



# REPORT TO COUNCIL

19 OCTOBER 2011

**LEADER**

*Councillor Stephen Greenhalgh*

**CABINET MEMBER FOR STRATEGY**

*Councillor Mark Loveday*

**ANNUAL REPORT OF THE AUDIT AND PENSIONS COMMITTEE 2010/11**

This report details the work of the Audit and Pensions Committee during 2010/11, outlining the key developments in:

- Governance
- Internal Control;
- Risk management;
- Internal Audit;
- Anti-fraud;
- External Audit;

It also sets out the plans for the future, built on the lessons learnt. The report provides an opportunity for all members to review the Committee and to review its performance.

**WARDS**

**All**

**CONTRIBUTORS**

EDFCG and all Departments

**RECOMMENDATIONS:**

**That the Council approves the annual report.**

# **Audit & Pensions Committee**

**Annual Report  
2010/11**

## Introduction

- 1 This report relates to the period 1 April 2010 to 31 March 2011. As there is separate reporting arrangements in relation to the Pensions element of this Committee's work this report excludes all matter relating to pensions. The Audit and Pensions Committee (the Committee) has a wide ranging 'audit committee' brief that underpins the Council's governance processes by providing independent challenge and assurance of the adequacy of governance, risk management, and internal control. This includes audit, anti-fraud and the financial reporting framework; the Committee is also the Council's Approval of Accounts Committee. The Terms of Reference for the Committee for 2010/11 are reproduced at Appendix 1 for information.
- 2 Table 1 details last year's Committee members. I would like to thank all members for their positive contributions throughout the year. The members have a wide range of skills and bring both technical and professional experience to the role. Within the membership there are qualified accountants and all members have some experience or have received development training in relation to the governance processes they challenge. This provides a solid foundation from which to develop the Committee's role.

**Table 1: Members of the Audit Committee**

Member	Role
Councillor Mike Adam	Chairman
Councillor Michael Cartwright	Vice Chairman
Councillor Robert Iggulden	Member
Councillor Nicholas Botterill	Member
Councillor PJ Murphy	Member
Councillor Marcus Ginn	Member
Eugenie White	Co-opted Member

- 3 To further support the Committee members, officers have provided development training on the function, responsibilities and role of the Committee. This was further supplemented by additional training during the year in relation to local government accounts.
- 4 This report details the key successes and work of the Committee in relation to its role as an audit committee in 2010/11. The Committee has overseen transformation in all areas of its responsibilities and has actively contributed to leading and shaping those changes. Key achievements include:

- Moving risk management reporting from compliance with the process to identifying issues arising from the risk register contents;
- Continued performance improvements in responding to internal audit reports and recommendations across the Council, and delivery of the Internal Audit plans;
- Developments in the Council's anti-fraud culture with continued improvements in the performance of the Corporate Anti-Fraud Service (CAFS);
- Delivering through CAFS the National Fraud Initiative;
- Approval of the 2010/11 year annual accounts.

## Governance

- 5 The Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions which includes arrangements for the management of risk. The governance framework comprises the systems, processes, culture, and values by which the authority is directed and controlled and it engages with and leads the community. It enables the Council to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost effective services.
- 6 The Council has reviewed the local code of corporate governance and found them to be consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*. A copy of the local code and Financial Regulations is contained in the Council's constitution and is available on the Council website.
- 7 The Audit and Pensions Committee has a responsibility to assess the adequacy and effectiveness of the corporate governance arrangements that have been put in place. This is achieved in a number of ways. The Committee reviews in detail the Annual Governance Statement (AGS) that accompanies the annual accounts, to ensure it properly identifies the Council's governance arrangements, and that it accurately identifies significant control weaknesses. The process for producing the statement is outlined at Appendix 2, showing the range of supporting evidence considered by the Committee as part of its deliberations. The statement in the 2010/11 draft accounts demonstrates a clear improvement with only three extant significant control weaknesses. The Committee also considers the work of Internal Audit and risk management in identifying and evaluating risks and ensuring arrangements are put in place to manage them. The Audit and Pensions Committee's view of governance is reflected in the Annual Governance Statement. The supporting review of governance states that the Council is compliant with the new CIPFA/SOLACE governance guidance issued in 2007.

