

<b>Item No.</b> 5.4	<b>Classification:</b> Open	<b>Date:</b> 14 July 2010	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Annual report on the work and performance of the Audit and Governance Committee in 2009/10	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Audit and Governance Committee	

## **RECOMMENDATION(S)**

1. That council assembly notes the work and performance of the audit and governance committee in 2009/10.

## **BACKGROUND INFORMATION**

2. The purpose of this report is to review this committee's work and performance in 2009/10. The audit and governance committee considered the annual report on 30 June 2010 and 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.

## **KEY ISSUES FOR CONSIDERATION**

### **Role of the committee**

6. The purpose of the audit 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.
7. In line with the above, the committee's terms of reference are structured by reference to its three key functions in terms of audit activity, the regulatory framework and the accounts.

## **Work programme since April 2009**

8. The following paragraphs summarise the matters considered by the committee at its meetings since April 2009.

### Meeting on 2 April 2009

9. The committee received the following reports:
- annual audit and inspection letter and use of resources judgement 2007/08 from the Audit Commission
  - follow up audit report on internal audit recommendations
  - the draft internal audit, fraud and risk management strategy for 2009/10 to 2011/12.
  - report on the proposed work programme for 2009/10 was considered and agreed by the committee
  - report on compliance with international auditing standards
  - progress report on preparation for closing the 2008/09 accounts and audit
  - verbal update on the De Menezes inquest.
10. In relation to internal audit reports, members noted that they wished to support officers in ensuring compliance with key timescales and asked to be notified of all draft reports not signed off within three weeks. The committee asked officers to make a number of changes and also requested additional details to be included in future monitoring reports to the committee which would further improve the quality of information provided.

### Meeting on 25 June 2009

11. The committee received the following reports:
- audit opinion plans for the council and the Southwark pension fund audits 2008/09 from the Audit Commission
  - audit progress report from the Audit Commission
  - annual report to council assembly on work and performance in 2008/09
  - 2008/09 review of the effectiveness of the system of internal audit
  - annual audit, fraud and risk report 2008/09
  - statement of accounts and annual governance statement.
12. In considering the statement of accounts, members asked a number of questions and also expressed concern about a section on performance highlights which formed part of the explanatory foreword to the statement of accounts. After some discussion, it was agreed that this section was not appropriate for the statement and the committee requested its removal before approving the accounts.
13. The committee reviewed the annual governance statement for 2008/09 and requested several changes relating to the section setting out the council's governance framework before approving the statement.
14. The committee also received the Audit Commission's 2008/09 audit and inspection plan and requested that an informal audit briefing with the Audit Commission be organised for August. Members also considered the annual audit, fraud and risk report 2007/08. Following a number of questions, members requested future reports on the housing rents and repairs data review and on key themes and an action plan. The committee also received a report on the review of the effectiveness of the system of internal audit and the update on two internal audit recommendations as requested at their June

meeting.

#### Meeting on 27 October 2009

15. Members were kept informed of progress on the audit of accounts by means of two progress reports in August and September and as work on the audit had not been completed in time for the meeting scheduled for September, it was agreed that it would be helpful to postpone this until October.
16. At this meeting, members received the Audit Commission's annual governance reports for both the council's main accounts and for the pension fund and asked questions of the District Auditor and of officers about the adjustments to the financial statements and letter of representation and about the use of resources scores. After considering and agreeing the proposed action plan, members proposed that this should be monitored through the year by them and it was agreed that an initial report would be brought back to them in February 2010. The letter of representation relating to the pension fund was signed by the chair on behalf of the committee, but it was agreed that the committee would note the letter relating to the council's accounts, with signing being deferred pending an updated annual governance report.
17. Following discussion about the score for the 'good governance' KLOE, members agreed that it would be appropriate for them to consider the governance of partnership arrangements in the future and it was agreed that their work plan would be amended to reflect this. The committee also requested that a report be brought to the next meeting on costs incurred following the Lakanal fire, particularly with reference to the urgent nature of some of the payments and the governance processes associated with these.

#### Meeting on 26 November 2009

18. The committee received the following reports:
  - audit progress report from the Audit Commission
  - follow up audit report on internal audit recommendations
  - report on retrospective contract-related decisions
  - report on expenditure and controls applied arising from the fire at Lakanal house.
19. The audit progress report included an addendum to the annual governance report for the council's accounts which addressed the accounting issues relating to Canada Water. After raising a number of issues with officers and the district auditor concerning these and associated matters, the committee agreed that the revised letter of representation should be signed by the chair.
20. In relation to the follow up report on internal audit recommendations, the committee agreed that officers who had not completed their agreed actions by the due date should be invited to attend the committee's meeting in February 2010.
21. As requested at its previous meeting, the committee received a report on the Lakanal fire. It requested further reports at future meetings and suggested that it would be helpful to include the loss of rent as part of the analysis.

#### Meeting on 4 February 2010

22. The committee received the following reports:
  - annual audit letter and use of resources judgement report from the Audit Commission

- follow up on annual governance reports 2007/08 and 2008/09
  - report on retrospective contract-related decisions
  - report on expenditure arising from the fire at Lakanal house
  - verbal update on the CIPFA workshop on advance audit committees attended by the chair of the committee.
23. Members of the committee thanked the District Auditor and the Audit Commission for their work.
24. In considering the report on retrospective approvals to contract decisions, members discussed whether it would be appropriate to set a threshold below which retrospective contract decisions need not be reported to them. Having considered the financial value of decisions in reports presented to them since December 2008, they agreed to recommend to the constitutional steering panel that contract standing orders be amended to require retrospective decisions over £100,000 to be reported to the committee. This amendment was considered on 19 May as part of the constitutional review and approved by council assembly.
25. Members received a further report on expenditure arising from the Lakanal House fire and agreed to maintain this as a standing item until further notice.

