

Appendix 1

Audit Committee Annual Report 1st April 2020 – 31st March 2021

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Chairman of the Audit Committee
July 2021

Contents

1. Introduction and overview

2. Summary of Audit Committee outcomes during 2020-21

3. Conclusions

Annex 1 – Schedule of actual work 2020-21

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 2020-21 the Committee undertook all its meetings in the public domain, albeit virtually using Microsoft Teams. Registered speakers were able to call into the meetings and the public were able to access a live stream of the meetings through a link on the meeting webpage. The committee meeting due to take place on 29 April 2020 was cancelled following the lockdown restrictions imposed due to the COVID-19 pandemic. There were no exempt reports this year.
- 1.4.5 Throughout 2020-21, the Audit Committee has been chaired by Councillor Rohit Grover.
- 1.4.6 With regards to the rest of the Committee following Annual Council on 23 July 2020 Councillor Thomas Smith was appointed to the Committee, replacing Cllr Peter Zinkin. Councillor Alex Prager was appointed Vice-Chairman.
- 1.4.7 During the year, two Member Briefing Sessions were arranged for Members of the Audit Committee:
 - 20 July 2020, Statement of Accounts; and
 - 28 January 2021, Understanding Local Government Finance
- 1.4.8 The Chairman during 2020-21 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 requirement for officers to attend when previously agreed actions were not implemented within agreed timeframes was treated on a case-by-case basis, in light of the impact of COVID on 'business as usual' council activity.
- 1.4.9 The Chairman has encouraged the two independent members to be active participants in meetings of the Committee.

2. Summary of Audit Committee Outcomes during 2020-21

- 2.1 During the financial year (April 2020 – March 2021) 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. In April 2020, a new Framework contract was signed by London Borough of Barnet with PwC for Internal Audit, Advisory and Anti-Fraud and Mazars for Risk Management. As the contract manager, Barnet receives a 1% contract management fee for all invoiced work going through the Framework, which has a maximum OJEU limit of £50m over the four year contract term.

2.2. External Audit financial resilience and value for money. For 2020/21, BDO continue to be the Council's appointed external auditors.

2.2.1 In January 2021, 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.

2.2.2 The key messages arising from the audit of the 2019/20 financial statements were that they:

- gave a true and fair view of the financial position of the council as at 31 March 2020 and of its expenditure and income for the year then ended;
- gave a true and fair view of the financial position of the group as at 31 March 2020 and of its expenditure and income for the year then ended;
- were prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2019/20; 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 2020.

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

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 all internal audit high priority recommendations, and a sample of medium 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 officers accountable for improvement. We followed up a total of 128 recommendations that had been raised and were due to have been implemented by the end of 2020/21. Of those, we found that 122 had been fully implemented by the year end, with 6 ongoing (2 high and 4 medium). The direction of travel for implementing audit recommendations by year end was positive with 95% being implemented, exceeding the target of 90%. This is an improvement on 2019/20 when 76% were confirmed as having been implemented within revised agreed timescales. The prior year performance was impacted by COVID in February and March 2020.

A risk has been maintained on the Council's Strategic Risk Register which recognises that this performance needs to be sustained 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 2020-21. 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 2020-21 a 'Reasonable' Annual Internal Audit Opinion was given. This is consistent with 2019/20 and an improvement on the previous two years, 2018/19 and 2017/18, when Limited Assurance 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 2020-21, Internal Audit performed 11 schools' visits and undertook 1 follow-up review. The number of schools reviewed was lower than in the previous year (when 20 schools were visited) due to school closures because of COVID.

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. Since 2019-20 Internal Audit also follow-up a sample of Medium priority recommendations and report the outcome to the Audit Committee.

Review Title	Assurance rating	Number of Critical Priority recs	Number of High Priority recs	Number of Medium Priority recs
Housing Benefits	Limited	0	0	7
Land Charges – Review of Planning Data Controls and Policies	Limited	0	2	0
Procurement - Compliance with Contract Procedure Rules (CPRs)	Limited	0	1	8
Finance Global Design Principles (FGDP) - Accounts Receivable	Limited	0	1	3
Adults Restructure - Strategic Risk around Safeguarding	Reasonable	0	1	2
Waste - Health & Safety	Reasonable	0	1	2
Pensions Administration Governance Transition	N/A	0	4	4
Danegrove School	No	2	5	5
Frith Manor School	Limited	0	1	6
St. Joseph’s Catholic Primary School	Limited	0	1	4
Edgware Primary School	Reasonable	0	1	2

2.6 Anti-Fraud – Last year has been subject to the working conditions brought about by the Covid-19 pandemic, which saw CAFT officers work from home and, for large parts of the year, unable to carry out formal PACE interviews, take witness statements or visit suspected offenders at their home addresses. Because of this CAFT has had to carry out more “desk based” investigations and duties and modify the way it works to engage with the members of the public. In addition to this the UK Courts suspended cases being heard and prioritised only the most serious cases where hearings were essential.