## Internal Control

8 A pivotal role of the Committee is its work in developing the Council's internal control and assurances processes culminating in the Annual Governance Statement (AGS). Part 2 of section 4 of the Accounts and Audit (A&A) Regulations 2011 require the Council to review the effectiveness of its governance arrangements including the system of internal control and to publish an AGS each year to accompany the financial statements. The information for the AGS is generated through the Council's Assurance framework which is outlined in Appendix 2, encompassing:

- Risk management;
- Internal Audit;
- Anti-Fraud programme;
- External Audit;
- Third party assurances such as other inspection and review agencies;
- Directors' annual assurance statements.

The Committee leads this review by receiving reports at every meeting from most of these areas.

## Risk Management

- 9 Risk Management is a business discipline that public and private sector organisations use to maximise the potential for successful delivery of business opportunities and at the same time control costs and mitigate against potential threats that may impact on the achievement of corporate objectives. It also forms a key part of the Council's corporate governance arrangements, strategic management, project, financial and performance management process and aids the scrutiny process by providing transparency of decision making of officers plus policy and agenda setting of Members.
- 10 Operationally the engagement, ownership, management and delivery of risk management as part of daily business practice has been maintained throughout the year culminating in attainment of Substantial Assurance from the annual audit of the risk management framework. The process has been particularly effective in raising Members' and officers' awareness of both the risk and opportunities associated with major projects and programmes of work such as in Market Testing.
- 11 There has been consistency in business risk assessment; risks have either decreased as a result of being managed and mitigated, or in some cases increased due to the continuing economic fragility. These risks have been monitored throughout the year and the Executive Management Team have focussed on key areas of risks through the ongoing review and maintenance of the Corporate Risk Register.
- 12 It is notable that risk continues to be used as a natural part of the Council's business processes and is no longer seen as an add-on or separate bureaucratic process. There will always be an element of process in terms of risk registers, framework and policy but there has been a fundamental shift in

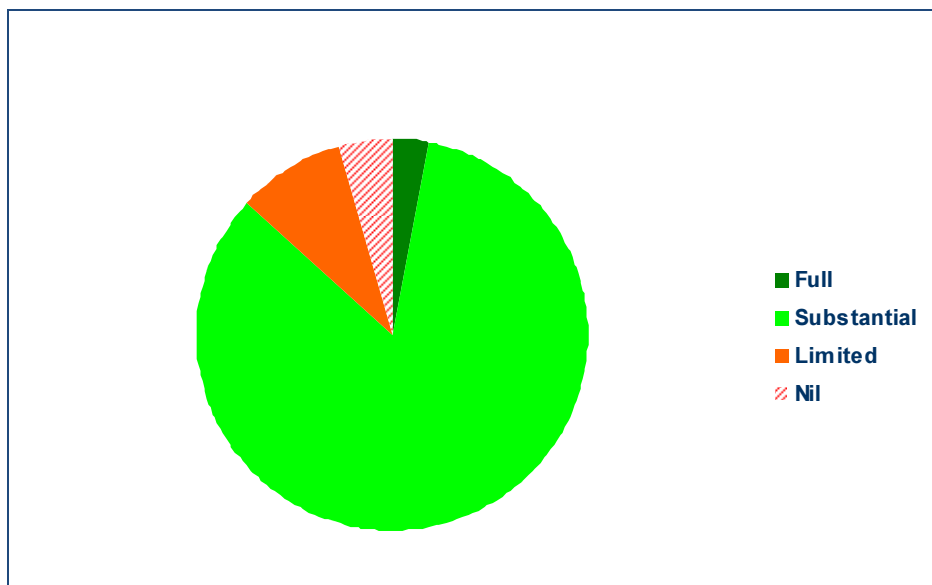
the way risks are more routinely identified and managed and a pragmatic approach has been adopted.

