

Appendix 1

# Audit Committee Annual Report 1<sup>st</sup> April 2017 – 31<sup>st</sup> March 2018

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Chairman of the Audit Committee  
July 2018

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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 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 describe 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.”***

- 1.4.1 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 (or equivalent grade) have attended Committee to support the process and to aid in the Committee’s effectiveness/understanding.
- 1.4.4 During the year 2017-18 the Committee undertook all of its meetings in the public domain. There have been two instances whereby items have been considered exempt and have been discussed in Part 2 of the meeting. These were the Prevent Follow-Up Audit Report (November 2017 meeting) and a Confidential Investigation Update (April 2018 meeting).
- 1.4.5 From July 2017 to the Local Election in May 2018 the Audit Committee had been chaired by Councillor Hugh Rayner, a member of the administration, for a one year period.
- 1.4.5 The Chairman during 2017-8 required senior officer attendance where there were high priority Audit recommendations and has continued to encourage public participation at the Audit Committee.

## **2. Summary of Audit Committee Outcomes during 2017-8**

- 2.1 During the financial year (April 2017 – March 2018) 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 **Cross-Council Assurance Service (CCAS).** The Internal Audit service is delivered through a mixed economy model, which includes an in-house team and external provider, currently PwC. We work closely with 5 other London Boroughs (Islington, Camden, Enfield, Lambeth and Harrow) under a framework contract with PwC for the provision of internal audit, risk management, investigation and advisory services. Collectively we are the Cross-Council Assurance Service (CCAS). In November 2017, CCAS was shortlisted in the Institute of Internal Audit (IIA) Audit and Risk Awards for the Outstanding Team award.

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

**2.2. External Audit financial resilience and value for money.** For 2017/18 BDO continue to be the Council's appointed external auditors.

2.2.1 In July 2017, in accordance with International Standard on Auditing (ISA) 260, the council's external auditors (BDO) provided a draft report 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 2017. At the time of consideration there were a number of outstanding items and therefore the accounts could not be signed on the 27<sup>th</sup> July 2017. An extraordinary meeting of the Audit Committee was subsequently arranged for the 19<sup>th</sup> September 2017 and the accounts were signed within the statutory timescales. 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). The Council received a qualified Value for Money opinion as a result of the 'inadequate' Ofsted rating for Family Services.

**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 internal audit 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 109 recommendations that had been raised and were due to have been implemented by the end of 2017/18. Of those, we found that 98 had been fully implemented by the year end, 9 were ongoing and 2 were outstanding. The direction of travel for implementing audit recommendations on a timely basis is therefore positive in 2017/18 with 90% of recommendations confirmed as having been implemented within agreed timescales (88% in 2016-17).

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 2017-18 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 2017-18 a ‘Limited 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 2017-18, Internal Audit performed 24 schools visits and undertook 4 follow-up reviews.

2.4.4 Following the requirement of an extraordinary meeting of the Audit Committee an improvement plan was put in place to address issues in the production of the Statement of Accounts. This improvement plan was monitored throughout the period by the Section 151 Officer and Deputy plus updates were provided to the Audit Committee periodically. The 2017/18 Statement of Accounts were produced and submitted to BDO by the 31<sup>st</sup> May 2018 statutory deadline.

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, or where a management letter identified areas of weaknesses and high priority recommendations, are listed below. The Committee has also continued to follow up all 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
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Prevent – part of the Contest Framework	Management letter issued	4
Community Infrastructure Levy (CIL) and Section 106 (S106) – Phase 2, Expenditure	Limited	3
Transformation – Benefits Realisation	Limited	3
Elections Management – Annual Canvass	Management letter issued	3
Pensions Administration (full risk-based review)	Limited	2
Accounts Payable	Limited	2
Regeneration – Benefits Realisation	Limited	2
Community Infrastructure Levy (CIL) and Section 106 (S106) – Phase 1, Income	Limited	1
Nursery Places – Free Early Education Funding	Limited	1
Staff Performance Reviews	Reasonable	1
Contract Register Maintenance	Reasonable	1
Accounts Receivable	Reasonable	1
Fixed Asset Register	Reasonable	1
Eligibility to Work - Pre-Employment Checks (Non-Schools) (Joint with CAFT)	Reasonable	1
Troubled Families - Payment by Results - December 2017 submission: data integrity issues meant that this claim could not be verified and was not submitted.	Claim not verified	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.

2.6.1 During 2017/18 the Council has been dealing with a significant financial fraud issue. This matter came to light late in December 2017 and the Council responded immediately with a set of follow up actions; a criminal investigation commenced immediately by our CAFT Team (with relevant support where required from the Police). The individual was an employee of Re and subsequently left that employment. In addition, enhanced financial controls were immediately implemented to safeguard the council's finances until a full review could be undertaken. An independent review of financial controls and a financial forensic analysis was commissioned.

