

## **Report from the Audit Committee**

22 July 2014

Members Present:

Councillor Brian Salinger (Chairman)

Councillor Sury Khatri (Vice-Chairman)

Councillor Geof Cooke  
Councillor Kathy Levine

Councillor Arjun Mittra  
Councillor Gabriel Rozenberg

Councillor Peter Zinkin

\*Independent Members (have non-voting rights):

Richard Harbord

Debra Lewis

### **1. CHAIRMAN'S ITEM - ANNUAL REPORT OF THE AUDIT COMMITTEE 2013/14 (Agenda Item 5a):**

The Chairman introduced the report.

RESOLVED –

- (1) That the Committee agrees the Annual Report of the Audit Committee for 2013-14 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**

**2013/14**

## 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.”

From the Election in 2010 to the most recent in 2014 the Audit Committee had been Chaired by Councillor Lord Monroe Palmer, a member of an opposition group, for the four year period. Over that period the Council had an Executive/Cabinet model of governance.

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. In addition, there have been no instances whereby items have been considered exempt. The Chairman during 2013-14 encouraged public participation at the Audit Committee.

# Audit Committee Outcomes during 2012-13

During the financial year (April 2013 – March 2014) 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 was 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 then Executive and officers to take forward. The Committee recognises that management are responsible for a sound control environment<sup>1</sup>.
- 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). This focus on improving the control environment through follow-up and discussion has made Delivery Units accountable for improvement. The number of high priority recommendations reduced this year from 47 in 2012-13 (30 Council and 17 Schools) to 42 in 2013-14 (22 Council and 20 Schools). The direction of travel further improved for implementing audit recommendations on a timely basis with 100% of high priority recommendations confirmed as having been implemented in 2013-14. This has had tangible impact and has resulted in a ‘Satisfactory’ Annual Internal Audit Opinion for the second consecutive year.
- Concerns from external and internal assurances – during the year the Committee has been presented with various reports regarding some control weaknesses. Of those weaknesses identified the Committee has continued to follow up recommendations, particularly regarding Contract Management. After management of the Barnet Homes contract was given a “no” assurance rating the Committee requested a review of the management of the Your Choice Barnet contract early in 2014-15. Throughout the year the Committee has challenged the assurances being received over the newly outsourced contracts with Capita. Serious weaknesses over IT controls were identified in quarter 4 with two “no” assurance reports over IT Access Controls and the SWIFT & Wisdom

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<sup>1</sup> The control environment comprises the systems of governance, risk management and internal control

systems in use by the Adults & Communities service. Progress against these recommendations will be reviewed by the Committee in quarter 1 of 2014-15. Finally, in 2012-13 Regeneration was given a “no” assurance rating; this was followed up by the Committee during 2013-14 and in quarter 2 all recommendations were confirmed as being implemented.

- Anti-Fraud – during the year the Corporate Anti Fraud Team (CAFT) operated to a detailed anti-fraud strategy and annual plan which was approved by the Committee. The Committee also receives Interim and Annual reports from CAFT which provide detailed summary on outcomes including preventative, proactive and reactive anti fraud work undertaken. There has been consistent good work reported by CAFT in relation to benefit fraud, council tax single person discount fraud and corporate fraud. Further success to note has been achieved by CAFT in the area of tenancy fraud, in particular the ‘Key Amnesty’ campaign (and recovery of properties) which effectively launched the transfer of the responsibility for investigating Tenancy Fraud to CAFT in November 2013 in line with changes to legislation. The CAFT team have continued to strengthen working 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 work plan in accordance with its planned level of activity.

### **Conclusions**

The Committee feels that it has demonstrated that it has added value to the council’s overall governance framework.

During 2014-15 it continues 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
8 April 2013	Exception Recommendations and Internal Audit Progress Report – up to 25 <sup>th</sup> March 2013
	Internal Audit and Anti-Fraud Strategy and Annual Plan and Risk Management Approach 2013-14
	Audit Plan 2012-13
	Audit Committee Work Programme 2013/14
24 July 2013	Annual Report of the Audit Committee 2012/13
	Annual Governance Statement 2012/13
	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2012/13
	Planned External Audit Fees 2013/14
	Internal Audit Annual Opinion
	Annual Report of the Corporate Anti-Fraud Team
	Counter Fraud Framework update 2013
	Risk Management Framework
	Internal Audit and Risk Management Quarter 1 2013-14 and Exceptions Recommendation report

Date	Reports
24 October 2013	Members item – CAPITA Contract Audit Clauses
	Internal Audit and Risk Management Quarter 2 2013-14 update and exceptions report
	Corporate Anti-Fraud Team Interim Report 2013
	Quarterly Progress Reports - The External Auditors – verbal update
28 January 2014	Internal Audit and Risk Management Quarter 3 2013-14 update and exceptions report
	Quarterly Progress Reports - The External Auditors – verbal update
	Annual Audit Letter 2012/2013
	Grants Certification Work Report 2012/2013



## **Appendix 2**

### **Audit Committee Recommendations**

#### **Internal Audit High Priority Recommendations 2013/14**

<b>Quarter 1</b>	<b>Quarter 2</b>	<b>Quarter 3</b>	<b>Quarter 4</b>
85%	67%	100%	100%

Target for implementation is 90% each quarter; whilst this was not achieved in the first two quarters of the year by Quarter 3 all recommendations due had been implemented and this was maintained in Quarter 4. This shows a strong direction of travel compared to previous years.