- 13 This has been delivered through very testing economic times and the comprehensive scrutiny of risk undertaken quarterly by the Audit and Pensions Committee has been robust and effective. Benefits from the process include improved organisational resilience and improved performance in service delivery to the community.

### Internal Audit

- 14 The Council's internal audit service is outsourced to Deloitte & Touche Public Sector Internal Audit Ltd, who began delivering the service on 1 October 2004 and won the contract re-tender starting from 1 April 2008.
- 15 The Internal Audit plans for the 2010/11 year were based on the departmental and the corporate risk registers supported by the production of an Assurance Framework. The draft plans were then reviewed and updated with departments through annual planning meetings with their Department Management Teams.
- 16 The audit work that was completed for the year to 31 March 2010 involved 89 separate reviews of which 70 received an audit assurance. The levels of audit assurance achieved on the systems audited by year end are depicted in **Chart 1** below. This shows that 83% of the systems audited achieved an assurance level of substantial or higher, while 17% received an assurance level of limited or lower.

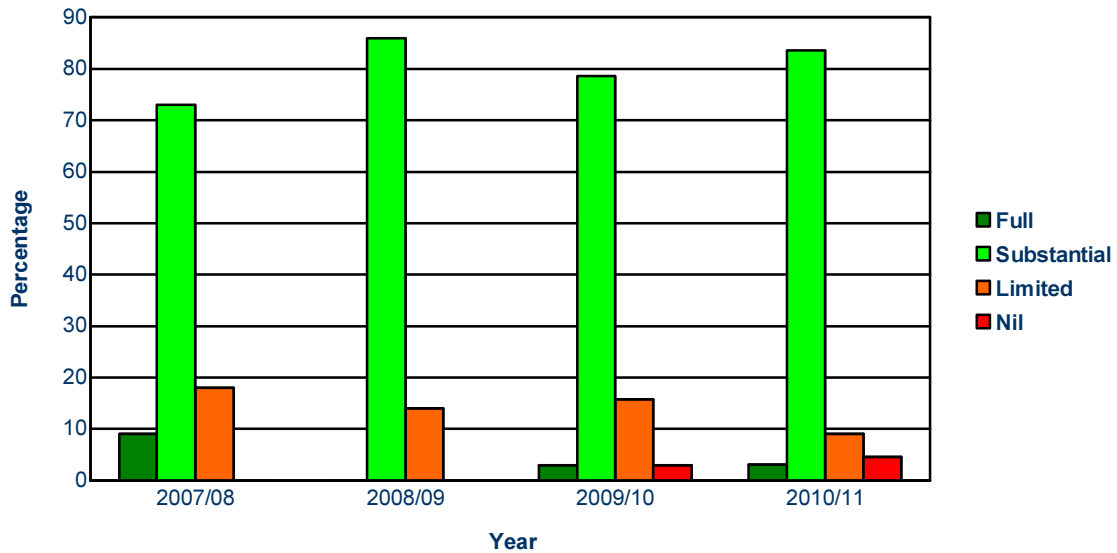
**Chart 1: - Assurance Levels for the year to 31 March 2011**



- 17 There were two audits where FULL assurance opinion was issued. NIL assurance was provided for two audits, and a further 10 reports had limited assurances reported at year end.

- 18 To provide a wider perspective, **Chart 2** below shows the levels of assurance provided for all systems audited from the 2007/08 year onward. This indicates that the trend of the overall system of internal control had been improving. For the 2009/10 year and 2010/11 year the figure has reduced slightly, this is believed to be due to the audit plan now being risk based and therefore more focussed on areas of greater risk or known issues.

