

Appendix 1

# Audit Committee Annual Report 1<sup>st</sup> April 2021 – 31<sup>st</sup> March 2022

Cllr Arjun K Mitra  
Chair of the Audit Committee  
August 2022

# **Contents**

**1. Introduction and overview**

**2. Summary of Audit Committee outcomes during 2021-22**

**3. Conclusions**

**Annex 1 – Schedule of actual work 2021-22**

## 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 2021-22 the Committee undertook all its meetings in the public domain, albeit the April 2021 meeting was held virtually using Microsoft Teams. For the one virtual meeting during the year, registered speakers were able to call into the meeting and the public were able to access a live stream of the meeting through a link on the meeting webpage. There were no exempt reports this year.
- 1.4.5 Throughout 2021-22, the Audit Committee was chaired by Councillor Rohit Grover.
- 1.4.6 Following the Annual Council meeting that took place on 24 May 2022 the Committee’s Membership changed in order to represent the political proportionality in the Council following the May 2022 local election. As a result of this the Council resolved to appoint 4 Labour Members and 2 Conservative Members. This further led to Councillor Arjun Mittra replacing Councillor Rohit Grover as Committee Chair. Please see the following table that highlights the Membership change:

Committee Membership

<b>2021/22</b>	<b>2022/23</b>
Cllr Rohit Grover	Cllr Arjun Mittra – Chair
Cllr Alex Prager	Cllr Edith David – Vice-Chair
Cllr Laithe Jajeh	Cllr Humayune Khalick
Cllr Nick Mearing-Smith	Cllr Rohit Grover
Cllr Alison Moore	Cllr Alex Prager
Cllr Arjun Mittra	Cllr Paul Lemon
Cllr Kath Levine	

- 1.4.7 As part of the 2022/23 Member Development Programme the following session was delivered for Members of the Council and the two appointed Audit Committee independent Members. The session provided participants with an overview on the following themes:

**16 June 2022**

- Role of the Member of the Audit Committee – including approval of the Statement of Accounts
- Financial Controls
- Audit and CAFT Plan
- External Audit Plan
- Receipt of Internal and External Audit Reports

1.4.8 The Chair during 2021-22 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 Chair encouraged the two independent members to be active participants in meetings of the Committee.

## **2. Summary of Audit Committee Outcomes during 2021-22**

2.1 During the financial year (April 2021 – March 2022) 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 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. 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 2021/22, BDO continue to be the Council's appointed external auditors.

2.2.1 In February 2022, the council's external auditors (BDO) provided an interim completion report for the audit of the council's 2020/21 accounts. The report summarised the results of their work to date for the year ended 31 March 2021, specific audit findings and areas requiring further discussion and/or the attention of the Audit Committee.

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

2.2.2 Their audit work was substantially complete, and they anticipated issuing their opinion on the Group's financial statements and the Council's use of resources for the year ended 31 March 2021 in March 2022, although this was dependent upon resolution of some technical accounting issues. One of these issues relates to the accounting treatment applied to infrastructure assets, which is a sector-wide issue that could materially impact the Council's financial statements. This issue has been raised nationally with the National Audit Office (NAO) and all public sector audit suppliers.

2.2.3 CIPFA LASAAC (Local Authority (Scotland) Accounts Advisory Committee) and CIPFA's Accounting and Financial Reporting Forum established a Task and Finish Group to assist with the resolution of this issue.

2.2.4 Following the advice of the Task and Finish Group, CIPFA LASAAC proposed a temporary solution and the CIPFA LASAAC Local Authority Code Board issued an urgent consultation on these temporary proposals to update the Code of Practice on Local Authority Accounting in the United Kingdom to address the issue. The consultation ended on 14th June 2022 however it was not able to agree an approach that addressed the concerns of all stakeholders while also supporting high quality financial reporting.

2.2.5 CIPFA and CIPFA LASAAC considered that a sector wide approach to resolution of the reporting of highways infrastructure assets should be sought and further consultation with key stakeholder groups will take place. They have advised that they will aim to consult in the summer of 2022 with resolution by autumn 2022. We are still awaiting the outcome of this decision and BDO are unable to complete the audit of the 2020/21 accounts until this issue has been resolved.

## **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 critical and high priority recommendations, and a sample of medium priority recommendations, and the progress against these quarter by quarter. The Audit Committee and its Chair 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 144 recommendations that had been raised and were due to have been implemented by the end of 2021/22. Of those, we found that 139 had been fully implemented by the year end, with 5 ongoing (4 high and 1 medium). The direction of travel for implementing audit recommendations by year end was positive with 97% being implemented, exceeding the target of 90%. This is an improvement on 2020/21 when 95% were confirmed as having been implemented within revised agreed timescales.

2.4.2 The Audit Committee has continued to pay particular attention to agree audit actions that have repeatedly not been implemented within agreed or revised timeframes. This is reported in a 'slippage' column within the Internal Audit update reports to Committee. The number of critical and high priority audit actions that had not been implemented within agreed timeframes on 3+ occasions was zero in every quarter apart from Q1, when there were 2 of these actions reported.

2.4.3 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 2021-22. 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 2021-22 a 'Reasonable' Annual Internal Audit Opinion was given. This is consistent with 2020-21 and 2019/20 and an improvement on the previous two years, 2018/19 and 2017/18, when Limited Assurance was given.

2.4.4 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 2021-22, Internal Audit performed 18 schools' visits and undertook 2 follow-up reviews. The number of schools reviewed was higher than in the previous year, when, due to school closures because of COVID, only 11 schools' audits and 1 follow-up review were undertaken.