From Mid-July most CAFT officers were redeployed to support the high visibility Covid-19 Enforcement street patrols to assist with monitoring, evidencing and enforcing the new Coronavirus Act in relation to new trading rules brought in for businesses in the borough.

2.6.1 **The Concessionary Travel Fraud Team** has investigated **225** cases of alleged Blue Badge misuse as well as Blue Badge and parking permits fraud as well as fraudulent appeals relating to penalty charge notices (PCNs). Of these, **1** case was successfully prosecuted at Magistrates court. A further **31** cases also concluded in Warning letters being sent to the Badge Holders as well as the offenders. There are many cases that are currently waiting for Covid regulations to be relaxed so that formal interviews and legal actions can resume.

2.6.2 **The Tenancy Fraud team** has particularly had to work in challenging conditions this year, it has investigated **490** cases of alleged Tenancy Fraud. They were responsible for recovering **3** properties and preventing **2** Right to Buy applications due to the applicants not being eligible to purchase under the scheme. In addition to this Tenancy fraud officers prevented **1** new housing application that was submitted by persons who were not eligible to be housed. There are many cases that are currently waiting for Covid regulations to be relaxed so that formal interviews and legal actions can resume.

2.6.3 **The Corporate Fraud Team** investigated **119** cases of alleged fraud. These resulted in **1** member of staff being dismissed and **1** member of staff resigning because of CAFT investigations.

During the year 2020/21 Barnet has also been responsible for assessing and distributing a new grant scheme, set up to support businesses affected by Covid-19 trading rules. Since the start of the grant scheme CAFT have assisted Finance in this scheme and as such carried out a total of 10,514 prepayment fraud checks on applications valued at £87,373,609.

2.6.4 In relation to **Proceeds of Crime (POCA) Investigations**, CAFT continue to provide advice and support to every aspect of the organisation including its partners and contractors. This advice varies between fraud risk, prevention and detection, money laundering and other criminal activity as well as misconduct and misuse of public funds. Some of the matters will progress to criminal investigation and others will not, but in all cases appropriate actions, such as disciplinary or recovery action is taken.

2.6.5 **Whistleblowing** matters are also reported to the Audit Committee. 3 whistleblowing allegations were received (1 in Q1 and 2 in Q4).

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 The Audit Committee's focus will continue to be ensuring action is taken on internal control deficiencies and reviewing progress on a regular basis as well as a commitment to improving shortfalls in the control environment, rather than apportioning blame.

Annex 1 – Schedule of actual work 2020-21

Detail of Reports considered:

Audit Committee Meeting Date	Agenda Items
14 July 2020	<ul style="list-style-type: none"> • Annual Report of the Audit Committee • Revised External Audit Plan 2019/20 • Internal Audit & Anti-Fraud Strategy and Annual Plan 2020-21 • Corporate Anti-Fraud Team (CAFT) Annual Report 2019/20 • Internal Audit Exception Recommendations Report and Q4 Progress Report 1st January to 31st March 2020 • Annual Internal Audit Opinion 2019-20 • Committee Forward Work Programme
19 October 2020	<ul style="list-style-type: none"> • Internal Audit Exception Recommendations Report and Phase 1 Progress Report 1st April to 30th September 2020 • Corporate Anti-Fraud Team (CAFT) Combined Q1&Q2 Progress Report 2020-21 • Annual Governance Statement • External Auditor's Audit Completion Report for the year 2019/20 • Committee Forward Work Programme
28 January 2021	<ul style="list-style-type: none"> • Internal Audit Exception Recommendations Report and Q3 (Phase 2) Progress Report 1st October to 31st December 2020

Audit Committee Meeting Date	Agenda Items
	<ul style="list-style-type: none"> • Corporate Anti-Fraud Team (CAFT) Q3 Progress Report 2020-21 • Final External Auditor's Report for the year 2019/20 • Committee Forward Work Programme
28 April 2021	<ul style="list-style-type: none"> • Internal Audit Exception Recommendations Report and Q4 (Phase 2) Progress Report 1st January to 31st March 2021 • Internal Audit & Anti-Fraud Strategy and Annual Plan 2021-22 • Corporate Anti-Fraud Team (CAFT) Annual Report 2020-2021 • Annual Audit Letter 2019/20 • External Audit Plan 2020/21 • Committee Forward Work Programme