



REPORT TO COUNCIL

28 October 2009

LEADER

Councillor Stephen Greenhalgh

CABINET MEMBER FOR STRATEGY

Councillor Mark Loveday

**ANNUAL REPORT OF THE AUDIT COMMITTEE
2008/09 YEAR**

This report details the work of the Audit Committee during 2008/09, outlining the key developments in:

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

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

**WARDS
All**

CONTRIBUTORS

FCS and all
Departments

RECOMMENDATIONS:

That the Council note the annual report

Audit Committee

**Annual Report
2008/09**

Introduction

- 1 This report relates to the period 1 April 2008 to 31 March 2009. The Audit Committee (the Committee) has a wide ranging 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 frameworks; the committee is also the council's Approval of Accounts Committee. The Terms of Reference for the Committee are reproduced at Appendix 1 for information.
- 2 Table 1 details the current 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 Robert Iggulden	Chairman
Councillor Michael Cartwright	Vice Chairman
Councillor Mike Adam	Member
Councillor Will Bethell	Member

- 3 To further support the committee members, officers have provided development training on the function, responsibilities and role of the audit committee process. 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 2008/09. The Committee has overseen transformation in all areas of its responsibilities and has actively contributed to leading and shaping those changes. Key achievements include:
 - Maintaining the Internal Control score in the CPA use of resources assessment at level three;
 - Moving risk management reporting from compliance with the process to the risk register contents and is in the process of being embedded in the business planning process;
 - Continued performance improvements in responding to internal audit reports and recommendations across the Council;
 - Developments in the Council's anti-fraud culture with marked improvements in the performance of the Corporate Anti-Fraud Service

- (CAFS);
- Delivering through CAFS the National Fraud Initiative;
- Approval of the 2007/08 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 its activities through which it accounts to, 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 an approved and adopted code of corporate governance with embedded Financial Regulations, which is consistent with the principles of the CIPFA/SOLACE *Framework Delivering Good Governance in Local Government*. A copy of the code and Financial Regulations is contained in the Council's constitution and is available on the Council website.
- 7 The Audit 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 will review in detail the Annual Governance Statement that forms part of 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 2008/09 year draft accounts demonstrates a clear improvement inasmuch as the number of extant significant control weaknesses has reduced to only two extant entries. It will also consider 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 Committee's view of governance is reflected in the Annual Governance Statement and the supporting review of governance which 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). Regulation 4 of the Accounts and Audit (A&A) Regulations 2003, and amending A&A Regulations 2006 require the Council to review the effectiveness of its governance arrangements including the system of internal control and publish an Annual Governance Statement (AGS) each year with 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;
- Director's annual assurance statements.

The Committee lead this review by receiving reports at every meeting on most of these service areas. Success is demonstrated by the maintenance of the Council's Internal Control score at level three in the Use of Resources Assessment, part of the Comprehensive Performance Assessment.

