

Appendix 1

Audit Committee Annual Report 1st April 2019 – 31st March 2020

Cllr Rohit Grover
Chairman of the Audit Committee
July 2020

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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 2019-20 the Committee undertook all its meetings in the public domain. There was one instance whereby an item was considered exempt and was discussed in Part 2 of the meeting. This was 30 January 2020 - Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2019-20: Capita Employee Benefits – London Borough of Barnet Pension Scheme - Internal Fraud Summary Report. The committee meeting due to take place on 29 April 2020 was cancelled following the lockdown restrictions imposed due to the COVID-19 pandemic. The committee meeting on 14 July 2020 will be taking place virtually using Microsoft Teams. Registered speakers will be able to call into the meeting and the public will be able to access a live stream of the meeting through a link on the meeting webpage.
 - 1.4.5 From the Local Election in May 2018 to the present, the Audit Committee has been chaired by two Councillors:
 - Councillor Anthony Finn from May 2018 to May 2019; and
 - 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 2019 – February 2020, two Member Briefing Sessions were arranged for Members of the Audit Committee:
 - 27 June 2019, Statement of Accounts; and
 - 5 February 2020, Fraud Awareness.
 - 1.4.7 The Chairman during 2019-20 continued to require senior officer attendance where there were high priority Audit recommendations and has continued to encourage public participation at the Audit Committee. The Chairman has also encouraged the two independent members to be active participants in meetings of the Committee.

2. Summary of Audit Committee Outcomes during 2019-20

- 2.1 During the financial year (April 2019 – March 2020) 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. During Q4 a procurement exercise for CCAS was completed, with Barnet leading the process on behalf of a number of other London boroughs. The Framework contract was awarded to PwC for Internal Audit, Advisory and Anti-Fraud and Mazars for Risk Management. As the contract manager, Barnet will receive a 1% contract management fee for all invoiced work going through the Framework, which has a maximum OJEU limit of £50m over the contract term.

2.2. External Audit financial resilience and value for money. For 2019/20, BDO continue to be the Council's appointed external auditors.

2.2.1 In September 2019, in accordance with International Standard on Auditing (ISA) 260, the council's external auditors (BDO) provided a final 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 2019.

2.2.2 The key messages arising from the audit of the 2018/19 financial statements were that they:

- gave a true and fair view of the financial position of the group as at 31 March 2019 and of its expenditure and income for the year then ended; and
- were prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19; and
- were prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

2.2.3 In providing the opinion on the financial statements, the external auditors, concluded on what is known as the Value for Money Conclusion. The Council received an unqualified opinion which means that the External Auditors were satisfied the Council had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019. This was an improvement on the previous year where the Inadequate Ofsted rating for Children's Services meant that the 2017/18 VFM conclusion was qualified.

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

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

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 156 recommendations that had been raised and were due to have been implemented by the end of 2019/20. Of those, we found that 118 had been fully implemented by the year end, with 15 ongoing and 23 outstanding due to COVID-19 delays. The direction of travel for implementing audit recommendations by year end was 76%, a deterioration on 2018/19 when 82% were confirmed as having been implemented within revised agreed timescales. The deterioration compared to the previous year can likely be attributed to the impact of COVID-19 on overall Council delivery and the reduced capacity to address audit findings in Q4.

A risk has been maintained on 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 2019-20 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 2019-20 a 'Reasonable' Annual Internal Audit Opinion was given, which shows improvement on the previous two years when a 'Limited' 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 2019-20, Internal Audit performed 23 schools' visits and undertook 4 follow-up reviews. At the year-end four reports had still to be agreed by the school due to COVID-19

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. 2019-20, a new approach was adopted whereby Internal Audit now also follow-up a sample of Medium priority recommendations and report the outcome to the Audit Committee.

Review Title	Assurance rating	Number of High Priority recommendations	Number of Medium Priority recommendations
Highways Programme	No	6	0
Banking & Payment Arrangements – Accounts Payable	Limited	2	4
Accounts Receivable	Limited	1	6
Banking & Payment Arrangements – Cash & Bank	Limited	0	7
Pension Fund Finance and Investment	Limited	2	1
Mosaic – Application Review	Limited	1	3
Domestic Violence	Reasonable	1	2
Adults Safeguarding	Reasonable	1	2
Re Operational Review Follow-Up	Partially Implemented	1	0
Teachers' Pensions	Reasonable	1	0
Menorah Foundation School	Limited	2	5
St. Michael's Catholic Grammar School	Limited	1	6
St Mary's CE School EN4	Reasonable	1	2

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 The Concessionary Travel Fraud Team investigated 347 cases of alleged Blue Badge misuse and Fraud. Of these, 37 cases were successfully prosecuted at Magistrates court with a further 74 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 £24,580.00 worth of costs being recovered. A further 94 cases also concluded in Warning letters being sent to the Badge Holders and offenders.