#### Meeting on 31 March 2010

26. The meeting scheduled for this date was cancelled due to the forthcoming elections. Items which would have been considered were moved onto the agenda for the meeting held on 30 June 2010.

#### **Effectiveness of the audit and governance committee**

27. 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, and a peer review has been carried out by the City of London.
28. It is proposed to complement the review, that the committee assesses itself using a checklist produced by CIPFA. A completed checklist has therefore been prepared and this is attached at appendix A. This was considered by the committee on 30 June 2010. The committee was advised that the checklist should be considered alongside the review of the system of internal audit and the annual governance statement.
29. The completed checklist confirms that there are no significant areas of concern in relation to the committee's effectiveness. However, it highlights some areas which committee may wish to consider for improvement:
- use of feedback from managers in response to internal audit work undertaken;
  - training needs assessment of members.
30. It is suggested that more use is made of feedback from service managers as a way of helping to improve the service provided. As part of this, the committee was informed that summaries of information, including relevant key performance indicators, about quality and performance of the service provided will be reported to the committee. The committee noted that the internal audit contract was re-let last year and that the new contract has been in place since December.
31. In relation to training, it is suggested that a training needs assessment be undertaken in order to establish if there are any gaps in skills or experiences and to set out a plan for

dealing with these.

## **Training**

32. Training has been provided at meetings based on the agenda for the meeting. In addition to the briefing sessions referred to in the above paragraphs, a half day training session for members was held in July 2009 on risk, internal audit and fraud. Those attending included the chair of this committee, the executive member for resources and others. This provided members with an overview of the risk management process, internal audit and anti-fraud activity and clarified key responsibilities of the committee and others. It also highlighted the integration of the risk, internal audit and fraud functions and the benefits that this brings. The previous chair of the committee attended a one-day workshop on Advanced Audit Committees presented by CIPFA's Better Governance Forum in January 2010 which covered key aspects of the role of audit committees including corporate governance, risk management, treasury management, anti-fraud and value for money. Future opportunities will be made available to committee members as they become available.
33. The self-assessment checklist (see above) identified that training needs assessments should be undertaken and as the role of the committee continues to be developed, other areas may also become relevant.

## **Conclusion**

34. 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 2010/11 was considered by the committee on 30 June 2010.
35. During the committee's third 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 improvements to statements to be approved (e.g. the statement of accounts and annual governance statement); in others, it has resulted in increased focus on the implementation of action plans (e.g. the follow up of annual governance report recommendations).
36. The committee has kept its work programme under review and made changes when appropriate. An example of this was the request for further follow-up reports on action taken to implement recommendations in the annual governance reports.
37. The committee has sought to exercise its influence to try and ensure that the difficulties experienced in previous years with the audit of the accounts are not repeated. This has been very helpful to officers, although care will be needed to maintain a balance between oversight and management of key processes.
38. 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.

39. The work programme for the committee for 2010/11 is included elsewhere on this 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**

40. At its meeting on 19 May 2010, council assembly considered amendments to the constitution. In relation to this committee, the changes agreed were to extend the committee's role to include scrutiny of the treasury management strategy and policies. There are no policy implications in the proposals in this report.

### **Community Impact Statement**

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

### **Resource implications**

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

### **Consultation**

43. There has been no consultation on this report.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Finance Director**

44. The audit and governance committee has been in place for three years and is now integrated within the council's governance arrangements. The challenge going forward continues to be management of the committee's agenda, to ensure that it can devote its resources in appropriate areas. Encouragingly, the enthusiasm of members of the committee is not in question and will help it to optimise its activities.
45. The year saw the following achievements:
- a. strengthening of the external audit relationship with the chair and committee members
  - b. increased interaction between committee members and officers and third parties (e.g. the District Auditor) and an improved understanding of the issues
  - c. ongoing constructive challenge from members in respect of reports received by them
  - d. growing confidence of committee members to request specific information, e.g. Lakanal
  - e. closer involvement with governance arrangements related to contracts, particularly through scrutiny of retrospective decision reports.
46. For this coming year, the following are areas where the committee has the opportunity to effect further improvement:
- a. engagement with new internal audit service providers
  - b. further development of the relationship with the district auditor
  - c. planning and monitoring of the implementation of International Financial Reporting Standards (IFRS)

- d. development of the new committee in the context of some complex issues (e.g. statement of accounts)
- e. development of arrangements for scrutiny of treasury management arrangements.

## 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
A	Measuring the Effectiveness of the Audit Committee – Self-assessment Checklist

## AUDIT TRAIL

<b>Lead Officer</b>	Duncan Whitfield, Finance Director	
<b>Report Author</b>	Jo Anson, Head of Financial Governance	
<b>Version</b>	Final	
<b>Dated</b>	01/07/2010	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments Sought</b>	<b>Comments included</b>
Strategic Director for Communities, Law & Governance	No	
Finance Director	Yes	Yes
List other officers here		
<b>Cabinet Member</b>	<b>No</b>	<b>No</b>
<b>Date final report sent to Constitutional Team</b>	01/07/2010	