

Appendix 1

Audit Committee Annual Report 1st April 2018 – 31st March 2019

Cllr Rohit Grover
Chairman of the Audit Committee
July 2019

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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 2018-19 the Committee undertook all its meetings in the public domain. There have been three instances whereby items have been considered exempt and have been discussed in Part 2 of the meeting. These were:
 - 19 April 2018, Verbal Update - Confidential Investigation
 - 17 July 2019, Agenda Item 7 - Report of the Chief Executive, Appendix 1: Draft report by Grant Thornton “Review of the financial management of regeneration projects.
 - 22 November, Agenda Item 7 – Report of the Chief Executive, at the request of the Committee, the unredacted version of the following;
 - Appendix 1d: Annex 2 – Review of Financial Management relating to CPO Fraud
- 1.4.5 From the Local Election in May 2018 to the present, the Audit Committee has been chaired by two Councillors, both members of the Administration;
 - Councillor Anthony Finn from May 2018 to May 2019
 - Councillor Rohit Grover from May 2019 to the present

With regards to the rest of the Committee following Local Elections two new Members were appointed in May 2018, Councillor Alex Prager and Councillor Alex Jajeh -they replaced former Councillor Hugh Rayner and former Councillor Sury Khatri.

- 1.4.6 Between May 2018 – May 2019, three Member Briefing Sessions were arranged for Members of the Audit Committee:
 - 4 July 2018, Statement of Accounts
 - 17 July 2018, Role of Audit Committee
 - 23 October 2018, Treasury Management
- 1.4.7 The Chairman during 2018-19 continued to require 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 2018-19

- 2.1 During the financial year (April 2018- – March 2019) the Audit Committee has demonstrated many 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 **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. Internal Audit 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 they are known as the Cross-Council Assurance Service (CCAS).

2.2. External Audit financial resilience and value for money.

2.21 For 2018/19 BDO continue to be the Council's appointed external auditors.

2.2.2 In July 2019, in accordance with International Standard on Auditing (ISA) 260, the council's external auditors (BDO) will provide a report on matters arising from the audit of the Council's Accounts. The ISA 260 report must be considered by "those charged with governance" (The Audit Committee) before the external auditor can sign the accounts, which legally must be done by 31st July 2019.

2.2.3 At the time of publication the ISA 260 was not yet available from the external auditors, however we have been informed that report will be available for the July Audit Committee meeting and as such this annual report will be updated thereafter with the key findings.

2.3 Grant Thornton review of Compulsory Purchase Order (CPO) fraud

2.3.1 The Council was subject to a significant financial fraud in December 2017 and responded immediately with a criminal investigation by the Corporate Anti-Fraud Team and stringent additional emergency financial controls being put in place to safeguard the Council's finances. An independent review of financial control and financial forensic analysis was undertaken by Grant Thornton (GT).

2.3.2 The outcome of the GT review was reported to the Audit Committee in November 2018. The report included 32 actions for the Council, CSG and Re to take forward and during the year the Audit Committee has challenged and monitored progress by receiving update reports against this action plan.

2.3.3 The update reports were presented to the Committee as a Confidential Investigation Update (April 2018), Report of the Chief Executive (July 2018 and November 2018), and Report of the Director of Finance (January 2019).

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

- 2.3.4 As at 31 March 2019, four of the 32 actions remained outstanding and these will continue to be monitored during 2019/20 via the Internal Audit quarterly progress updates.
- 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 90 recommendations that had been raised and were due to have been implemented by the end of 2018/19. Of those, we found that 81 had been fully implemented by the year end, with 9 ongoing. The direction of travel for implementing audit recommendations by year end is therefore the same in 2018/19 with 90% of recommendations confirmed as having been implemented within revised agreed timescales (90% in 2017-18). However, on a quarterly basis the target was not met in any of the quarters as follows: Q1 – 51%, Q2 – 67%, Q3 – 49%, Q4 – 82%. A risk has been escalated to the Council’s Strategic Risk Register which recognises that this performance needs to be improved as if audit actions are not implemented this could lead to a deterioration in the Council’s control environment.
- 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 2018-19 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 2018-19 a ‘Limited Annual Internal Audit Opinion was given, which overall is in line with the previous year, although the Opinion does recognise that improvement has been shown, particularly in the second half of the 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 2018-19, Internal Audit performed 22 school’s visits and undertook 4 follow-up reviews.
- 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 weaknesses 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
Temporary and interim workforce	No Assurance	5
Schools Payroll	No Assurance	5
Facilities Management	Limited	2
Equalities Data Quality and Analysis	Limited	2
All Saints’ CE Primary School, NW2	Limited	2
Onboarding	Limited	1
Non-Schools Payroll	Limited	1
Tudor School	Limited	1
St Andrew’s CE Primary School	Reasonable	1
Integra Access and Program Change Management	Reasonable	1
Teachers Pensions – Phase 2	Reasonable	1
Housing Benefit	Reasonable	1
Banking & Payment Arrangements – Treasury Management	Reasonable	1
Review of new Depot Arrangements	Reasonable	1
S106 & CILS Follow-Up	Reasonable	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 As mentioned in section 2.3 2018-19 saw CAFT officers investigate and prosecute an unprecedented internal financial fraud. In response to this investigation officer resource was diverted from all sections within the team to deal with the investigation. The fraud itself related to two offences of ‘abuse of position’ which were committed by a Capital Investment Manager, employed by Capita and working for Regional Enterprise. The staff member in question created fake instructions for CHAPS payments more than £2million to be processed in relation to fictitious Compulsory Purchase Orders (CPO).

