

Appendix 1

# Audit Committee Annual Report 2015 - 16

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11<sup>th</sup> July 2016

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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 The Chairman during 2015-16 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**

2.1 During the financial year (April 2015 – March 2016) 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 environment<sup>1</sup>.

2.1.2 **A peer review of the Council’s Internal Audit Service** against the Public Sector Internal Audit Standards (“PSIAS”) was conducted in January 2016 by the London Borough of Kensington and Chelsea. The review found that Barnet Council’s Internal Audit ‘fully conforms’ to the PSIAS in 12 of the 17 areas assessed, with minor improvements being suggested in the remaining five areas which were assessed as ‘generally conforming’. The peer reviewer noted that ***‘Overall I think that you are very close to being fully compliant with the requirements of the PSIAS with most improvements being of an advisory nature’***.

2.1.3 **The Council had an inspection by the Office of Surveillance Commissioners (OSC)** in May 2015, relating to the management and policy of covert activities and directed surveillance. Following the inspection the OSC inspector wrote to the Chief Executive stating ***‘the standard of your directed surveillance applications and authorisations***

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

*were extremely good' and made 'no recommendations'* for change or improvement on practice. A full copy of the inspection report letter was and is available to Audit Committee Members should they wish to review in detail. For 2015/16 there have been no requests for authorised surveillance in accordance with Regulation of Investigatory Powers Act 2000 (RIPA). This statistic is reported to the Audit Committee for information purposes in accordance with our policy and statistical return to the Office of Surveillance Commissioners.

**2.2. External Audit financial resilience and value for money.** For 2015/16 BDO are the Council's newly appointed external auditors, they replace Grant Thornton, the Council's previously appointed external auditors. Therefore this has been a year of transition from one external auditor provider to another. The Audit Committee would like to formally express gratitude to Grant Thornton for all the work they have conducted with the Council whilst appointed, and formally welcome BDO as its new external auditors.

2.2.1 In July 2015 in accordance with International Standard on Auditing (ISA) 260, the council's external auditors (Grant Thornton) 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 has to be done by 30 September 2015. 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 2014/15 financial statements were:

- Assurance was gained that the Council had adopted appropriate accounting policies regarding revenue recognition and testing supported compliance with the policies.
- Assurance was gained that all provisions had appropriate supporting evidence and were in accordance with the requirements of the Code.
- There was no evidence of management override of controls or creditors being understated or not recorded in the correct period.
- Assurance was gained that the introduction of a new accounting system did not cause any balances to be materially misstated.

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) 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 150 high priority recommendations that had been raised and were due to have been implemented by the end of 2015/16. Of those, we found that 125 had been fully implemented by the year end (83%), the remaining recommendations had been partially implemented at the time of reporting/year end. Overall the direction of travel for implementing audit recommendations on a timely basis improved in 2015-16 with 83% of high priority recommendations confirmed as having been implemented within agreed timescales compared to 73% in 2014-15.

- 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 2015-16 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 2015-16 a 'Satisfactory' Annual Internal Audit Opinion was given for the fourth consecutive year.
- 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 2015-16, Internal Audit performed 26 schools visits/audit reviews. During the year the Internal Audit service undertook an Assurance Mapping workshop with the Schools Improvement service to explore whether the audit approach should be updated to further support schools and to ensure that there is adequate assurance in place over key risk areas including Governance, Safeguarding, Pupil Premium and Anti-Fraud. As such, Internal Audit undertook a pilot during October – December 2015 and has now adapted and incorporated revised approach into the audit questions for all schools. The approach to follow-up audits at schools has also changed, with audit visiting them to confirm that any high priority recommendations have been implemented within agreed timeframes. Additionally the Head of Internal Audit attended a meeting of all Barnet Head teachers to discuss and explain the revised audit approach.
- 2.4.4 **Internal Audit and the Corporate Anti-Fraud Team (CAFT)** 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.
- 2.4.5 The **Internal Audit and CAFT** functions are organisationally independent from the Strategic Commissioning Board and other Council officers.

**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 and the Committee has continued to follow up recommendations, particularly regarding:-

Review Title	Assurance rating	Number of High Priority recommendations
Section 75 Agreements (Including Better Care Fund)	No	9
Street Scene Governance (joint with CAFT)	No	6
Disaster Recovery	Limited	4
People Management – Pre-Employment Checks	Limited	3
Procurement – compliance with Council Procurement Rules	Limited	3
Contract Management– - Registrars	Limited	2
IT Change Management	Limited	2
Schemes of Delegation	Limited	2
Accounts Payable	Limited	1
Teachers Pensions	Limited	1
Contract Management – Homecare	Limited	1
Client Affairs	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 benefit fraud.

