

Item No. 7.2	Classification: Open	Date: 6 April 2011	Meeting Name: Council Assembly
Report title:		Annual report on the work and performance of the Audit and Governance Committee in 2010/11	
Ward(s) or groups affected:		All	
From:		Audit and Governance Committee	

RECOMMENDATION

1. That council assembly notes the work and performance of the audit and governance committee in 2010/11.

BACKGROUND INFORMATION

2. The purpose of this report is to report on the audit and governance committee's work and performance in 2010/11. The audit and governance committee considered its annual report on 9 March 2011 and subject to an update to take account of the meeting on 9 March and minor amendments, all of which have been incorporated, agreed to refer it to council assembly.
3. The audit and governance committee's terms of reference include a requirement to report annually to council assembly on its work and performance during the year.
4. The aims of the report are to make council aware of the audit and governance committee's work in relation to its audit, regulatory and financial reporting responsibilities and to provide assurance on areas covered or to identify any concerns.
5. This report also considers the effectiveness of the audit and governance committee which forms a part of the review of the system of internal audit required under the Accounts and Audit Regulations and which will in turn be reported as part of the review of the system of internal control.
6. In previous years, the report has been considered at the audit and governance committee's June meeting but it has been brought forward at the committee's request in order to ensure that the report can be presented to council assembly within this year by the current chair.

KEY ISSUES FOR CONSIDERATION

Role of the committee

7. The purpose of the audit and governance committee is to provide
 - Independent assurance of the adequacy of the council's governance arrangements, including 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
- Oversight of the financial reporting process
- Scrutiny of treasury management strategy and policies.

8. In line with the above, the committee's terms of reference are structured by reference to its four key functions in terms of audit activity, the regulatory framework, the accounts and treasury management.

Work programme since April 2010

9. The following paragraphs summarise the matters considered by the committee at its meetings since April 2010.

Meeting on 30 June 2010

10. The committee received the following reports:

- progress report from the Audit Commission
- annual fee letters for 2010/11 for the council and for the Southwark pension fund from the Audit Commission
- audit opinion plans for 2009/10 for the council and the Southwark pension fund audits from the Audit Commission
- report on expenditure arising from the fire at Lakanal House
- draft strategy for internal audit 2010/11 to 2014/15
- report on compliance with the CIPFA code of conduct for internal audit (peer review of effectiveness of internal audit)
- statement of accounts 2009/10 (including follow up on annual governance reports 2007/08 and 2008/09)
- annual governance statement 2009/10
- annual report on the work of internal audit, anti-fraud and risk management for 2009/10
- annual report to council assembly on work and performance in 2009/10
- draft work programme for 2010/11.

11. In considering the follow up report on issues raised in the annual governance reports of 2007/08 and 2008/09, members noted the progress made but requested a further report on the non-accounts issues.

12. The committee reviewed the annual governance statement for 2009/10 and, after discussion about the issue of strategic directors' responsibility for compliance with policies and procedures in their own departments, agreed that further consideration of appropriate reporting and monitoring of compliance was required.

13. Following questions about the annual report on the work of internal audit, members asked officers to communicate to Serco the committee's concern over the lack of IT risk assurance.

Meeting on 23 September 2010

14. The committee received the following reports:

- progress report from the Audit Commission
- annual governance reports for 2009/10 for the council and for the Southwark pension fund from the Audit Commission

- progress report on the work of internal audit completed between 1 April 2010 and 31 July 2010
 - report on expenditure arising from the fire at Lakanal House
 - report on retrospective contract-related decisions.
15. In reviewing minutes from the previous meeting, there was some discussion about engaging strategic directors with the committee and the chair undertook to discuss this with the finance director. At a subsequent meeting between them, it was agreed that consideration should be given to inviting strategic directors to attend future meetings with a view to reporting on governance arrangements in their departments.
 16. In considering the annual governance report, members asked a number of questions about the move to International Financial Reporting Standards (IFRS) and asked officers to bring back a report to the next meeting.
 17. Members raised a number of questions about the progress report on the work of internal audit, following which officers agreed to bring back an update on the data quality arrangements in children's services and also to follow up with Serco a response to the letter previously requested at its meeting in June by the committee.
 18. Following consideration of the report on Lakanal, members asked officers to include an explanation of insurance arrangements in the report to the next meeting.
 19. In considering the report on retrospective contract-related decisions, members asked questions of the officers responsible for the decision reports and requested that further information about employee rights for the careers education information advice and guidance contract be circulated to them via email.

