

Report from the Audit Committee

24 July 2013

Members:

*Councillor Lord Palmer, OBE, BA, FCA (Chairman)
Councillor Mark Shooter (Vice-Chairman)

Councillor Alex Brodkin
*Councillor Geof Cooke
*Councillor Sury Khatri BSc
(Hons), MSc

*Councillor Graham Old
*Councillor Hugh Rayner
*Councillor Andreas Tambourides
(substituting for Councillor Mark Shooter)
*Councillor Arjun Mittra (substituting for
Councillor Alex Brodkin)

Independent Members:

*Richard Harbord

*Debra Lewis

* denotes Member Present

1. CHAIRMAN'S ITEM - ANNUAL REPORT OF THE AUDIT COMMITTEE 2012/13 (Agenda Item 5a):

The Chairman of the Committee, Councillor Lord Palmer, introduced the Members' Item that he had submitted.

RESOLVED –

1. That the Committee approve the Annual Report of the Audit Committee for 2012-13 as an accurate record of the outcomes and work programme for the year.
2. The Annual Report is reported to the next Full Council meeting.

Barnet Council

**Audit Committee
Annual Report**

2012/13

Context

Good corporate governance requires independent, effective assurance about both the adequacy of financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Good practice from the wider public sector indicates that these functions are best delivered by an independent audit committee. In this context, "independence" means that an audit committee should be independent from any other executive function. Further, the National Audit Office regards "well functioning Audit Committees as key to helping organisations achieve good corporate governance".

It is important that local authorities have independent assurance about the mechanisms underpinning these aspects of governance. Specifically:

- **independent assurance** of the adequacy of the control environment within the authority;
- **independent review** of the authority's financial and non financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment, and
- **assurance** that any issues arising from the process of drawing up, auditing and certifying the authority's annual accounts are properly dealt with and that appropriate accounting policies have been applied.

Effective audit committees can bring many benefits to local authorities and these benefits are described in CIPFA's *Audit Committees - Practical Guidance for Local Authorities* as:

- raising greater awareness of the need for internal control and the implementation of audit recommendations
- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and any other similar review process (for example, providing a view on the Annual Governance Statement); and
- providing additional assurance through a process of independent and objective review.
- Effective internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an audit committee:
 - can give additional assurance through a process of independent and objective review
 - can raise awareness of the need for sound control and the implementation of recommendations by internal and external audit

Audit Committee at Barnet

The Constitution includes the terms of reference for the Audit Committee, defining its core functions. The terms of reference describes the purpose of the Audit Committee as:

“to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority’s financial and non-financial performance to the extent that it affects the authority’s exposure to risk and weakens the control environment, and to oversee the financial reporting process.”

To remain independent from the Executive the Audit Committee is chaired by a member of an opposition party. In order to bring additional expertise from the sector and financial capability the Audit Committee also has two independent members.

The Audit Committee has a work programme that has been drawn up to effectively discharge its responsibilities as defined by the terms of reference. The Committee relies upon independent, qualified professionals to provide assurance. Directors and Assistant Directors have been requested by the Audit Committee to support the process and to aid in the Committees effectiveness/understanding.

The Committee undertakes all of its meetings in the public domain, during the year there have been no instances whereby items have been considered exempt. The Chairman encourages public participation at the Audit Committee. It has been demonstrated that interested members of the public have shown that they have a role to play, even if at times their enquiries may be seen as ‘challenging’.

Audit Committee Outcomes during 2012-13

During the financial year (April 2012 – March 2013) the Audit Committee has demonstrated a number of outcomes with a focus on delivering improvement to the organisation. The way in which these were implemented were as follows.

