

Appendix 1

Audit Committee Annual Report 2016-17

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Chairman of the Audit Committee
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1. Introduction and Overview

1.1 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".

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

Specifically:

1.2.1 **independent assurance** of the adequacy of the control environment within the authority;

1.2.2 **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

1.2.3 **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.

1.3 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:

1.3.1 raising greater awareness of the need for internal control and the implementation of audit recommendations

1.3.2 increasing public confidence in the objectivity and fairness of financial and other reporting;

1.3.3 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

1.3.4 providing additional assurance through a process of independent and objective review.

1.3.5 Effective internal control and the establishment of an audit committee can never

1.3.6 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**

1.4 **Audit Committee at Barnet Council**

The Council's 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.”

- 1.4.1 In order to bring additional expertise from the sector and financial capability the Audit Committee also has two independent members.
- 1.4.2 The Audit Committee has a work programme that has been drawn up to effectively discharge its responsibilities as defined by the terms of reference.
- 1.4.3 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 Committee’s effectiveness/understanding.
- 1.4.4 The Committee undertakes all of its meetings in the public domain. In addition, there have been no instances whereby items have been considered exempt.
- 1.4.5 From the Local Election in 2014 up to Annual Council May 2017 the Audit Committee had been chaired by Councillor Brian Salinger, a member of the administration, for a three year period.
- 1.4.5 The Chairman during 2016-7 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 2016-7

- 2.1 During the financial year (April 2016 – March 2017) 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:-
 - 2.1.1 **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 are responsible for a sound control environment¹.
 - 2.1.2 **Enhanced internal audit methodology.** During 2016/17 the Committee approved the introduction of a scoring methodology within internal audit reports. In particular, this has made it more transparent as to why some audits are given ‘Limited’ as opposed to ‘Reasonable’ assurance ratings. The methodology was designed by and agreed across the Cross Council Assurance Service (CCAS), a group of 6 London boroughs of which Barnet is a founding member. The Committee also approved the alignment of the Schools audit approach with the non-schools audit approach. Now whenever a high priority recommendation is made, the follow-up process is the same, in that evidence is obtained to confirm implementation within the agreed timeframe.
 - 2.1.3 **Cross Council Assurance Service (CCAS).** CCAS, referred to above, was shortlisted for a CIPFA Public Finance Innovation Award for innovation in Internal Audit.

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

2.2. External Audit financial resilience and value for money. For 2016/17 BDO are the Council's appointed external auditors.

2.2.1 In July 2016, in accordance with International Standard on Auditing (ISA) 260, the council's external auditors (BDO) were required to issue detailed reports on matters arising from the audit of the Council's Accounts. The ISA 260 report has to be considered by "those charged with governance" (The Audit Committee) before the external auditor can sign the accounts, which legally had to be done by 30 September 2016. The Council's external auditors did not identify any adjustments affecting the Council's financial position and the accounts were signed accordingly.

2.2.2 The key messages arising from the audit of the 2016/17 financial statements were:

- The auditors identified no evidence of material misstatement as a result of management override of controls, or systematic bias in the making of accounting estimates.
- The work on the significant risk of fraud in relation to revenue recognition identified no issues.
- There were no differences to be corrected in the final Statement of Accounts that affected the reported surplus for the year. A number of amendments to classifications and presentational adjustments were made but there were no unadjusted audit differences.
- The auditors identified some areas for improvement in respect of the Council's Narrative Statement.
- The auditors did not identify any significant control deficiencies, but did make a number of other recommendations.

2.2.3 In providing the opinion on the financial statements, the external auditors, concluded on the adequacy of the Council's arrangements for ensuring economy, efficiency and effectiveness in its use of resources (the Value for Money Conclusion) and presented an unqualified Value for Money Conclusion.

2.4 Improvement agenda – the Audit Committee is committed to improving shortfalls in the control environment, rather than apportioning blame.

