

**Enclosure**

**Barnet Council**

**Audit Committee  
Annual Report**

**2011/12**

## 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.

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 being:

“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.

# Audit Committee Outcomes during 2011-12

During the financial year (April 2011 – March 2012) 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 Statements. 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 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 correct 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 positive.
- 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 asked in particular to follow up on recommendations regarding Procurement control deficiencies and have scheduled in regular updates from officers, internal and external audit. Although the progress quarter on quarter has been demonstrated we are still concerned that the control framework still results in non-compliance and see that adequate training is necessary to rectify these problems.
- 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, the Chief Internal Auditor has reviewed our effectiveness as a Committee and given us some feedback on ways in which we can improve, namely the following:
  - Producing a formal Annual Report describing the work of the Audit Committee and the outcomes it has achieved; and

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

- When necessary, determining an induction process for new members.

There were a number of improvements that were made to the Committee's effectiveness in year:

- The annual workplan has been redesigned to demonstrate how the Audit Committee is discharging its responsibilities;
- Member briefings occurred in the municipal year in relation to fraud and corruption for all members. E-learning is available to members which incorporates the Counter Fraud framework.
- Assurances were provided to the Audit Committee upon presentation of the accounts regarding estimates and judgments used in the Statement of Accounts.
- The Audit Committee now receives quarterly reports on recommendations not implemented for priority one recommendations (high risk)
- The Audit Committee also receives quarterly information on risk management
- The Audit Committee receives the Annual Audit Plan which discusses the risks to the Council
- The Committee provided their training needs where appropriate and this was fed into the Member Training programme led by Corporate Governance.

The Committee supports fully the Fraud team in taking vigorous action to counter and expose fraud. We have also worked with our external auditors proactively to review processes within the council and gain assurances through their regular reporting.

In year, the internal audit function restructured and gained another provider to support the in-house team, this in turn has improved the level of reporting to the Committee and the level of specialist support for the council to add value.

- Conclusions

The Committee feels that it has demonstrated that it has added value to the council's overall governance framework. During 2012-13 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.

We request that Procurement remains a focus for the Executive and senior officers and the Committee will take an active role in ensuring progress is made, monitoring progress through officers and internal and external assurances.

## Appendix 1 – Planned and Unplanned work

### Detail Reports considered:

Date	Reports
June 2011	Metpro reporting into contracting with the Council*
	Internal Audit Opinion 2010-11
	Internal Audit Progress Report quarter 4
	Use of Resources*
	External Audit Annual Audit Approach Memorandum (AAAM)
	Statement of Accounts (draft)
	External Audit Fees
	Code of Corporate Governance
	Draft Annual Governance Statement
	Annual Report CAFT 2010-11
	External Auditors Report
	Procurement Controls and Monitoring Action Plan*

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\* Unplanned work

Date	Reports
September 2011	Annual Service Plan – CAFT 2011-12
	ISA 260 report from External Audit
	Procurement Controls and Monitoring Action Plan*
	Internal Audit Progress Report Quarter 1
	Exception Recommendations Report
	Annual Governance Statement – Final
	Statement of Accounts (final)
December 2011	Members item*
	Annual Audit Letter 2010-11
	Interim Report – CAFT
	Internal Audit Progress Report – quarter 2
	Exception Recommendations Report
	Procurement Controls and Monitoring Action Plan*

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\* Unplanned work

Date	Reports
April 2012	Bribery Policy
	CAFT Strategy 2012-13
	Internal Audit, Risk Management and CAFT Annual Plan 2012-13 including Internal Audit Strategy 2012-13
	Internal Audit Progress Report – Quarter 3 & 4
	Exception Recommendations Report
	Grants Report – external audit
	External Audit Annual Plan 2011-12
	Financial Regulations
	Risk Management Strategy and Policy Statement
	Review of Audit Committee effectiveness
	Work programme for Audit Committee 2012-13
	Procurement Controls and Monitoring Action Plan*

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\* Unplanned work



## Appendix 2

### Audit Committee Recommendations

#### Internal Audit High Priority Recommendations

Quarter 1	Quarter 2	Quarter 3	Quarter 4
49%	60%	69%	75%

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