The individual was summonsed to appear before Willesden Magistrates court on the 3rd July 2018, on two charges of Fraud by Abuse of Position, contrary to the Section 4 of the Fraud Act 2006. The individual gave no indication of plea and the matter was referred to Harrow Crown Court for a Plea and Trial Preparation Hearing on 31st July 2018. Further details including the outcome of this case will be reported once the criminal proceedings have been concluded.

Members of the Audit Committee were initially briefed on the matter in January 2018 and a further report was provided to the Audit Committee in April 2018 during exempt session (in accordance with Sections 100A-H and Schedule 12A Local Government Act

1972). The committee will continue to be kept updated as appropriate. On conclusion of the criminal investigation and any associated proceedings, a more detailed final report will be taken to the Audit Committee.

2.6.2 Blue Badge Fraud and Misuse featured heavily within the CAFT program in 2017-18 with 355 new referrals being received in this area. Officer resource was increased to combat what has proved to be an area of increasing fraud with 36 cases successfully prosecuted and 86 Formal Cautions issued, 51 Warning letters sent out and 2 cases referred to the Police. Eight joint street operations also took place which resulted in 56 Blue Badges being seized at the scene of the offence.

2.6.3 In relation to Tenancy Fraud CAFT investigations resulted in 61 properties being recovered during 2017-18, which include, 11 succession applications being denied and 14 emergency accommodation properties being cancelled. The savings that this number of recovered properties equates to is £9.15m (according to audit commission calculation of £150k per recovered property). Good work was also undertaken in relation to 'Right to Buy' applications – with 45 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 an asset value loss of £4,169,000 in discounts in 2017-18 year.

2.6.4 In other areas of internal / corporate fraud 1 case relating to cancellations of fines was successfully prosecuted and 1 Simple caution was administered to an offender.

2.6.5 In relation to Proceeds of Crime (POCA) Investigation CAFT Specialist Financial investigators received 13 new cases in 2017-18. As well as carrying out PoCA investigation for the London Borough of Barnet, these specialist officers are now also assisting other local authorities with the PoCA element of their criminal cases

2.6.6 Whistleblowing 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

2.7 **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 2018-19 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 actual work 2017-8**

**Detail Reports considered:**

<b>Audit Committee Meeting Date</b>	<b>Agenda Items</b>
<b>20<sup>th</sup> April 2017</b>	<ul style="list-style-type: none"> <li>• Internal Audit Exception Recommendations Report and Q4 Progress Report -1st January to 31st March 2017 Corporate Anti-Fraud Team (CAFT) Annual Report 2016-17</li> <li>• Internal Audit Annual Opinion 2016-17</li> <li>• Internal Audit &amp; Anti-Fraud Strategy and Annual Plan 2017-18</li> <li>• External Audit Plan 2016-17</li> <li>• Audit Committee Work Programme 2016-17</li> </ul>
<b>27<sup>th</sup> July 2017</b>	<ul style="list-style-type: none"> <li>• Internal Audit Exception Recommendations Report and Q1 Progress Report - 1st April to 30th June 2017</li> <li>• Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2017-18</li> <li>• Draft Annual Governance Statement</li> <li>• Annual Report of the Audit Committee</li> <li>• Statement of Accounts and External Auditor's Report under International Standard on Auditing (ISA) 260 for the year 2016-17</li> <li>• Audit Committee Work Programme 2017-18</li> </ul>
<b>19<sup>th</sup> September 2017 Extraordinary Meeting</b>	<ul style="list-style-type: none"> <li>• Statement of Accounts, External Auditor's Audit Completion Report and Annual Governance Statement for the year 2016/17</li> </ul>
<b>2<sup>nd</sup> November 2017</b>	<ul style="list-style-type: none"> <li>• Internal Audit Exception Recommendations Report and Q2 Progress Report, 1 July - 30 September</li> </ul>

Audit Committee Meeting Date	Agenda Items
	<p>2017</p> <ul style="list-style-type: none"> <li>• Improvement Plan</li> <li>• Accounts Preparation Timetable (verbal update)</li> <li>• External Auditor Progress Report (verbal update)</li> <li>• Corporate Anti-Fraud Team (CAFT) Q2 Progress Report 2017-18</li> <li>• Audit Committee Work Programme</li> </ul>
<b>31<sup>st</sup> January 2018</b>	<ul style="list-style-type: none"> <li>• Internal Audit Progress Report 1 October-31 December 2017</li> <li>• Corporate Anti-Fraud Team (CAFT) Q3 Report</li> <li>• Accounts Closure Improvement Plan</li> <li>• External Auditor - Annual Audit Letter</li> <li>• External Auditor - Grants Certification Work Report 2016 -17</li> </ul>