

# Annual Report of the Audit Committee 2017/18

21<sup>st</sup> March 2018

## Report Distribution:

<u>Meeting</u>	<u>Date</u>
Audit Committee	11 <sup>th</sup> April 2018
Council	5 <sup>th</sup> July 2018



## 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 2017/18 and how it has undertaken its responsibilities for reviewing the key areas within its remit. Specifically these include:
- Internal Control;
  - Risk Management;
  - Corporate Governance;
  - Internal Audit;
  - External Audit;
  - Counter Fraud; and
  - Financial reporting process of the Statement of Accounts.
- 1.2 Accordingly, in compliance with the Accounts and Audit (Amended) (England) Regulations 2015, the Audit Committee has reviewed the effectiveness of the systems of internal control by receiving regular reports from these areas above that contribute to the control framework.
- 1.3 This report provides an opportunity for Council 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 amended at the Council meeting held on 11 May 2017, following an Internal Audit review of the Effectiveness of the Audit Committee. The updated Terms of Reference provides clarity and clearly outlines the different roles and responsibilities that surround the Council's wide ranging audit and governance activities, namely: strategy and policy (Leader/Cabinet Members), operational/service delivery (officers) and review and monitoring (Audit Committee).
- 2.2 During the 2017/18 year (1<sup>st</sup> April 2017 to 31<sup>st</sup> March 2018) the membership of the Audit Committee comprised as follows:
- Mr. John Chesshire - Independent Chairman - Appointed 2<sup>nd</sup> November 2017;
  - Mr. Rajiv Vyas - Independent Chairman - Appointed on 6<sup>th</sup> November 2014 and left the Council on 11<sup>th</sup> May 2017;
  - Cllr Scott Seaman-Digby - Vice Chairman - Appointed 12<sup>th</sup> May 2016;
  - Cllr George Cooper - reappointed 5<sup>th</sup> June 2014;
  - Cllr Tony Eginton - Appointed 5<sup>th</sup> June 2014; and
  - Cllr Susan O'Brien - Appointed 5<sup>th</sup> June 2014.
- The current Independent Chairman has approximately 20 years experience in the public and private sector working in the internal audit, risk management, business improvement and governance fields.
- 2.3 The role delegated by the Council to the Audit Committee is to provide independent assurance over the governance, risk management and the system of internal control in operation at the Council. 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 of monitoring the internal control, risk management and governance arrangements of the Council's operations. During the year, the Audit Committee has reviewed the 2016/17 Internal Audit Annual Report, received quarterly Internal Audit progress reports, scrutinised Internal Audit performance and approved the 2017/18 Internal Audit Plan.
- In addition, the Audit Committee received a report following the External Quality Assurance assessment of the Internal Audit Service, required by the Public Sector Internal Audit Standards (PSIAS) to be completed every five years. This report highlighted that Hillingdon's Internal Audit service was just one of a few across London to be provided with an independent opinion that the service **'fully conforms'** with the PSIAS.
- The Internal Audit Charter was last updated in December 2016. A slightly updated Charter is scheduled to be presented to the Audit Committee at its planned meeting on 11<sup>th</sup> April 2018.
- 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 recommendations and was pleased to note a substantial reduction in the number of high risk outstanding 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 continued development of the Internal Audit service.
- Internal Audit has now embedded a more collaborative approach in working with management to help achieve positive outcomes for the Council. The Audit Committee was informed of the increased amount of consultancy work carried out by Internal Audit during 2017/18.
- 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 (Ernst & Young) to assist it in its role of monitoring the internal control, risk management and governance arrangements of the Council's operations. The Committee has received and considered the external audit plan, received progress updates and reviewed external audit performance.
- An unqualified audit opinion was provided by the external auditors on the Council's 2016/17 financial statements.
- In keeping with good governance arrangements, Members of the Audit Committee have had a private meeting with External Audit this year.

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

- The Council operates a zero tolerance policy towards fraud and corruption. Responsibilities for the Council's anti-fraud and anti-corruption arrangements were transferred to the Business Assurance Counter Fraud Team (BACFT) on 1<sup>st</sup> August 2017. The BACFT carries out a range of criminal and non-criminal types of investigations, although predominantly its focus during 2017/18 has been on tenancy fraud.

- The National Fraud Initiative (NFI), detecting potential fraud by matching electronic data sets within and between public and private sector bodies is co-ordinated by the BACFT. Relevant service areas across the Council review the initial data matches and then refer them to the BACFT for investigation (where appropriate to do so).
- The Audit Committee has received consolidated quarterly progress reports from the Business Assurance Counter Fraud Team. The team has responsibility for the oversight of the effectiveness of the Council's policies and procedures to prevent and detect fraud and corruption and it was noted by the Committee that these are in the process of being updated by the team.
- A move to a risk based approach to counter fraud activities is in the process of being embedded across the team. Intelligence Officers within the team analyse and risk assess any referrals and pass them to the verification and investigation officers in the team then for further work (where appropriate to do so).
- The Audit Committee is generally satisfied with the effectiveness of the Council's counter fraud arrangements during 2017/18 and is looking forward to seeing an increased risk based approach taken during 2018/19.