Risk Management

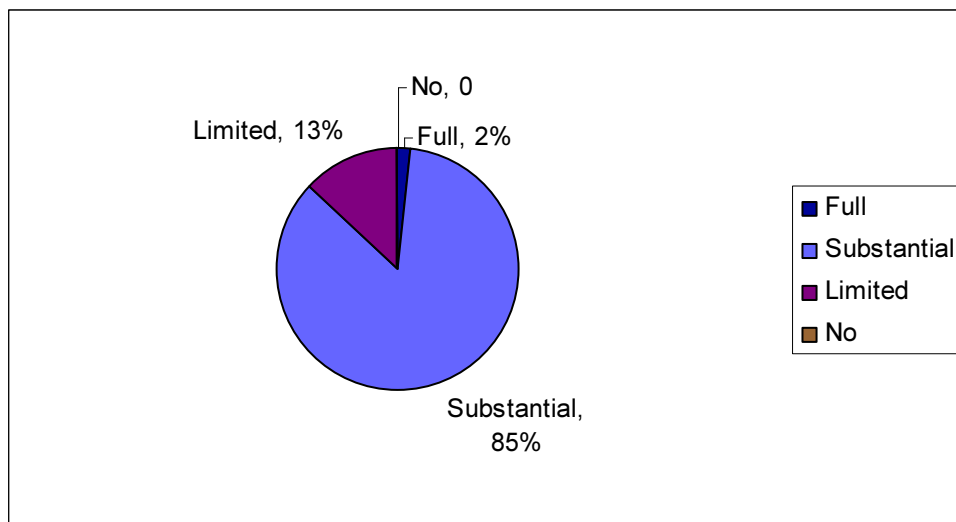
- 9 Risk Management is a business discipline that public and private sector organisations use to better manage potential opportunities and threats to the achievement of corporate objectives. Risk Management also forms a key part of the council's corporate governance arrangements, strategic management and performance management process.
- 10 Key documents and plans of the organisation reflect risk in a far more positive way across major projects and within service delivery. This approach is in part recognition of embedding the process through better understanding of risk as a business enabler linked to successful delivery coupled with willingness by the council to seek opportunity and improve efficiency.
- 11 Engagement, ownership, management and delivery of risk management as part of daily business practice has improved culminating in attainment of Substantial Assurance from the annual audit of the risk management framework and a positive Use of Resources assessment. The process has been particularly effective in raising Members & officers awareness of both the risk and opportunities associated with major projects and programmes of work such as in Building Schools for the Future and Market Testing.
- 12 There have been demonstrable improvements in business risk assessments; risks have either decreased, as a result of being managed and mitigated, or in some cases increased due to the turbulence in the banking and financial sectors that affected the economy and its inevitable knock on effect. These risks have been monitored throughout the course of events during the year and the Corporate Management Team, now Executive Management Team, have focussed on key areas of risks through the ongoing review and maintenance of the Corporate Risk Register.
- 13 It is notable that risk is being 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 change in the way risks are more routinely identified and managed. For example all Divisions submitted risk registers as part of the business planning round and these are relied on to inform the audit plan and the year end Assurance Statement in the Annual Accounts.

- 14 This has been delivered through very testing economic times and the comprehensive scrutiny of risk undertaken quarterly by the Audit Committee has been robust and effective. Benefits from the process include a reduction of significant control weaknesses in the Annual Governance Statement to just two remaining entries, one being IT business continuity carried over from the previous year.

Internal Audit

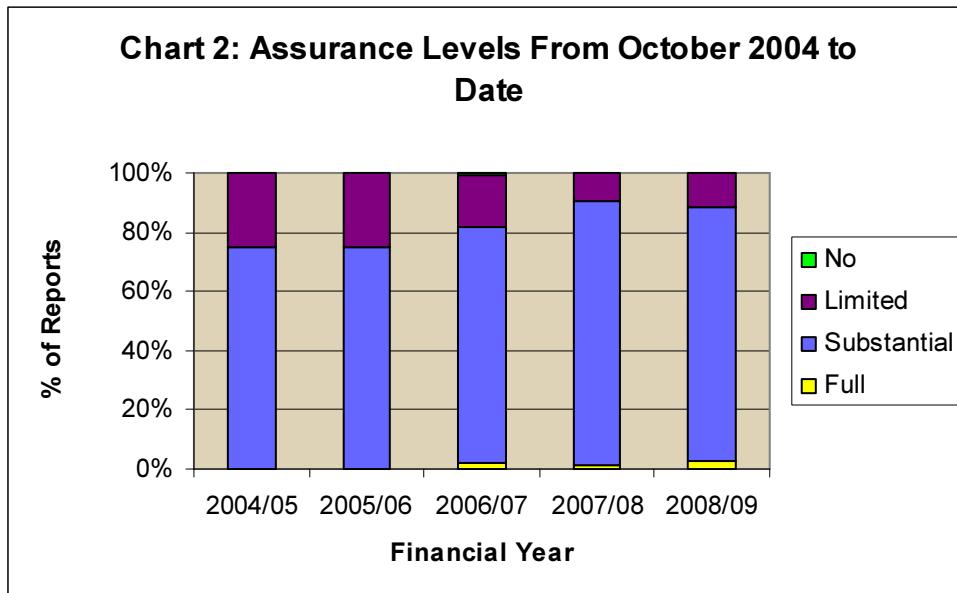
- 15 The Council's internal audit service is outsourced to Deloitte & Touche Public Sector Internal Audit Ltd, who began delivering the service on 1st October 2004 and won the contract re-tender starting from 1 April 2008.
- 16 The Internal Audit plans for the 2008/09 year were based on the departmental and the corporate risk registers supported by the production of an Assurance Framework. The daft plans were then reviewed and updated with departments through annual planning meetings with their Department Management Teams.
- 17 The audit work that was completed for the year to 31 March 2009 involved 98 separate reviews of which 80 received an audit assurance by year end. The levels of audit assurance achieved on the systems audited at year end are depicted in **Chart 1** below. This shows that 87% of the systems audited achieved an assurance level of substantial or higher, while 13% received an assurance level of limited or lower.

