7.1. During the year, the Audit Committee received summarised reports of the outcome of Internal Audit investigations into Fraud and Irregularity. The areas considered by the Audit Committee are outlined below.

7.2. The Committee reviewed an amended anti-fraud and corruption strategy.

7.3. Training in Anti-fraud awareness was a focus of delivery in 2008-9. Internal Audit delivered Bitesize courses for second and third tier managers, which included reminding managers of their responsibilities under the Fraud Act, guidance on how to spot and report fraud, as well as how it would be dealt with internally. An online e-learning package was purchased at the end of the year which will be rolled out to all staff in 2009-10 and will be included in induction training.

7.4. The National Fraud Initiative is a biennial nationwide exercise co-ordinated by the Audit Commission. Councils, NHS and other public bodies as well as some private sector bodies provide sets of data to the Audit Commission, which they match for obvious anomalies, e.g. employees in more than one Council. Internal Audit co-ordinates the exercise on behalf of LB Hillingdon. Data matching took place in year and investigations into matches will continue into 2009-10

7.5. Internal Audit has an established protocol with the Housing Benefit Fraud Team which makes full use of the skills in both teams and facilitates in-house prosecutions. This year saw the first successful prosecution under this arrangement.

7.6. Investigation work took up more time than planned, largely due to two significant investigations, one of which led to a successful prosecution and the other to a dismissal.

## **8. External Audit**

8.1. Deloitte took over from the Audit Commission as the Council's external auditors. The Head of Audit met with Deloitte's Audit Manager to discuss the respective approaches to audit and how co-operation could increase the reliance they placed on our work. The initial indications are that this co-ordination has been useful and the relationship is working well. Deloitte have reviewed Internal Audit files and been able to place reliance on the work. Representatives from both Deloitte and the Audit Commission have attended 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.

## **9. Annual Accounts and Financial Reporting**

9.1. The Audit Committee approved the Annual Statement of Accounts for 2007-8 in June 2008. Prior to receiving the final unqualified opinion, the Committee also received reports from the Audit Commission and Deloitte throughout the year on their progress in certification, namely:

- Progress reports from both Deloitte and the Audit Commission;
- An Annual Governance report from the Audit Commission, which noted a number of improvements in the production of the Statement of Accounts compared to the previous year;
- The Use of Resource report from the Audit Commission.

9.2. In support of 2008-9 work, the committee received an Audit and Inspection plan from Deloitte.

9.3. The Committee have maintained an active interest in accounting treasury management issues (Icelandic banks) and have received updates from officers at every meeting. They have sought and obtained confirmation that all problems have been resolved going forward.

## **10. Committee Training and Development**

10.1. The Committee has been relatively stable and this has manifested itself in the increasing confidence members have displayed in asking appropriate questions and presenting an effective challenge to the issues placed before it. Officers have provided briefs on technical matters while presenting papers. The Head of Audit and Corporate Governance met with new members to brief them on roles and responsibilities.

## **11. Conclusion**

11.1. The Audit Committee 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.

## **BACKGROUND PAPERS**

Appendix 1 Terms of reference for Audit Committee

Appendix 2 Annual Governance Statement Framework