

Contact Officer: Helen Taylor
Head of Internal Audit Corporate Governance
Telephone: 01895 556132

SUMMARY

This report summarises for Council the work of the Audit Committee during 2009-10 in undertaking its responsibilities for overseeing and challenge 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 2009-10. 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 annual plan for Internal Audit
 - the periodic progress reports presented by the Head of Internal Audit & Corporate Governance;
 - the report on the effectiveness of the systems of Internal Audit;
 - reports on the risk management process;
 - and approving annual accounts and presenting a robust challenge in addressing questions and seeking assurances from both officers and the external auditors;
 - reports on Treasury Management Practice
 - the Balances and Reserves policy
 - regular reports from the external auditors on both the accounts and the Comprehensive Area Assessment process
- Monitoring the production of the Annual Governance Statement and its supporting evidence. Recommending the adoption of the statement to the Leader and Chief Executive.
- Reviewing the council's arrangements for the move to International Accounting Standards.
- Conducting a review of its own effectiveness and producing a plan for improvement.

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.

Table 1

| Member | Role |
|----------------------|-------------------|
| Mr. John Morley | Independent Chair |
| Cllr. George Cooper | Deputy Chair |
| Cllr Tony Egington | Member |
| Cllr Mary O'Connor | 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, 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 for Internal Control, in the Use of Resources.

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 2008-9 and recommended its approval to the Leader and Chief Executive and will be asked to do the same for 200-10.

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 challenge and review the risks and mitigation strategies. During the year the committee sought and received further clarification of the internal reporting structure within the council.

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. Staffing and resources have continued to improve with 95% of the plan completed to draft stage by the end of May 2010. 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 99% 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. Implementation rates of over 80% were achieved at first follow up and the committee continues to present a challenge where recommendations have been outstanding for long periods of time.

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 the control issues and action plan at Hillingdon Grid for Learning.

5.3. The audit plan and strategy approved by the Committee for 2010-11 is based on a risk based methodology adopted two 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.

5.4. In line with CIPFA guidance, an annual review of the effectiveness of the systems of Internal Audit was undertaken. This year, having previously conducted a self-assessment, a review by a committee member and a peer review by another authority, a self assessment has again been carried out. The service was found to be largely compliant and minor improvements will be actioned in the forthcoming year.

6. Additional Financial Assurance

6.1. The banking crisis continued to have an effect on the finance of all areas of government and during the year the committee received reports on the Treasury Management and Investment Strategy.

6.2. The committee also asked for assurances that the budget process operated effectively and were presented with a paper in March 2010.

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.

7.2. The Committee reviewed an amended whistleblowing policy in December 2009.

7.3. Fourteen investigations were carried out into fraud or irregularities and these have been reported to the committee in updates throughout the year. Largely they have fallen into four categories:

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

7.4. 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. During the year one prosecution case started in 2008-9 reached court and the staff member was convicted. One case started in 2009-10 reached court in May 2010 and again there was a successful conviction.

7.5. Larger investigations continue to account for a significant proportion of the total time for all investigations.

8. External Audit

8.1. The external auditors have attended each meeting of the committee. The Head of Audit continues to meet 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. This continues to be useful and the relationship is working well. Deloitte are currently reviewing Internal Audit files for their 2009-10 audit and we expect that they will be 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 2008/09 Statement of Accounts and Pension fund Annual Report in June 2009, an auditor's report on the statement of Accounts in September 2009 and the Annual Audit letter and Final Reports on the audit of accounts in December 2009.

9.2. The final use of resources report was presented to the committee in September 2010.

9.3. The Committee have maintained an active interest in accounting treasury management issues. Reports have been received on Treasury Management Practices and on the conversion to International Accounting Standards.

9.4. In support of 2009-10 work, the committee received an Audit and Inspection plan from Deloitte in March 2010.

10. Committee Training and Development

10.1. The Committee membership was unchanged during the year, with most members serving for at least their second term, which provided good continuity and members were able to effectively challenge papers brought before them. An audit Committee workshop facilitated by the Head of Audit at Southend reviewed the committee's own effectiveness and produced a plan to address minor compliance issues.

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

Terms of reference for Audit Committee
Annual Governance Statement Framework