2.4.1 The Audit Committee has been provided with assurances on high priority recommendations and the progress against these quarter by quarter. The Audit Committee and its Chairman has asked that leading officers (Directors or Assistant Directors / Strategic Leads) to attend the Audit Committee to explain any deficiencies identified by Internal Audit and how they intend to address and action them. The important aspect that the Audit 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. We followed up a total of 44 high priority recommendations that had been raised and were due to have been implemented by the end of 2016/17. Of those, we found that 2 were no longer applicable and 1 deadline was extended with Committee approval. 36 had been fully implemented by the year end (88%); the remaining 5

recommendations had been partially implemented at the time of reporting/year end (12%). Overall the direction of travel for implementing audit recommendations on a timely basis improved in 2016-17 with 88% of high priority recommendations confirmed as having been implemented within agreed timescales compared to 83% in 2015-16.

2.4.2 The Public Sector Internal Audit Standards require the Head of Internal Audit to provide an annual opinion, based upon and limited to the work performed, on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control (i.e. the organisation’s system of internal control). The opinion does not imply that Internal Audit has reviewed all risks relating to the organisation and is based on the work performed in 2016-17 but the conclusion should be considered in the context of the financial pressures facing the Council in a period where savings are required to be made but there is a greater demand for local services due to the borough’s growing population. For 2016-17 a ‘Reasonable’ Annual Internal Audit Opinion was given.

2.4.3 In line with the Scheme of Financing Schools, the Chief Finance Officer is required to deploy internal audit to examine the control frameworks operating within schools under the control of the Local Education Authority (“LEA”). In 2016-17, Internal Audit performed 23 schools visits and undertook 3 follow-up reviews. Additionally the Head of Internal Audit and the Head of Counter-Fraud Operations attended a meeting of all Barnet governors to discuss and explain the audit and anti-fraud approach.

2.4.4 The **Internal Audit and the Corporate Anti-Fraud Team (CAFT)** functions, which are organisationally independent from the rest of the Council, have a combined Annual Plan approved annually 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.

2.5 Issues external and internal assurances – during the year the Audit Committee has been presented with various reports regarding control weaknesses. Areas that received an Internal Audit ‘No / Limited’ assurance rating, where the audit review identified areas of weaknesses and high priority recommendations, are listed below. The Committee has also continued to follow up other High priority recommendations within Reasonable Assurance reports where those recommendations are not implemented within the agreed timeframes.-

Review Title	Assurance rating	Number of High Priority recommendations
Highways Programme	Limited	1
Estates / H&S compliance	Limited	1
Insurance	Limited	1
Parking Permit Administration	Limited	1

2.6 Anti-Fraud – during the year the CAFT operated to an anti-fraud strategy and annual work plan which was approved by the Audit Committee. The Audit Committee has also 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 corporate fraud, tenancy fraud and blue badge fraud and misuse.

2.6.2 Blue Badge Fraud and Misuse featured heavily within the CAFT program in 2016-17 with 187 new referrals being received in this area. Officer resource was increased to combat what has proved to be an area of increasing fraud with 23 cases successfully prosecuted and 43 Formal Cautions issued, 37 Warning letters sent out and 6 cases referred to the Police. Five joint street operations took place which resulted in 34 Blue Badges being seized.

2.6.3 In relation to Tenancy Fraud CAFT investigations resulted in 64 properties being recovered during 2016 -17, which include, 6 succession applications being denied and 13 emergency accommodation properties being cancelled. The savings that this number of recovered properties equates to is £9.6m (according to audit commission calculation of £150k per recovered property). Good work was also undertaken in relation to 'Right to Buy' applications – with 17 being denied as a result of CAFT intervention. There is a maximum discount of £103,900 per property on right to buy cases; this work has meant that CAFT have saved the loss of a property and a financial loss of £1,539,600 in discounts in 2016-17 year.

2.6.4 In other areas of internal fraud 1 member of staff is no longer employed / dismissed as a result of CAFT investigations and 1 school place withdrawn as a result of CAFT intervention / investigation.