Chart 1: - Assurance Levels for the year to 31 March 2009



- 18 There were two audits where FULL assurance opinion was issued. NIL assurance was not provided for any audits. Of the 10 limited assurances reported at year end three have now been revised to substantial assurance which improves the picture further.

- 19 To provide a wider perspective, **Chart 2** below shows the levels of assurance provided for all systems audited since the commencement of the internal audit service contract in October 2004. This indicates the trend of the overall system of internal control which appears to be improving. Again the 2008/09 year figure has improved further since year end by reducing the limited assurance reports from 10 to 7 and therefore the percentage of substantial/full assurance reports to over 90%.



Internal Audit Performance 2007/08

- 20 The table below shows that delivery of the 2007/08 year Internal Audit plans was the most successful since the Deloitte contract began. While the target for delivery in year was not achieved this was a significant improvement on the 74% delivered in the previous year. This situation is expected to continue to improve in future years.
- 21 The table below shows delivery of 91% of the audit plan by 31 March 2009 exceeded the performance in previous years. The results of satisfaction surveys indicate that 90% of auditees are either satisfied or very satisfied with the service provided by internal audit.

Performance Indicators 2008/2009

	Performance Indicators	Annual Target	Performance	Variance
1	% of deliverables completed	95	91	-4
2	% of planned audit days delivered	98	89	-9
3	% of Audit Briefs issued 10 days before start of audit	95	60	-35

4	% of audits where exit meetings held	100	100	0
5	% of Draft reports issued within 12 working days of exit meeting	95	34	-61
6	% of Final reports issued within 5 days of receipt of reply	100	71	-29
7	Audit Recommendations in 2008-9 year in final reports accepted by customer	98	100	2
8	Audit Recommendations in 2007-8 year in final reports accepted by customer	95	100	5
9	% of audits follow ups completed	100	100	0
10	% of Satisfaction survey satisfactory+	95	90	5
11	Audit recommendations in 2008-09 year draft reports accepted by customer	95	99	4
12	Audit recommendations in 2007-08 year draft reports accepted by customer	95	100	5
13	% of 2008/09 year audit recommendations past their implementation date that have been implemented	N/A	72	N/A
14	% of 2007/08 year audit recommendations past their implementation date that have been implemented	N/A	91	N/A
15	% of 2006/7 year audit recommendations past their implementation date that have been implemented.	N/A	98	N/A

22 Indicators to evaluate the success of Internal Audit in effecting change are those measuring the implementing of audit recommendations by their due date. By the 31 March 2009 a total of 100% of those due in the 2005/06 year had been implemented, while 98% of those for the 2006/07 year and 91% of those for the 2007/08n year had been implemented. This shows that the steps taken to improve implementation have been effective.

Anti-Fraud

23 During the 2008/09 year CAFS (Corporate Anti-Fraud Service) delivered 186 successful outcomes, a significant year on year improvement and an increase of 93.75% over the performance results achieved by the Council's disparate fraud teams the year before CAFS was formed in 2006. As a consequence of its counter fraud work the unit identified recoverable income to the Council of £297k, the income actually received in-year helped the unit to produce a year end underspend against budget of approximately £90k.