2.6.1 In relation to Housing and Council Tax Benefit Fraud investigations, on the 1st July 2015 Barnet area became a Single Fraud Investigation Service (SFIS) site. SFIS is the creation of a national single integrated fraud investigation service within the Department of Work and Pensions (DWP). It has statutory powers to conduct single investigations and sanctions covering the totality of welfare benefit fraud (all DWP benefits, Local Authority benefits and HMRC credits). It will not have responsibility for other Local Authority Fraud such as Internal/staff Fraud, Tenancy Fraud, Council Tax Support or Discount Fraud this will remain with the council CAFT Team.

2.6.2 In October 2015 CAFT began dealing with the investigation of Blue Badge Misuse. Three successful proactive street based exercises were carried out by CAFT during 2015 -16

with a number of prosecutions arising from these as well as penalty notices and warning letters being issued, more exercises of this nature will be carried out going forward.

- 2.6.3 In relation to Tenancy Fraud CAFT investigations resulted in 57 properties being recovered during 2015 -16, which included 4 successions applications being denied and 7 temporary/emergency accommodation ceased. The savings that this number of recovered properties equates to is £8,550,000 (according to audit commission calculation of £150k per recovered property). Good work was also undertaken in relation to 'Right to Buy' applications – with 18 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 £1,022,520 in discounts in 2015 -16 year.
- 2.6.4 In other areas of internal fraud there have been 3 prosecutions this year, with 7 staff no longer employed / dismissed as a result of CAFT investigations and 4 school places withdrawn as a result of CAFT intervention / investigation.
- 2.6.5 Whistleblowing blowing matters are also reported to the Audit Committee. In 2015-16 three whistleblowing letters were received which all related to the same matter; alleged criminal activity, impropriety and financial regularities within the Street Scene Delivery Unit particularly around the Council Depot operations and work practices. Due to the varying nature of allegations within the referral it was decided to approach the issues by conducting a CAFT investigation into some specific elements of the referral and address the other elements by conducting a joint Internal Audit and CAFT review covering all of the Street Scenes operations. The review concluded with a 'No Assurance' report being issued and a number of high priority recommendations being made (details of this report can be found within the Internal Audit Quarter Three progress report). The CAFT investigation concluded with no evidence of criminal activity being found relating to the allegations. However CAFT did make recommendations to the service regarding consideration of disciplinary action for some staff members in relation to non-compliance with council policy and all staff matters have been subsequently dealt with. Full details of the matters referred cannot be publicised due to confidentiality, however all matters within the letters have been thoroughly reviewed and/or investigated and actions taken or recommended where appropriate to do so.

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

### **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 2016-17 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.

## Annex 1 – Schedule of Planned and Unplanned work 2015 - 16

### Detail Reports considered:

Audit Committee meeting Date	Reports
<b>30<sup>th</sup> April 2015</b>	Exception Recommendations and Internal Audit Progress Report – up 31 <sup>st</sup> March 2014
	Internal Audit and Anti-Fraud Strategy and Annual Plan and Risk Management Approach 2015-16
	External Audit Plan 2014-15
	Annual Report of the Corporate Anti-Fraud Team 14-15
	Risk Management Framework
	Group Accounts
	Audit Committee Work Programme 2015/16
<b>30<sup>th</sup> July 2015</b>	Annual Report of the Audit Committee 2014/15
	External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2014/15 and Statement of Accounts 14/15
	Annual Governance Statement 2014/15
	Internal Audit Annual Opinion 2014/15
	Corporate Anti-Fraud Team Quarter one 2015-16

Audit Committee meeting Date	Reports
	Internal Audit quarter one 2015/16 and Exceptions Recommendation report
<b>5<sup>th</sup> November 2015</b>	Internal Audit Quarter Two 2015-16 update and exceptions report
	Corporate Anti-Fraud Team Quarter Two 2015-16
	Quarterly Progress Reports - The External Auditors – verbal update
	ICT Operations – ITIL methodology assessment
<b>28<sup>th</sup> January 2016</b>	Internal Audit and Risk Management Quarter Three 2015-16 update and exceptions report
	Corporate Anti-Fraud Team Quarter Three 2015-16
	Annual Audit Letter 2014/2015
	Grants Certification Work Report 2014/2015
	Quarterly Progress Reports - The External Auditors