Meeting on 25 November 2010

20. The committee received the following reports:
 - in-year review of work programme for 2010/11
 - revised whistleblowing policy
 - report on expenditure arising from the fire at Lakanal House
 - progress report from the Audit Commission
 - progress report on the work of internal audit completed between 1 August 2010 and 31 October 2010
 - follow up report on annual governance reports 2008/09 and 2009/10
 - report on treasury management – scrutiny and review of policy and strategy.
21. The report on the in-year review of the committee's work programme set out proposals to increase the number of meetings and to 'theme' future meetings, where possible, on an alternating 'audit' and 'governance' basis, in order to accommodate the attendance by strategic directors at the committee to report on governance arrangements within their departments. These changes were agreed.
22. After considering the report on the whistleblowing policy, members requested a number of amendments to be made to the policy and also asked officers to take it to the trades unions for their comments. The committee agreed also that it would wish to add an annual item into its work programme on the policy.
23. As requested at its previous meeting, the committee received information about the council's insurance arrangements in the report about Lakanal and, having considered this, members asked officers to include in the next report information

about advice given to leaseholders and an indication of timescales in relation to the future of Lakanal House after the inquest.

24. Members asked a number of questions of officers about the internal audit progress report and requested that an update on sickness absence reporting be included in the next report. In addition, officers undertook to provide information via email on queries relating to data security and access controls.
25. In relation to the follow up of recommendations agreed in the annual governance report 2008/09, members sought clarification by email of the green buildings programme and of the technical solution which would limit the use of data storage devices.
26. Members received a report on treasury management and, having reviewed the policy and strategy, made several proposals relating to the investment criteria for officers' further consideration.

Meeting on 25 January 2011

27. The committee received the following reports:
 - annual audit letter 2009/10 from the Audit Commission
 - follow up audit report on internal audit recommendations
 - internal audit plan for 2011/12 and strategy for internal audit for 2011/12 – 2015/16.
28. In considering the annual audit letter, members asked officers to bring monitoring reports on the recommendations raised by the audit Commission back to future meetings.
29. Members asked a number of questions in relation to the follow up report on internal audit recommendations and requested officers to review one of the key performance indicators and to provide additional commentary on all KPIs in the future.
30. In considering the internal audit plan, the committee raised a number of areas for further consideration and also asked for a report on housing management and unauthorised occupancy to be brought to a future meeting.

Meeting on 9 March 2011

31. The committee received the following reports:
 - report on retrospective contract-related decisions
 - update on Lakanal House
 - annual report to council assembly on work and performance in 2010/11
 - draft work programme for 2011/12.
32. In considering the report on retrospective contract-related decisions, members asked a number of questions of the officers attending before making recommendations to help improve future decision making.
33. Members considered the annual report and asked for a number of amendments to be made to the self-assessment checklist to clarify the role of the committee in some areas.
34. The work programme for 2011/12 was agreed, but members noted that it may be

necessary to review it once the outcome of the government's consultation on the Accounts and Audit Regulations is known.

Effectiveness of the audit and governance committee

35. The Accounts and Audit Regulations require a review of the system of internal audit to be carried out, including consideration of the effectiveness of this committee. This will be carried out later in the year and the results will be brought to a future meeting of the committee.
36. To complement this however, the audit and governance committee assesses itself using a checklist produced by CIPFA. The committee considered this on 9 March 2011 and requested some amendments which have been made. The completed checklist is attached at appendix A. The committee was advised that the checklist should be considered as part of the review of the system of internal audit and the annual governance statement.
37. The completed checklist confirms that there are no significant areas of concern in relation to the committee's effectiveness. However, it highlights that training is an area which members may wish to continue to keep under review. Following last year's self-assessment, a training needs assessment was undertaken in June and this has been used during the year to help determine training provided. It is suggested that this continue to be taken into account when considering future training.