- 24 Where possible a financial value has been placed on the counter fraud work that CAFS undertakes, which amounted to £733,331. Additionally CAFS manages the NFI (National Fraud Initiative) work that the Council undertakes, the last exercise which concluded in the 2008/09 financial year identified a level of fraud and error totalling £547,381 making a total value of approximately £1.2 million which is comparable to the costs of running the service. This does not account for any additional value such as the deterrent effect which the services delivers from its publicised results and its awareness programmes plus the proactive work undertaken to prevent fraud occurring in the first place.
- 25 The Service continues to deliver project work outside of its core function, and for which it is separately funded, particularly in the area of Private Sector Leasing / Housing Association Leasing tenancy verification, and in the work undertaken for H&F Homes.
- 26 The CAFS working relationship with the police goes from strength to strength and continues to be mutually beneficial to both parties. The arrangements have been recognised publicly and received significant positive media coverage within the London area in relation to a recent high profile multi agency approach on tackling crime. In fostering relations with the police, our work has drawn a notable best practice comment from the Audit Commission. In 2008/09 16 joint CAFS and Police arrests were made in relation to significant fraud matters and restraints on assets applied in excess of £250,000. One of the subjects arrested under a joint multi agency tasking group involving the Police, HMRC and CAFS officers was found to be in possession of a significant quantity of Class 'A' drugs and evidence was found supporting an allegation of Benefit Fraud. This, along with a similar investigation-involving drug related offences and benefit fraud has attracted significant positive media interest and saw one member of the CAFS team being aired on the Bravo prime time Television Programme - 'Brit Cops'.
- 27 The CAFS relationship with the police and other law enforcement agencies continues to grow and develop with over 150 Police Intelligence checks being made by CAFS Officers to support police investigations which underpin the Police HARM agenda on tackling crime within the Borough. It has not been possible to gauge the success of this new working partnership with the Police, as it is a new area of work for CAFS. However, early indications are positive and CAFS are currently in talks with Hammersmith and Fulham Police with a view to seconding a CAFS officer to the police to develop an intelligence lead pro-active anti fraud role. Aside from our work with the Police, CAFS have enjoyed 13 successful prosecutions in the 2008/09 financial period with a total of 16 summonses being issued.
- 28 The CAFS Management Team, in conjunction with the City University London Economic Crime Facility and the City of London Police Fraud Directorate are developing a career development training program, which underpins their work and focuses on identifying and developing core investigation skills. It has been recognised that this area of training could also benefit other enforcement areas within the Council and an invite has been distributed to those service divisions.

- 29 The annual fraud survey showed a general increase in the level of fraud awareness across the Council. The results showed that some areas of the council had a lower level of awareness than others, in particular two departments and staff employed at below Grade PO1. This will be addressed through the 2009/10 year awareness programme. No whistle blowing disclosures have been made in the year.
- 30 During the financial period 2008/09 CAFS has enjoyed significant successes and improvements in delivery. The service plans to continue to improve on its performance and is looking at ways to deliver more benefits to the council. To this end a greater proportion of resource is being put into its pro-active preventive work programmes as well as its working relationships with the police.

Annual Accounts and Financial Reporting

- 31 Following training/education provided to the Committee on local government accounts, the Committee reviewed the 2007/08 year annual accounts in its meeting in June 2008 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.

Future developments

- 32 There continues to be a great deal of interest in governance. This includes the requirement to review governance across the council annually with the results reported through the Annual Governance Statement to the Committee as part of its role as the Approval of Accounts Committee.
- 33 Following the signing of a new Service Agreement for the delivery of Internal Audit, the service has moved to a "Risk Based Internal Audit Service" that is more heavily integrated with risk management, ensuring that these activities work more closely together and are better integrated.
- 34 Some of the more significant areas of risk are considered to include:
- a. council contracts, including letting contracts and their management. As the council continues to increase the scale of contracting including its market testing programme for services and major programmes such as Building Schools for the Future and Decent homes, this risk continues to grow;
 - b. general procurement, which is always subject to relatively high risk because it is a distributed, delegated process and through which significant sums are expended;
 - c. Housing, principally in relation to the council house estate, its effective management and maintenance plus related fraud risks.

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

**AUDIT COMMITTEE
TERMS OF REFERENCE**

1. MEMBERSHIP

- 1.1 The membership of the Audit Committee shall consist of 4 Councillors (3 Administration, 1 Opposition, all non-Cabinet Members).**
- 1.2 The Chairman will be drawn from one of the Administration Councillors, the Vice-Chairman will be the Opposition Councillor.**
- 1.3 The Committee may co-opt non-voting independent members as appropriate.**

2. QUORUM

- 2.1 The quorum for a meeting shall be 2 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 or casting vote. Where the Chairman is not in attendance, the Vice-Chairman will take the casting vote.**

4. PROCEDURES

- 4.1 Council procedure rules (as applicable to Committees) shall apply at all meetings 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 Committee will meet at least four times a year. Meetings will generally take place in the spring, summer, autumn, and winter. The Chairman of the Committee may convene additional meetings as necessary.**
- 5.2 Audit Committee meetings will normally be attended by the Director of Finance and Corporate Services, the Head of Internal Audit, a representative of External Audit, and the Risk Management Consultant. The Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter.**
- 5.3 The Chief Executive may ask the Audit Committee to convene further meetings to discuss particular issues on which the Committee's advice is sought.**

6. REPORTING

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

7. RESPONSIBILITIES

7.1 The Audit 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;
- 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.