**Assurance Levels of Reports from 2007/08 to 2010/11**



### Internal Audit Performance 2010/11

- 19 The table below shows that delivery of the 2010/11 year Internal Audit plans was the most successful since the Deloitte contracts began. The target for delivery in year of 95% was achieved, which was an improvement on that delivered in the previous year. This level of performance is expected to continue in future years. The results of satisfaction surveys indicate that 83% of auditees are either satisfied or very satisfied with the service provided by internal audit.

### Key Performance Indicators 2010/2011

	Performance Indicators	Annual Target	Performance	Variance
1	% of deliverables completed	95	97	+2
2	% of planned audit days delivered	95	95	0
3	% of Satisfaction survey at least satisfactory	95	75	-20
4	% of 2010/11 year audit recommendations past their implementation date that have been implemented.	N/A	56%	N/A

5	% of 2009/10 year audit recommendations past their implementation date that have been implemented	N/A	94%	N/A
6	% of 2008/09 year audit recommendations past their implementation date that have been implemented	N/A	99%	N/A
7	% of 2007/08 year audit recommendations past their implementation date that have been implemented	N/A	100%	N/A

20 Indicators to evaluate the success of Internal Audit in affecting organisational change to improve processes and control are those measuring the implementation of audit recommendations by their due date. By the 31 March 2010 a total of 98% of those for the 2007/08 year and 92% of those for the 2008/09 year had been implemented. This shows that Internal Audit are having a significant influence.

### Anti-Fraud

21 During the 2010/11 year CAFS (Corporate Anti-Fraud Service) delivered 278 successful outcomes, a significant 46% year on year improvement and an increase of approximately 300% over the performance results achieved by the Council's disparate fraud teams the year before CAFS was formed in 2006. This figure excludes a further 33 removals from the Housing Register that were actioned late in the 2009/10 year and as a consequence were not included in that year's outturn performance returns. The year end figures include 31 successful prosecutions, the remaining cases include administrative penalties, recovered properties, and removals from the Housing Register.

22 As a consequence of its counter fraud work the unit identified total fraud to the value of £14.6 million. This figure includes 751k that is potentially recoverable by the Council and a further £404k was actually recovered during the year. Where possible a financial value to the Council has been placed on the counter fraud work that CAFS undertakes on tenancies using the Audit Commission calculation that each recovered property is worth £75k to councils. Therefore the 48 recovered tenancies plus the 33 cases carried forward from the previous year and 90 Housing Register removals have been valued at £12.8 million. All these financial values do not account for any additional value such as the deterrent effect achieved from successful casework and the publicity gained from the results, plus the fraud awareness activity and the proactive work undertaken to prevent fraud occurring in the first place.

23 The CAFS working relationship with the police continues to be mutually beneficial and was strengthened during the year with a CAFS officer becoming a dedicated single point of contact between the services, with their time split between Council and police offices. The benefits of this



arrangement are demonstrated from an example joint case where drugs to the value of £750k were seized and seven persons charged with offences.

- 24 To develop the service further and help maximise the realisable benefits from investigations, three CAFS officers have commenced training to qualify as accredited Financial Investigation officers. This gives the service future options to apply to courts to make restraints ourselves rather than being dependent on the police, which would also mean that any benefits arising from this work would be shared with fewer other organisations, helping to maximise the benefits to the Council.

### **Annual Accounts and Financial Reporting**

- 25 Following training/education provided to the Committee on local government accounts, the Committee reviewed the 2009/10 year annual accounts in its meeting in June 2010 in undertaking its role as the Approval of Accounts Committee. The training helped ensure that the Committee interpreted the accounts effectively and raised informed questions prior to approving them.

### **Future developments**

- 26 The Internal Audit contract expired on 31 March 2011. A new contract was let using the LB Croydon framework Contract for Deloitte to continue to provide outsourced internal audit services to the council. The new contract provides a saving of approximately 22% on the contract cost.
- 27 Some of the more significant areas of risk are considered to include:
- a. The continued pressure being applied to councils through the new financial realities for public finances;
  - b. Contracts and Procurement, with the increasing programme of contracting out and tendering services and the need to maximise value for money from contracts;
  - c. Shared services being developed including the Tri-Borough programme, and the significant change programme that this entails including expected changes to processes and controls that need to be kept under review.

