

REPORT TO COUNCIL ON THE WORK OF THE AUDIT COMMITTEE 2010/11

Reporting Officer: Head of Audit and Enforcement

SUMMARY

This report summarises for Council the work of the Audit Committee during 2010-11 in undertaking its responsibilities for overseeing and challenging 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 2010-11. 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 annual plan for Internal Audit
 - the periodic progress reports presented by the Head of Internal Audit & Corporate Governance;
 - Audit assessment of their arrangements for the transfer of responsibilities for Hillingdon Homes audit on its return to the council.
 - Internal Audit's Terms of Reference
 - reports on the risk management process;
 - updates on International Financial Reporting Standards.
 - reports on Revised Treasury Management Practices
 - Treasury management Strategy Statement and Investment policy and associated training
 - regular reports from the external auditors on the accounts
 - External Audit report on the Pension Fund Annual Report and Accounts
 - the Comprehensive Area Assessment indicative report
 - External Audit report on the key Financial Risks relating to the Icelandic bank investments
 - Results of a Fraud Awareness Survey and a Consolidated Fraud Report
 - Revised Anti - Fraud and corruption strategy.
- Approved the annual accounts and presented a robust challenge by addressing questions and seeking assurances from both officers and the external auditors

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- Monitored the production of the Annual Governance Statement and its supporting evidence, and recommended the adoption of the statement to the Leader and Chief Executive.
- Conducted a review of the Internal Audit Function.
- Reviewed and set its work programme
- Kept up to date on changing legislation and emerging issues.

RECOMMENDATION: That the annual report be noted.

INFORMATION

1. 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 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 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
Cllr. George Cooper	Elected Member
Cllr. Phoday Jarjussey	Elected Member
Cllr. Richard Lewis	Elected Member
Cllr. Raymond Graham	Elected Member

- 2.2 During the course of meetings members are 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 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.

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3.2 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 2009-10 and recommended its approval to the Leader and Chief Executive and will do the same for 2010-11.

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 to challenge and review the risks and mitigation strategies.

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 service is mainly provided by an in-house team, with IT audit outsourced to a private firm. Staffing and resources have continued to improve with 90% of the plan completed to draft stage by the end of May 2011. High levels of assurance are key to the production of the Head of Audit & Enforcement's assurance statement, which in turn supports the Annual Governance Statement. Consistent with last year 99% of audit recommendations were accepted, against a target of 95%. Acceptance and implementation of audit recommendations is a key element of improving overall control. Implementation rates of around 80% were achieved at 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. 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 received no or limited assurance and the Committee can, if it considers it necessary, ask officers to appear before it.

5.3 The audit plan and strategy approved by the Committee for 2011-12 is risk based and uses a methodology adopted three 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. As part of their review of Internal Audit the Committee were able to view the system used for recording and updating risks.

5.4 In line with CIPFA guidance, an annual review of Internal Audit was undertaken. This year, the Committee itself carried out the review in a specially organised training session. The service was found to be largely compliant and the Committees suggestions will be taken on board in the forthcoming year.

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5.5 Following good practice the Audit Committee held a private meeting with the Head of Audit & Enforcement during the 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 Council's Icelandic Bank investments and our updated Treasury Management and Investment Strategy.

7. Anti-Fraud

7.1 In June the Committee reviewed the results of the Fraud Awareness Survey and noted the improved level of awareness among staff of all elements of the anti-fraud strategy.

7.2 During the year, the Audit Committee received summarised reports of the outcome of Internal Audit investigations into alleged Fraud and Irregularity.

7.3 Seventeen 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 three categories:

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

7.4 In October 2011 the Head of Audit assumed responsibility for the Housing Benefit Fraud Team and that team now forms the Corporate Fraud team. This has facilitated the use of the team's skills to tackle wider fraud issues affecting residents. Most notably Blue Badge fraud where initial checks in Uxbridge town centre have led to a number of seizures and the issuing of penalty notices. Prosecutions may follow some investigations.

7.5 Investigations where serious 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 & Enforcement has met with Deloitte's Audit Manager to discuss the respective approaches to audit. Deloitte staff have reviewed internal audit files to satisfy themselves that they can place reliance on our work. Both the Partner and Audit Manager attended and provided input to the session held for the committee to review Internal Audit. The relationship is now well established. Deloitte are currently reviewing Internal Audit files for their 2000-11 audit and we expect that they will be able to place reliance on the work. Representatives from both Deloitte continue to attend Audit Committee meetings to present various reports and answer questions. The Audit Committee met the Deloitte auditors independently, in keeping with good governance arrangements.

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9. Annual Accounts and Financial Reporting

- 9.1 The Audit Committee received or approved the following reports
- In June 2010 the Audit Committee approved the 2009-10 Statement of Accounts;
 - In September 2010 it received the auditor's draft Annual Governance Report on the audit of the statement of Accounts, prior to formal sign off
 - Also in September Deloitte's report on the Pensions Fund Annual Report and accounts
 - In March, Deloitte's Annual Grant Audit Letter and their 2010-11 Annual Audit Plan.
- 9.1 Although on 26 May 2010 the coalition Government announced the abolition of the Use of Resources Assessment, Deloitte had already substantially completed their assessment. An indicative report was therefore provided to the committee in June 2010. This indicated a significant improvement in the council's score to 3 in every category except one concluding in an overall score of 3. Deloitte drew particular attention to the council's 'sustained performance in financial management.'
- 9.2 The Committee have maintained an active interest in all financial matter, including Treasury Management and in the move to International Accounting Standards. Reports have been received on Revised Treasury Management Practices, Treasury Management strategy Statement and Investment Strategy 2011-12, International Accounting Standards.
- 9.3 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 Following the Local Government elections, The Committee membership underwent some substantial change, with two Members joining for the first time and one being reappointed after an absence. All the new Members have financial skills and one has audit experience. The Head of Audit & Enforcement and the Chairman of the Committee met independently with the new members (and some substitutes) to assess their training needs prior to their first Committee meeting.
- 10.2 In December the whole Committee received training and guidance on the Treasury Management Strategy 2011-12 to 2013-14. During the review of Internal Audit they were guided through the process of carrying out a risk based audit and reviewed examples of working papers.
- 10.3 The Committee has a work plan which is reviewed and updated at each meeting.

11. Conclusion

- 11.1 The Audit Committee believes it 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.

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