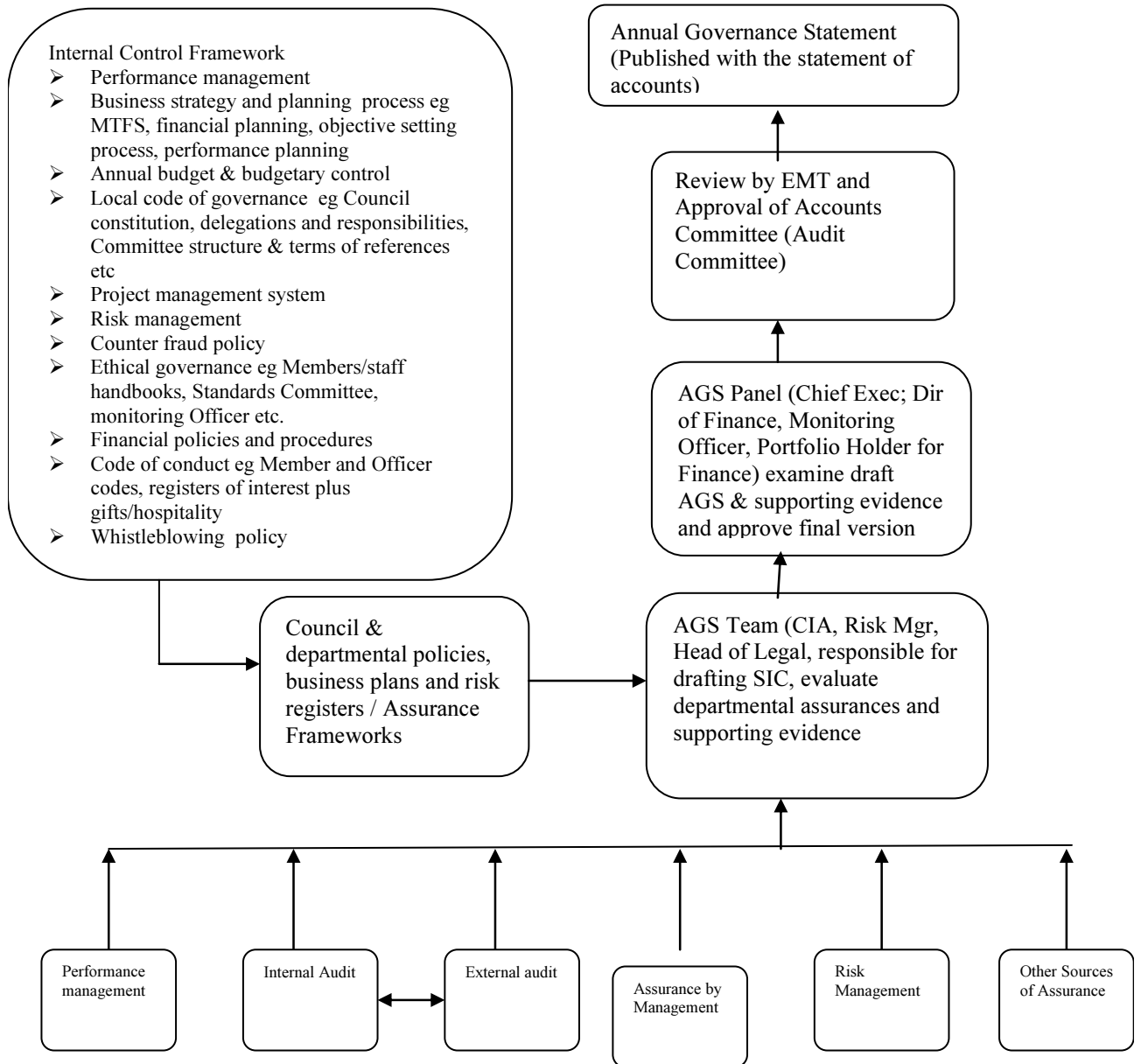
7.2 The Committee's responsibilities in relation to the annual accounts will include:

- to approve the Council's Statement of Accounts, in accordance with the deadlines set out in the Accounts & Audit Regulations 2003;
- 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.

Council Framework for the Statement on Internal Control



LOCAL GOVERNMENT ACT 2000 LIST OF BACKGROUND PAPERS

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