Training

38. An induction course for members was held in June 2010 and the training materials were made available to those who were unable to attend. Members were asked to indicate areas in which they would welcome training in order to help focus future provision.
39. The committee's responsibilities were extended in 2010/11 to include scrutiny of treasury management policy and strategy and a half day training session was held in November 2010 on treasury management and internal audit. This provided members with an overview of these areas and also provided an opportunity for members to comment on an early draft of the internal audit plan for future years. Those attending included the chair of this committee and the cabinet member for finance and resources, and training materials were again made available more widely.
40. Following this, the chair and vice-chair attended a one-day workshop on best practice in treasury management and pensions presented by CIPFA's Treasury Management Network and Pensions Network. Future opportunities will be made available to members as they become available.
41. The self-assessment checklist (see above) identified that training will be provided as required and as the role of the committee continues to be developed, other areas may also become relevant. Officers would be happy to arrange training as needs are identified.

Development opportunities

42. The audit and governance committee has now been in place for four years. One of the key challenges for the future continues to be management of the committee's agenda to ensure that it can devote its resources in an appropriate way in order to

satisfy an ever expanding brief.

43. In deciding to increase the number of meetings held during the year and to focus individual meetings on either 'audit' or 'governance' matters wherever possible, the committee has put in place arrangements which should help to meet its objectives.
44. The year saw the following principal achievements:
 - further strengthening of the external audit relationship with the chair and committee members
 - recognition by the District Auditor of improvements in the quality of information supporting the financial statements, resulting in part from member scrutiny
 - ongoing constructive challenge from members in respect of reports received by them
 - establishment of new role in relation to scrutiny of treasury management strategy and policies.
45. For the coming year, the following are areas where the committee has the opportunity to effect further development or to which it may wish to give consideration:
 - embedding of relationship and reporting formats of internal audit service providers
 - ongoing planning and monitoring of the implementation of International Financial Reporting Standards (IFRS)
 - impact of revised Accounts and Audit Regulations
 - further development of arrangements for scrutiny of treasury management
 - review of committee membership and remit in context of emerging issues
 - role of the committee in relation to public accountability and greater local transparency, in light of greater disclosure of financial dealings and recommended practice for local authorities on data transparency
 - future training needs.

Conclusion

46. The committee's work programme aims to ensure that the committee is able to carry out its functions effectively. To this end, the programme is structured so as to cover the key areas of audit activity, the regulatory framework and financial reporting, and following a decision by council assembly in May 2010, scrutiny of the treasury management strategy and policies. The programme for 2011/12 is the subject of a separate report on this agenda.
47. During the committee's fourth year of operation, it continued to ask questions on matters before it in a challenging yet constructive way. In some cases, this has resulted in further information being provided to the committee to provide the assurance sought; in others, it has resulted in increased focus on the implementation of action plans.
48. The committee has kept its work programme under review and made changes when appropriate. It agreed at its meeting in November to revise its work programme to 'theme' future meetings wherever possible to enable them to focus on 'audit' or 'governance' related matters, in order to help ensure appropriate focus and attention on key issues. This will be kept under review. It also requested the inclusion in future years' work programmes of an item on the whistleblowing policy. The programme will be kept under review.

49. Through its work, the committee is able to confirm that

- the council's system of risk management is adequate to identify risk and to allow the authority to understand the appropriate management of those risks;
- there are no areas of significant duplication or omission in the systems of governance in the authority that have come to the committee's attention and not been adequately resolved.

50. The work programme for the committee for 2011/12 was included elsewhere on the 9 March 2011 agenda for consideration and agreement, and this will be reviewed and amended on an ongoing basis if necessary to help to ensure that the committee can continue to provide assurance of the adequacy of the council's governance arrangements.

Policy implications

47. There are no policy implications in the proposals in this report.

Community impact statement

48. This report is not considered to contain any proposals which would have a significant impact on any particular community or group.