Resources will continue to be directed towards these areas in the coming years.

**AUDIT AND PENSIONS COMMITTEE**  
**TERMS OF REFERENCE 2010/2011**  
**(relating to the audit element of the Committee)**

**1. Membership**

1.1 The Committee will have the following membership:

4 Administration Councillors  
2 Opposition Councillors

1.2 The Chairman will be drawn from one of the Administration Councillors; the Vice-Chairman will be an Opposition Councillor.

1.3 The Committee may co-opt non-voting independent members as appropriate.

1.4 The agenda of meetings of the Committee will be divided into separate sections for Audit and Pensions matters.

1.5 The Pension Fund's external investment managers will be required to attend meetings of the Committee when dealing with Pensions matters and to submit reports and make presentations as required.

1.6 The Trades Unions and representatives from the admitted and scheduled bodies in the Pensions Fund shall be invited to attend and participate in meetings considering Pensions matters, but shall not have a formal vote.

1.7 The Committee may ask the Head of Internal Audit, a representative of External Audit, the Risk Management Consultant, Assistant Director (Business Support) and any other official of the organisation to attend any of its meetings to assist it with its discussions on any particular matter.

**2. Quorum**

2.1 The quorum of the Committee shall be 3 members.

**3. Voting**

3.1 All Councillors on the Committee shall have voting rights. In the event of an equality of votes, the Chairman of the Committee shall have a second casting vote. Where the Chairman is not in attendance, the Vice-Chairman will take the casting vote.

**4. Procedures**

4.1 Except as provided herein, Council Procedure Rules (as applicable to all Committees) shall apply in all other respects to the conduct of the Committee.

4.2 Meetings of the Committee shall be held in public, subject to the provisions for considering exempt items in accordance with sections 100A-D of the Local Government Act 1972 (as amended).

## 5. **Meetings**

5.1 The Audit and Pensions Committee will meet at least four times a year.

5.2 Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.

5.3 The Chief Executive may ask the Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.

## 6. **Reporting**

6.1 The Audit and Pensions Committee will formally report back in writing to the full Council at least annually.

## 7. **Responsibilities**

### **(a) Audit**

7.1 The Audit and Pensions Committee will advise the Executive on:

- the strategic processes for risk, control and governance and the Statement on Internal Control;
- the accounting policies and the annual accounts of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- the adequacy of management responses to issues identified by audit activity, including the external auditor's annual letter
- the Chief Internal Auditor's annual assurance report and the annual report of the External Auditors.
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services.

7.2 The Committee's responsibilities in relation to the annual accounts will include:

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;
- acting as the Approval of Accounts Committee, to be held in June;