2.6.2 The Tenancy Fraud team has also continued to be successful this year, it has investigated 496 cases of alleged Tenancy Fraud in 2019-20. They were responsible for recovering 34 properties and preventing 27 Right to Buy applications due to the applicants not being eligible to purchase under the scheme. In addition to this Tenancy fraud officers prevented 5 new housing applications that were submitted by persons who were not eligible to be housed.

- 2.6.3 **The Corporate Fraud Team** investigated 102 cases of alleged fraud. These resulted in 2 members of staff resigning, as well as a number of cases where there are ongoing legal actions.
- 2.6.4 A comprehensive review of the **National Fraud Initiative (NFI)** reports was carried out using the new fraud risk scoring to prioritise resources on matches that scored over 75%. This led to 7524 cases being processed and as a result, CAFT were able to report overall overpayments of £603,448.82.
- 2.6.5 During 2019-20 the financial investigation on **Operation Rouble**, which was reported in 2018-19, continued and by using a range of powers authorised under the Proceeds of Crime Act the CAFT specialist financial Investigators were extremely effective by recovering £1,698,218.64 to compensate Capita's insurers, thereby reducing the loss from £2.063 million to less than £365,000.
- 2.6.6 The methods used comprised of confiscation and compensation orders as well as legal settlement agreements with entities that were registered 'off shore'. The work was extremely time consuming and complex and broke new ground in recovery. No other local authority has used these methods to recover proceeds of crime. 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 and Proceeds of Crime recovery conducted by the team.
- 2.6.7 In relation to **Proceeds of Crime (POCA) Investigation** CAFT Specialist Financial investigators received 29 cases in 2019-20. 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 £2,313,388 from offenders.
- 2.6.8 **Whistleblowing** matters are also reported to the Audit Committee. There were no instances reported during the 2019-20 year

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 the rest of 2020-21, as the Council moves further into the COVID-19 'recovery' phase, at an appropriate the Audit Committee will resume inviting senior officers to attend Committee where their actions have not been completed and it is reasonable to expect them to have been implemented and / or they have not engaged in the follow-ups process. This will aid the Committee 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 2019-20

Detail Reports considered:

Audit Committee Meeting Date	Agenda Items
<p>1 May 2019</p>	<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 Q4 Progress Report 1st January to 31st March 2019 • Corporate Anti-Fraud Team (CAFT) Annual Report 2018/19 • Internal Audit & Anti-Fraud Strategy and Annual Plan 2019-20 • Audit Progress Report • Certification of Grant Claims • Committee Forward Work Programme
<p>16 July 2019</p>	<ul style="list-style-type: none"> • Report of the Chief Executive • Annual Internal Audit Opinion 2018-19 • Annual Governance Statement and Code of Corporate Governance • Annual Report of the Audit Committee 2017-18 • Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2019 • Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2019-20

Audit Committee Meeting Date	Agenda Items
	<ul style="list-style-type: none"> • External Auditor's Audit Completion Report for the year 2018/19 • Committee Work Programme
30 October 2019	<ul style="list-style-type: none"> • Internal Audit Exception Recommendations Report and Q2 Progress Report 1st July to 30th September 2019 • Corporate Anti-Fraud Team (CAFT) Q2 Progress Report 2019-20 • Final external auditors report 2018-19 • Annual Audit Letter 2018/19 • Committee Forward Work Programme
30 January 2020	<ul style="list-style-type: none"> • Internal Audit Exception Recommendations Report and Q3 Progress Report 1st October to 30th December 2019 • External Audit Plan 2019/20 • External Auditor Progress Report - Verbal Update • Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2019-20 • Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2019-20: Capita Employee Benefits – London Borough of Barnet Pension Scheme - Internal Fraud Summary Report (Exempt Report) • Committee Forward Work Programme
29 April 2020	CANCELLED – due to lockdown restrictions.