2.6.2 The criminal aspect of the investigation was evidenced and prepared for prosecution within five months which subsequently led to the successful conclusion of the case in July 2018 which saw the offender being sentenced at Harrow Crown Court to 5 years imprisonment.

- 2.6.3 Despite monies being repaid to the council by CAPITA, CAFT has continued with the financial investigation recovering over £1million of the stolen funds and continues to do so in order to ensure all proceeds of crime are identified and recovered accordingly.
- 2.6.4 CAFT has also worked closely with Internal Audit and Finance in relation to recommendation from the external review of financial controls and the ongoing audit testing relating to financial controls.
- 2.6.5 This investigation received wide publicity with praise being given by Specialist Police Units, Senior Management and Members of the council to the CAFT in relation to the response and subsequent criminal and financial investigation conducted by the team
- 2.6.7 **The Concessionary Travel Fraud Team** investigated 412 cases of alleged Blue Badge misuse and Fraud. Of these, 69 cases were successfully prosecuted at Magistrates court with a further 109 cases resulting in a Formal Caution being administered by CAFT (after the offence was admitted during a formal interview under caution). These cases have resulted in more than £40,000 worth of costs being recovered. A further 83 cases also concluded in Warning letters being sent to the Badge Holders and offenders
- 2.6.8 **The Tenancy Fraud team** has also continued to be successful this year, it has investigated 558 cases of alleged Tenancy Fraud in 2018-19. They were responsible for recovering 53 properties, it also prevented 41 Right to Buy applications due to the applicants not being eligible to purchase under the scheme as well as denying 3 new housing applications by persons who were not eligible to be housed.
- 2.6.9 **The Corporate Fraud Team** investigated 123 cases of alleged fraud. These resulted in 3 members of staff being dismissed (1 relating to a member of Your Choice Barnet who removed funds from a deceased service users account which resulted in his arrest and 2 relating to theft by employees working in Refuse). The Corporate Team also successfully prosecuted the family member of a deceased Direct Payments claimant who removed payments from the deceased person's account.
- 2.6.10 In relation to **Proceeds of Crime (POCA) Investigation** CAFT Specialist Financial investigators received 12 new cases in 2018-19. As well as carrying out PoCA investigation for the London Borough of Barnet, these specialist officers also assisted other local authorities with the PoCA element of their criminal cases resulting in the courts confiscating £1,412,537 from offenders with £628,441 being awarded to the prosecuting authorities under compensation as well as the governments incentivisation scheme. Funds confiscated from criminals is shared as follows:
- 50% is allocated to the Treasury
 - 12.5% is allocated to the courts
 - 37.5% is allocated to the investigating and prosecuting authority
- 2.6.11 **Whistleblowing** matters are also reported to the Audit Committee. Four matters were referred under whistleblowing policy in the last year these are summarised below:
- 1 - relates to a two-part referral the first and substantive part of the referral related to the individuals own employment issues and the whistle-blower was informed how to raise the issue in accordance with the relevant HR Policy. The second part of the referral related to various concerns that will be reviewed within planned internal audits.

- 2 – relates to a matter that was passed to the appropriate service to deal with under the Corporate Complaints procedure.
- 3 - relates to a matter that was passed to appropriate service to deal with under the Corporate Complaints procedure
- 4 - relates to an issue that has been dealt with under the Corporate Complaints procedure

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 2019-20 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:

Audit Committee Meeting Date	Agenda Items
19 April 2018	<ul style="list-style-type: none"> • Internal Audit Exception Recommendations Report Q4 Progress Report 1st January to 31st March 2018 • CAFT Annual Report • Internal Audit & Anti-Fraud Strategy and Annual Plan 2018-19 • Accounts Closure Improvement Plan – Progress Report • External Audit Plan – 2017 – 18 • External Auditor Progress Report • Audit Committee Forward Work Programme • Confidential Investigation update [EXEMPT] – This was a verbal update
17 July 2018	<ul style="list-style-type: none"> • Report of the Chief Executive • Internal Audit Annual Opinion 2017 – 2018 • Annual Governance Statement and Code of Corporate Governance • Statement of Accounts and External Audit Completion Report for the year 2017/18 • Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30 June 2018 • Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2018-19

Audit Committee Meeting Date	Agenda Items
	<ul style="list-style-type: none"> • Annual Report of the Audit Committee 2017 - 18 • Audit Committee Forward Work Programme
22nd November 2018	<ul style="list-style-type: none"> • Report of the Chief Executive • Internal Audit Exception Recommendations Report and Q2 Progress Report 1st July to 30th September 2018 • Corporate Anti-Fraud Team (CAFT) A2 Progress Report 2018-19 • Audit Committee Forward Work Programme
31 January 2019	<ul style="list-style-type: none"> • Improvements to Financial Controls – Progress report on the Grant Thornton Recommendations and Action Plan • Internal Audit Exception Recommendations Report and Q3 Progress Report 1st October to 31st December 2018 • Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2018 – 19 • External Audit Plan 2018/19 • Annual Audit Letter 2017/18 • Audit Committee Work Programme – May 2019