Resource implications

49. There are no direct resource implications in this report.

Consultation

50. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Finance Director

51. The finance director is mindful of the important role of the audit and governance committee and is pleased that it continues to function in line with its terms of reference. He notes that its remit will remain under review as circumstances change.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Financial Governance files	Finance and Resources, Second Floor, Tooley Street	Jo Anson 020 7525 4308

APPENDICES

No.	Title
Appendix A	Measuring the Effectiveness of the Audit and Governance Committee – Self-assessment Checklist

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Finance Director	
Report Author	Jo Anson, Head of Financial Governance	
Version	Final	
Dated	11 March 2011	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments Sought	Comments included
Strategic Director for Communities, Law & Governance	No	No
Finance Director	Yes	Yes
Cabinet Member	No	No
Date final report sent to Constitutional Team	24 March 2011	

Appendix A

Measuring the Effectiveness of the Audit and Governance Committee – Self-assessment Checklist

Priority	Issue	Yes	No	N/A	Comments/action
ESTABLISHMENT, OPERATION AND DUTIES					
Role and remit					
1	Does the audit committee have written terms of reference?	✓			
1	Do the terms of reference cover the core functions of an audit committee as identified in the CIPFA guidance?	✓			
1	Are the terms of reference approved by the council and reviewed periodically?	✓			
1	Has the audit committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	✓			
1	Can the audit committee access other committees and full council as necessary?	✓			
1	Does the authority's statement on internal control include a description of the audit committee's establishment and activities?	✓			
2	Does the audit committee periodically assess its own effectiveness?	✓			
2	Does the audit committee make a formal annual report on its work and performance during the year to full council?	✓			
Membership, induction and training					
1	Has the membership of the audit committee been formally agreed	✓			

Priority	Issue	Yes	No	N/A	Comments/action
	and a quorum set?				
1	Is the chair independent of the executive function?	✓			
1	Has the audit committee chair either previous knowledge of, or received appropriate training on financial and risk management, accounting concepts and standards, and the regulatory regime?	✓			In part – training has been and will continue to be provided as required
1	Are new audit committee members provided with an appropriate induction?	✓			
1	Have all members' skills and experiences been assessed and training given for identified gaps?	✓			
1	Has each member declared his or her business interests?	✓			
2	Are members sufficiently independent of the other key committees of the council?	✓			
Meetings					
1	Does the audit committee meet regularly?	✓			
1	Do the terms of reference set out the frequency of meetings?		✓		As for other committees, these are determined each year and reviewed as needed
1	Does the audit committee calendar meet the authority's business needs, governance needs and the financial calendar?	✓			
1	Are members attending meetings on a regular basis and if not, is appropriate action taken?	✓			
1	Are meetings free and open without political influences being displayed?	✓			

Priority	Issue	Yes	No	N/A	Comments/action
1	Does the authority's S151 officer or deputy attend all meetings?	✓			
1	Does the audit committee have the benefit of attendance of appropriate officers at its meetings?	✓			
INTERNAL CONTROL					
1	Does the audit committee consider the findings of the annual review of the effectiveness of the system of internal control (as required by the Accounts & Audit Regulations) including the review of the effectiveness of the system of internal audit?	✓			
1	Does the audit committee have responsibility for review and approval of the SIC (AGS) and does it consider it separately from the accounts?	✓			
1	Does the audit committee consider how meaningful the SIC (AGS) is?	✓			
1	Does the audit committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	✓			
1	Has the audit committee considered how it integrates with other committees that may have responsibility for risk management?	✓			
1	Has the audit committee (with delegated responsibility) or the full council adopted "Managing the Risk of Fraud – Actions to Counter Fraud and	✓			As reported to Committee in November 2010 an assessment of the Council's arrangements against red book 2 demonstrates a good

Priority	Issue	Yes	No	N/A	Comments/action
	Corruption”?				level of compliance against this best practice guide. Some areas for improvement, were identified which are included within the 2011/12 proactive plan
1	Does the audit committee ensure that the “Actions to Counter Fraud and Corruption” are being implemented?	✓			The proactive plan for Counter Fraud is reported annually, including a report on progress
2	Is the audit committee made aware of the role of risk management in the preparation of the internal audit plan?	✓			
2	Does the audit committee review the authority’s strategic risk register at least annually?	✓			Not yet reviewed in 2010-11 – awaiting report to corporate management team
2	Does the audit committee monitor how the authority assesses its risk?	✓			
2	Do the audit committee’s terms of reference include oversight of the risk management process?	✓			
FINANCIAL AND REGULATORY MATTERS					
1	Is the audit committee’s role in the consideration and/or approval of the annual accounts clearly defined?	✓			
1	Does the audit committee consider specifically: <ul style="list-style-type: none"> • The suitability of accounting policies and treatments • Major judgements made • Large write-offs • Changes in 	✓			In relation to write-offs, the constitution requires write-offs above £50,000 to be approved by the full cabinet, those from £5,000 to £50,000 to be approved by the individual decision maker and those below £5,000 to be approved in