2.4.5 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 Internal Audit – issues identified** – 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 an audit report or 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. 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
Agency Staff	Limited	0	2	2
QL Housing system	Limited	0	1	3
Estates Compliance	Limited	0	1	3

Parking - PCN Cancellations	Reasonable	0	1	2
Trade Waste	Reasonable	0	1	1
The Orion Primary School	Reasonable	0	1	2

**2.6 Anti-Fraud** – This last year was impacted by the enforced working conditions brought about by the Covid-19 pandemic, which restricted CAFT investigations with officers having to work from home. This meant that officers were unable to carry out formal PACE interviews, take witness statements or visit suspected offenders in their home addresses. To counteract these restrictions CAFT officers carried out more “desk based” investigations and duties as well as modify the way we engaged 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.

As the Covid-19 restrictions began to lift in September 2021, CAFT gradually returned to business as usual and have recommenced carrying out home visits and face to face interviews, both in the community and in the dedicated interview rooms in Colindale.

**2.6.1 The Concessionary Travel Fraud Team** has investigated **279** cases of alleged Blue Badge misuse as well as Blue Badge and parking permits fraud and fraudulent appeals relating to penalty charge notices (PCNs). Of these, **6** cases were successfully prosecuted at Magistrates court and **29** cautions were administered. A further **50** cases also concluded in Warning letters being sent to the Badge Holders as well as the offenders. **21** Blue Badges were seized from offenders. In addition to these, there are several cases that are currently being progressed to formal interviews and legal actions.

**2.6.2 The Tenancy Fraud team** has continued to work in challenging conditions this year, however they have still investigated **619** cases, and which includes the verification of all housing Applications received by Barnet Homes. These investigations led to **4** formal Prosecutions for illegal subletting and resulting in CAFT recovering **£22,500** in compensation against the cost paid for Temporary accommodation. **6** Homeless persons applications for housing, and **4** mutual exchange applications were denied. In addition to this, Tenancy Fraud officers recovered **14** properties this year bringing those properties back into the Council’s Housing Stock and saving on the costs of Temporary accommodation. Other cases continue to progress, as the ability to carry out home visits and interview suspected offenders returns to normal.

**2.6.3 The Corporate Fraud Team** investigated **152** cases of alleged fraud. These investigations led to **1** criminal prosecution, **2** formal cautions and **26** cases where financial recovery totalled **£110,558** (these **26** cases related to Covid-19 business grants, direct payments, Adult Social care payments and Council Tax).

In addition to the above and as a direct result of CAFT verification processes **18** Covid 19 grant applications were denied due to information discrepancies thereby saving the public purse **£123,650**. CAFT continue to work closely with the Finance unit to offer assurance against the Covid-19 Grant scheme and are currently undertaking both pre-payment checks and a post assurance exercise, to confirm that funds were paid correctly relating to the Omicron Grants. **6** school admissions places were denied due to



false information being supplied. **2** Administrative penalties were issued relating to Council Tax Reduction offences.

CAFT officers also conducted an internal investigation which resulted in disciplinary action being taken against **5** members of staff.

2.6.4 There have been **17 Financial (Proceeds of Crime)** Investigations carried out this year. **12** of these are on-going and recovery of confiscation orders continues. **3** cases were concluded as the full Proceeds were recovered. This year **£177,273.18** has been received via the PoCA incentivisation Scheme.

2.6.5 **Whistleblowing** matters are also reported to the Audit Committee. **5** whistleblowing allegations were received this 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 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 2021-22**

**Detail of Reports considered:**

<b>Audit Committee Meeting Date</b>	<b>Agenda Items</b>
<b>28 April 2021</b>	<ul style="list-style-type: none"> <li>• Internal Audit Exception Recommendations Report and Q4 (Phase 2) Progress Report 1st January to 31st March 2021</li> <li>• Internal Audit &amp; Anti-Fraud Strategy and Annual Plan 2021-22</li> <li>• Corporate Anti-Fraud Team (CAFT) Annual Report 2020-2021</li> <li>• Annual Audit Letter 2019/20</li> <li>• External Audit Plan 2020/21</li> <li>• Committee Forward Work Programme</li> </ul>
<b>14 July 2021</b>	<ul style="list-style-type: none"> <li>• Internal Audit Exception Recommendations Report and Q1 Progress Report 1st April to 30th June 2021</li> <li>• Annual Internal Audit Opinion 2020-21</li> <li>• Annual Governance Statement</li> <li>• Corporate Anti-Fraud Team (CAFT) Q1 Progress Report 2021-22</li> <li>• Annual Report of the Audit Committee 2020-21</li> <li>• Whistleblowing Policy</li> <li>• Committee Forward Work Programme</li> </ul>
<b>15 December 2021</b>	<ul style="list-style-type: none"> <li>• External Auditor’s report on progress of the audit of the council’s 202021 accounts</li> </ul>

Audit Committee Meeting Date	Agenda Items
	<ul style="list-style-type: none"> <li>• Internal Audit Exception Recommendations Report and Q2 Progress Report</li> <li>• Internal Audit Plan 2021-22</li> <li>• Corporate Anti-Fraud Team (CAFT) Q2 Progress Report</li> <li>• Regulation of Investigatory Powers Act 2000 RIPA Policy and Guidance Review</li> <li>• Work Programme</li> </ul>
<b>14 February 2022</b>	<ul style="list-style-type: none"> <li>• External auditors report 2020-21</li> <li>• Internal Audit Exception Recommendations Q3</li> <li>• Auditor Appointments</li> <li>• Corporate Anti-Fraud Team (CAFT) Q3 Progress Report</li> <li>• Work Programme</li> </ul>