#### **d) Risk Management**

- The Audit Committee received the annual risk management report in September 2017 as part of the Committee's role to independently assure the Council's corporate risk management arrangements.
- In addition, the Committee agreed the Council's Risk Management Policy and Guidance in November 2017. The Committee has monitored and reviewed the Council's risk management arrangements during the year through a quarterly risk management report, including the updated 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 Financial Accounts**

- In September 2017 the Audit Committee approved the Council's annual statement of accounts for 2016/17. 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 Audit 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 opinion was provided by Ernst & Young in September 2017.

#### **f) Corporate Governance**

- The Audit Committee successfully oversaw the production of the Council's Annual Governance Statement (AGS) for 2016/17 and approved it as part of the Statement of Accounts in September 2017. The Committee is currently in the process of providing oversight in relation to the production of the AGS for 2017/18.

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

- 3.1 In line with best practice, an independent review of the Committee's effectiveness has been conducted by Internal Audit. This review provided **REASONABLE** assurance that the Committee is operating effectively. The final report was issued on 18<sup>th</sup> November 2016 and was presented to the Audit Committee at its meeting on 15<sup>th</sup> December 2016.

- 3.2 Further to the final report, Democratic Services, in liaison with the Audit Committee, is in the process of developing a skills matrix and training and development plan for all Audit Committee members. These initiatives will help enable the Audit Committee to perform its duties even more effectively moving forward.
- 3.3 Following amendments to the Audit Committee's Terms of Reference, 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. As a consequence the Terms of Reference do not comply fully with best practice, potentially affecting the effectiveness of the Audit Committee. However, during the 2017/18 year there have been no occasions where the Audit Committee believes this lack of this power has hindered its effectiveness in any way.

#### 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 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.
- 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.

**Mr. John Chesshire**

Independent Chairman of the Audit Committee  
London Borough of Hillingdon

21<sup>st</sup> March 2018

## **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 approve (but not direct) the Internal Audit Strategy to ensure that it meets the Council's overall strategic direction.
2. Review, approve and monitor (but not direct) Internal Audit's planned programme of work, paying particular attention to whether there is sufficient and appropriate coverage.
3. Through quarterly Internal Audit summary reports of work done, monitor progress against the Internal Audit Plan and assess whether adequate skills and resources are available to provide an effective Internal Audit function. Monitor the main Internal Audit recommendations and consider whether management responses to the recommendations raised are appropriate, with due regard to risk, materiality and coverage.
4. Make recommendations to the Leader of the Council or Cabinet Member for Finance, Property and Business Services on any changes to the Council's Internal Audit Strategy and Internal Audit Plans.
5. Review the Annual Internal Audit Report and Opinion Statement and the level of assurance this provides over the Council's corporate governance arrangements, risk management framework and system of internal controls.
6. Consider reports dealing with the activity, management and performance of Internal Audit.
7. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to request work from Internal Audit.

### **External Audit**

8. Receive and consider the External Auditor's annual letter, relevant reports and the report to those charged with governance.
9. Monitor management action in response to issues raised by External Audit.
10. Receive and consider specific reports as agreed with the External Auditor.

## **APPENDIX A (cont'd)**

11. 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.
12. Be consulted by the Corporate Director of Finance over the appointment of the Council's External Auditor.
13. Following a request to the Corporate Director of Finance, and in consultation with the Leader of the Council or Cabinet Member for Finance, Property and Business Services, to commission work from External Audit.
14. Monitor arrangements for ensuring effective liaison between Internal Audit and External Audit, in consultation with the Corporate Director of Finance.

### **Article I. Governance Framework**

15. 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.
16. Review any issue referred to it by the Chief Executive, Deputy Chief Executive, Corporate Director, any Council body or external assurance providers including Inspection agencies.
17. Monitor and review, but not direct, the authority's risk management arrangements, including regularly reviewing the Corporate Risk Register and seeking assurances that appropriate action is being taken on managing risks.
18. Review and monitor Council strategy and policies on anti-fraud and anti-corruption including the 'Raising Concerns at Work' policy, making any recommendations on changes to the relevant Corporate Director in consultation with the Leader of the Council.
19. Oversee the production of the authority's Annual Governance Statement and recommend its adoption.
20. Review the Council's arrangements for corporate governance and make recommendations to the Corporate Director of Finance on suggested actions to improve alignment with best practice.
21. Where requested by the Leader of the Council or 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.

### **Article II. Accounts**

22. 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 external auditor that need to be brought to the attention of the Council.
23. Consider the External Auditor's report to those charged with governance on issues arising from the external audit of the accounts.

### **Review and reporting**

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