Priority	Issue	Yes	No	N/A	Comments/action
	accounting treatment <ul style="list-style-type: none"> • The reasonableness of accounting estimates • The narrative aspects of reporting? 				accordance with departmental schemes of management
1	Is an audit committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?	✓			
1	Does the audit committee review management's letter of representation?	✓			
2	Does the audit committee periodically review the accounting policies of the authority?	✓			Considered as part of approval of accounts
2	Does the audit committee gain an understanding of management's procedures for preparing the authority's annual accounts?	✓			
2	Does the audit committee have a mechanism to keep it aware of topical legal and regulatory issues, for example by receiving circulars and through training?	✓			
INTERNAL AUDIT					
1	Does the audit committee approve annually and in detail, the internal audit strategic and annual plans including consideration of whether the scope of	✓			

Priority	Issue	Yes	No	N/A	Comments/action
	internal audit work addresses the authority's significant risks?				
1	Does internal audit have an appropriate reporting line to the audit committee?	✓			
1	Does the audit committee receive periodic reports from the internal audit service including an annual report from the Head of Internal Audit?	✓			
1	Are follow-up audits by internal audit monitored by the audit committee and does the committee consider the adequacy of implementation of recommendations?	✓			
1	Does the audit committee hold periodic private discussions with the Head of Internal Audit?	✓			When required
1	Is there appropriate cooperation between the internal and external auditors?	✓			
1	Does the audit committee review the adequacy of internal audit staffing and other resources?	✓			
1	Has the audit committee evaluated whether its internal audit service complies with CIPFA's Code of Practice for Internal Audit in Local Government in the United Kingdom?	✓			
2	Are internal audit performance measures monitored by the audit committee?	✓			
2	Has the audit committee considered the information it wishes to receive from	✓			

Priority	Issue	Yes	No	N/A	Comments/action
	internal audit?				
EXTERNAL AUDIT					
1	Do the external auditors present and discuss their audit plans and strategy with the audit committee (recognising the statutory duties of external audit)?	✓			
1	Does the audit committee hold periodic private discussions with the external auditor?	✓			When required
1	Does the audit committee review the external auditor's annual report to those charged with governance?	✓			
1	Does the audit committee ensure that officers are monitoring action taken to implement external audit recommendations?	✓			
1	Are reports on the work of external audit and other inspection agencies presented to the committee, including the Audit Commission's annual audit letter?	✓			Where relevant
1	Does the audit committee assess the performance of external audit?	✓			
1	Does the audit committee consider and approve the external audit fee?	✓			Considers but does not approve explicitly
ADMINISTRATION					
Agenda management					
1	Does the audit committee have a designated secretary from Committee/Member Services?	✓			
1	Are agenda papers circulated in advance	✓			

Priority	Issue	Yes	No	N/A	Comments/action
	of meetings to allow adequate preparation by audit committee members?				
2	Are outline agendas planned one year ahead to cover issues on a cyclical basis?	✓			
2	Are inputs for Any Other Business formally requested in advance from committee members, relevant officers, internal and external audit?	✓			Any Other Business may be added to an agenda within 5 clear days of the meeting; in exceptional circumstances, an item may be notified to the chair at the start of the meeting and accepted by the chair as urgent
Papers					
1	Do reports to the audit committee communicate relevant information at the right frequency, time, and in a format that is effective?	✓			
2	Does the audit committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?	✓			In line with corporate requirements
Actions arising					
1	Are minutes prepared and circulated promptly to the appropriate people?	✓			
1	Is a report on matters arising made and minuted at the audit committee's next meeting?	✓			
1	Do action points indicate who is to perform what and by when?	✓			