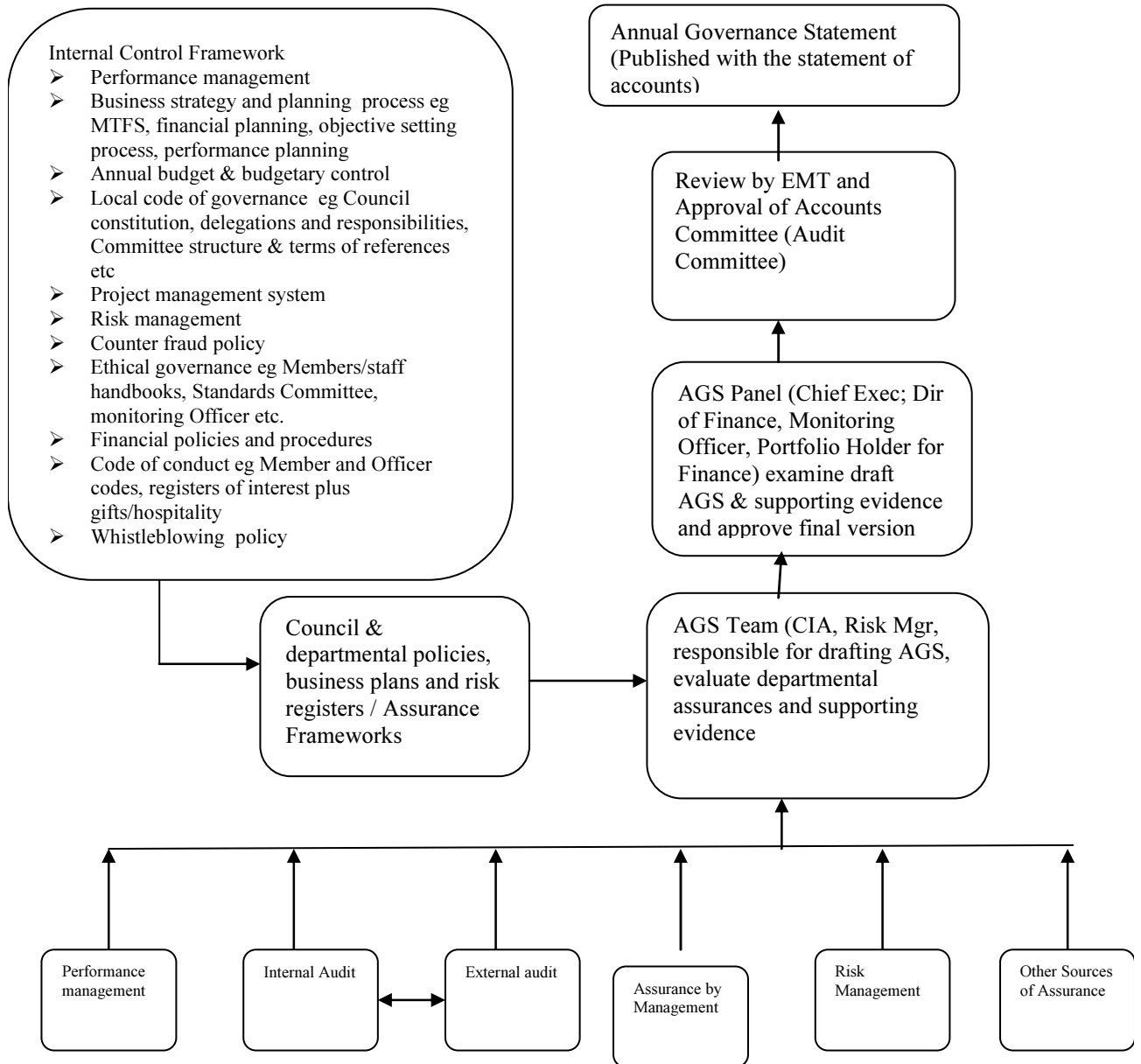
- to consider any report as necessary from the external auditor under Statement of Auditing Standard 610;
- to re-approve the Council's Statement of Accounts following any amendments arising from the external audit, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003.

7.3 The Committee's responsibilities in relation to risk management will encompass the oversight of all risk analysis and risk assessment, risk response, and risk monitoring. This includes:

- the establishment of risk management across the organisation, including partnerships;
- awareness of the Council's risk appetite and tolerance;
- reviewing of the risk portfolio (including IT risks);
- being appraised of the most significant risks;
- determining whether management's response to risk and changes in risk are appropriate.

7.4 The Council has nominated the Committee to be responsible for the effective scrutiny of the Treasury Management Strategy and policies.

**Council Framework for the Annual Governance Statement**



**LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS**

<b>No.</b>	<b>Description of Background Papers</b>	<b>Name/Ext. of Holder of File/Copy</b>	<b>Department/ Location</b>
1.	CIPFA publication 'Audit Committees – practical guidance for local authorities	Geoff Drake Ext. 2529	Finance and Corporate Services department 6 <sup>th</sup> Floor Town Hall Extension