

Appendix A – Audit Committee Annual Report 2014/15

Contents

1. Introduction and overview
2. Summary of Audit Committee outcomes during 2014-15
3. Conclusions
4. Appendix 1 – Planned and Unplanned Work
5. Appendix 2 – Annual Internal Audit Opinion
6. Appendix 3 – CAFT Annual Report

1. Introduction and Overview

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."

In order to bring additional expertise from the sector and financial capability the Audit Committee also has two independent members.

In July the Audit Committee, appointed in June 2014, received training on the Role and Terms of reference of Audit Committee, the roles of Internal and External Audit, and the role of the Corporate Anti-Fraud Team (CAFT). A subsequent training session was held in March 2015 to update members on recent changes in the public sector relevant to the remit of the Committee, a Knowledge & Skills discussion of the key competencies needed in Audit Committee members, a Risk Management session and finally a session on 'Being Effective', which explored how the Audit Committee can add value to the organisation.

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 2014-15 required senior officer attendance where there were high priority Audit recommendations and has encouraged public participation at the Audit Committee.

2. Summary of Audit Committee Outcomes during 2014-15

During the financial year (April 2014 – March 2015) 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 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 intend 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 via recommendations having been implemented. 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 42 in 2013-14 (22 Council and 20 Schools) to 35 in 2014-15 (24 Council and 11 Schools). 73% of high priority recommendations were confirmed as having been fully implemented within agreed timescales, and 25% were partly implemented. This has had a tangible impact and, along with a slight reduction in the percentage of Limited and No assurance audit reports being issued (19% in 2014/15 compared to 20% in 2013/14), has resulted in a 'Satisfactory' Annual Internal Audit Opinion for the third consecutive year.

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

- Concerns from external and internal assurances – during the year the Committee has been presented with various reports regarding 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 in 2013-14 the Committee requested a review of the management of the Your Choice Barnet contract early in 2014-15, which led to a Limited Assurance audit report. Progress against the associated recommendations is being monitored by the Committee. Throughout the year the Committee has continued to challenge the assurances being received over the major contracts with Capita. Limited Assurance audit reports were issued over a number of the Key Financial Systems after the transfer from SAP to the Integra system. These were all followed up and recommendations confirmed as being implemented in advance of the external audit of the accounts for 2014-15. Serious weaknesses over People Management controls were identified in quarter 4 with a Limited assurance report over Pre-employment Checks. Progress against these recommendations will be reviewed by the Committee in 2015-16. Finally, in 2013-14 IT Access Controls and the SWIFT & Wisdom systems in use by the Adults & Communities service were given “no” assurance ratings; these were followed up by the Committee during 2014-15 and all recommendations due were confirmed as being implemented. A summary of the internal audit work completed during the year is included within the Annual Internal Audit Opinion at Appendix 2.

- 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. This is the first year that Committee has received quarterly progress as well as an Annual report 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, tenancy fraud and corporate fraud.
In relation to tenancy fraud CAFT investigations resulted in 48 properties having had their tenancies ended, which means those properties are able to be re-let to those genuinely in need of housing assistance, 24 ‘Right to Buy’ applications were denied as a result of CAFT interventions preventing the loss of valuable council assets, and 2 homelessness applications were denied as a result of CAFT interventions. A summary of all the work completed during the year is included with the CAFT Annual Report at Appendix 3.

- Internal Audit, CAFT and Risk Management have a combined Annual Plan approved by Audit Committee which demonstrates their commitment to joint working, making the best use of resources and avoidance of duplication of effort. This also enables them 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.

- The Internal Audit, CAFT and Risk Management functions are organisationally independent from the Strategic Commissioning Board and other Council officers.

- Planned and unplanned work – The Committee has completed its work plan in accordance with its planned level of activity.

3. Conclusions

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

During 2015-16 it continues to require senior officers to attend Committee meetings to aid in its understanding of the services and the issues identified through the audit process, but mostly to ensure that internal and external recommendations are given the priority required and 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
29 April 2014	Exception Recommendations and Internal Audit Progress Report – up 31 st March 2013
	Internal Audit and Anti-Fraud Strategy and Annual Plan and Risk Management Approach 2014-15
	External Audit Plan 2013-14
	Annual Report of the Corporate Anti-Fraud Team
	Risk Management Framework
	Group Accounts
	Audit Committee Work Programme 2014/15
22 July 2014	Annual Report of the Audit Committee 2013/14
	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2013/14
	Annual Governance Statement 2013/14
	Internal Audit Annual Opinion
	Corporate Anti-Fraud Team Quarter 1 2014-15
	Internal Audit and Risk Management Quarter 1 2014-15 and Exceptions Recommendation report

Date	Reports
29 July 2014	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2013/14
6 November 2014	Counter Fraud Framework Annual Review
	Internal Audit and Risk Management Quarter 2 2014-15 update and exceptions report
	Corporate Anti-Fraud Team Quarter 2 2014-15
	Quarterly Progress Reports - The External Auditors – verbal update
January 2015	Internal Audit and Risk Management Quarter 3 2014-15 update and exceptions report
	Corporate Anti-Fraud Team Quarter 3 2014-15
	Annual Audit Letter 2013/2014
	Grants Certification Work Report 2013/2014
	Quarterly Progress Reports - The External Auditors – verbal update