2.6.5 In relation to Proceeds of Crime (POCA) Investigation CAFT Specialist Financial investigators were able to investigate a case of a landlord who was previously found guilty of breaching a planning enforcement notice using special powers under the POCA to both identify and calculate the criminal benefit that he had received. A confiscation order was made against Mr A for an amount of £555,954 being the profit generated from his criminal conduct. He was also fined £65,000 and ordered to pay £80,000 in costs. Under the governments POCA incentivisation scheme the confiscation amount of £555,954 will be split into 3 parts - £277,977 (50%) goes to the Treasury, £69,494 (12.5%) goes to the courts and £208,482 (37.5%) comes to Barnet council.

2.6.5 Whistleblowing blowing matters are also reported to the Audit Committee. Three matters were referred under whistleblowing policy in the last year – summarised below:-

- Q1 A whistleblowing letter was received this quarter but this related to a grievance issue and the whistle-blower was informed how to raise the issue in accordance with the relevant HR Policy.
- Q3 A whistleblowing referral was received this quarter which was passed to appropriate service to deal with under the corporate complaints procedure
- Q4 A whistleblowing referral was received this quarter which is currently being investigated

2.6.6 In October 2016 CAFT introduced 'Simple Cautions' as an alternative sanction in accordance with our Fraud, Bribery and Corruption Policy.

A 'Simple Caution' is an alternative sanction to prosecution with the following aims:

- To offer a proportionate response to low-level offending where the offender has admitted the offence;
- To deliver swift, simple and effective justice that carries a deterrent effect;
- To record an individual's criminal conduct and can form part of the defendant's criminal record for possible reference in future criminal proceedings or other similar checks;
- To reduce the likelihood of re-offending;
- To increase the amount of time police/council officers spend dealing with more serious crime and reduce the amount of time officers spend completing paperwork and attending court, whilst simultaneously reducing the burden on the courts.

2.7 **Planned and unplanned work** – The Committee has completed its work plan in accordance with its planned level of activity as detailed at annex 1.

3. Conclusions

- 3.1 In conclusion the Audit Committee feels that it has demonstrated that it has added value to the Council's overall Governance Framework.
- 3.2 Throughout 2017-18 the Audit Committee plans to continue 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.
- 3.3 The Audit Committee's focus will continue to be ensuring action is taken of internal control deficiencies and reviewing progress on a regular basis as well as commitment to improving shortfalls in the control environment, rather than apportioning blame.

Annex 1 – Schedule of Planned and Unplanned work 2016 - 17

Detail Reports considered:

Audit Committee meeting Date	Reports
19th April 2016	Exception Recommendations and Internal Audit Progress Report – up 31 st March 2017
	Internal Audit Annual Opinion 2015-16
	Internal Audit and Anti-Fraud Strategy Annual Plan 2016-17
	External Audit Plan 2015-16
	Annual Report of the Corporate Anti-Fraud Team 2015-16
	Counter Fraud Framework Review
	External Audit planning report 2015 - 16
	Audit Committee Work Programme 2016-17
28th July 2016	Internal Audit Exception Recommendations Report and Progress Report up to 30 June 2016
	Corporate Anti-Fraud Team Q1 Progress Report: April - June 2016
	Annual Governance Statement 2015-16
	Annual Report of the Audit Committee 2015-16

Audit Committee meeting Date	Reports
	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2015/16
	Audit Committee work programme
3rd November 2016	Internal Audit Exception Recommendations and Progress Report Q2 - 1st July - 30th September 2016
	Corporate Anti-Fraud Team (CAFT) Q2 Progress Report: July - September 2016
	Audit Committee work programme
30th January 2017	Internal Audit Exception Recommendations and Progress Report Q3: 1st October - 31st December 2016
	Corporate Anti-Fraud Team (CAFT) Q3 Progress Report: 1 st October - 31st December 2016
	Invitation to opt-in to the national scheme for auditor appointments
	Grants Certification Work Report 2015/16
	Annual Audit Letter 2015/16
	External Auditor Progress Report
	Audit Committee Work Programme - January 2017 - May 2017