- Key controls and assurance mechanisms – The Committee relies upon information presented from qualified, independent and objective officers and external assurance providers. The key controls and assurance mechanisms are as described within the Annual Governance Statement. The Audit Committee is not a working group, it does not carry out the work itself, but relies on the assurance framework to bring significant issues to the Committee for discussion and make recommendations for the Executive and officers to take forward. The Committee recognises that management, and the executive, are responsible for a sound control environment¹.
- Improvement agenda – the Audit Committee is committed to improving shortfalls in the control environment, rather than apportioning blame. The Committee has been provided with assurances on high priority recommendations and the progress against these quarter by quarter. The Committee and its Chairman has asked that leading officers (Directors or Assistant Directors) come to the Audit Committee to explain any deficiencies and how they intent to action them. The important aspect that the Committee has been assessing each quarter is whether the direction of travel from one quarter to the next has been improving (Appendix 2). There were significantly less high priority recommendations to follow-up during the year demonstrating some improvement to the control environment. This focus on improving the control environment through follow-up and discussion has made Directorate's accountable for improvement. This has had tangible impact as this is the first year where a satisfactory Annual Internal Audit Opinion has been issued in the past three years.
- Concerns from external and internal assurances – during the year the Committee has been presented with various reports regarding some serious control weaknesses. Of those weaknesses identified the Committee has continued to follow up recommendations regarding Procurement control deficiencies and have scheduled in regular updates from officers, internal and external audit. Positively in quarter 4 there was satisfactory assurance given the procurement controls in place within the Council. It continues to be monitored during 2013-14. There was a “no” assurance report issued during the year on regeneration that is being followed up by the Committee.
- Anti-Fraud – during the year the Corporate Anti Fraud Team (CAFT) operated to a detailed anti-fraud strategy which was approved by the Committee. The Committee also receives Interim and Annual reports from

¹ The control environment comprises the systems of governance, risk management and internal control

CAFT which provide detailed summary on outcomes including preventative, proactive and reactive anti fraud work undertaken. There have been some significant success of CAFT to note during the year in relation to benefit fraud, council tax single person discount fraud and tenancy fraud. Their partnership approach was recognised nationally when the CAFT team was shortlisted for a Local Government Chronicle (LGC) award for combating fraud. The CAFT team have continued to strengthen work in partnership with Internal Audit and Risk Management to ensure that any control weakness identified through fraudulent activity are followed up with recommendations to strengthen the control environment and noted on the service risk registers.

- Planned and unplanned work – The Committee has completed its workplan in accordance with its planned level of activity. In accordance with the terms of reference for the Committee has considered its own effectiveness through a toolkit prepared by the National Audit Office and considers the following areas will be a focus for 2013-14:
 - Consideration of training needs and induction required for post the annual election in 2014; and
 - Keeping abreast of corporate governance issues nationally through briefing sessions.

The Committee made the following improvements during 2012-13:

- The Committee in furtherance of its policy of maximum transparency produced for 2011-12 a formal Annual Report describing the work of the Audit Committee, Internal and External Audit, and the outcomes achieved. This reporting continues.

Conclusions

The Committee feels that it has demonstrated that it has added value to the council's overall governance framework. During 2013-14 it will continue to request officers to attend Committee meetings to aid in its understanding of the services, but mostly to ensure that internal and external recommendations are implemented on a timely basis.

The Committee's focus will continue to be ensuring action is taken of internal control deficiencies and reviewing progress on a regular basis.

Appendix 1 – Planned and Unplanned work

Detail Reports considered:

Date	Reports
June 2012	Annual Report of Audit Committee 2011/12
	Progress Report of Procurement Controls and Monitoring Action Plan
	CAFT Annual Report 2011/12
	Exception Recommendations and Internal Audit Progress Report – Quarter 1
	Internal Audit Annual Opinion 2011/12
	Accounts Audit Approach Memorandum – External Audit
	Quarterly Progress Report – External Audit
	Draft Annual Governance Statement 2011/12
	Unaudited Statement of Accounts 2011/12
September 2012	Annual Governance Statement 2011/12
	External Auditors Report under ISA260 for 2011/12
	Audited Annual Accounts 2011/12
	Exception Recommendations and Internal Audit Progress Report – Quarter 2

Date	Reports
December 2012	External Auditors Annual Audit Letter 2011/12
	Planned External Audit Fees 2012/13
	Grant Certification Work Report 2011/12
	CAFT Interim Report 2012/13
	Exception Recommendations and Internal Audit Progress Report – Quarter 3
April 2013	Exception Recommendations and Internal Audit Progress Report – Quarter 4
	Internal Audit and Anti-Fraud Strategy and Annual Plan and Risk Management Approach 2013-14
	External Audit Plan 2012/13
	Work Programme of the Audit Committee 2013/14

Appendix 2

Audit Committee Recommendations

Internal Audit High Priority Recommendations

Quarter 1	Quarter 2	Quarter 3	Quarter 4
54%	44%	87.5%	80%

Target for implementation is 90% each quarter; whilst this has not been achieved the Committee recognise the direction of travel.