

<b>Item No.</b> 6.1	<b>Classification:</b> Open	<b>Date:</b> 28 March 2012	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Annual Report on the Work and Performance of the Audit and Governance Committee in 2011/12	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Audit and Governance Committee	

## **RECOMMENDATION**

1. That council assembly notes the work and performance of the audit and governance committee in 2011/12.

## **BACKGROUND INFORMATION**

2. 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.
3. The aims of the report are to make council assembly aware of the audit and governance committee's work in relation to its audit, regulatory, financial reporting and treasury management responsibilities and to provide assurance on areas covered or to identify any concerns.
4. The purpose of this report is to report on the audit and governance committee's work and performance in 2011/12. The audit and governance committee considered its annual report on 27 February 2012 and subject to an update to take account of that meeting and minor amendments, all of which have been incorporated, agreed to refer it to council assembly.
5. This report also considers the effectiveness of the audit and governance committee which forms a part of the review of internal audit and which will in turn be reported as part of the review of the system of internal control, as required under the Accounts and Audit Regulations 2011.

## **KEY ISSUES FOR CONSIDERATION**

### **Role of the committee**

6. 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.
7. 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 2011/12**

8. The following paragraphs summarise the matters considered by the committee in 2011/12.

### **Audit activity**

#### **Internal audit**

9. The committee considered the Head of Anti-Fraud and Internal Audit's annual report on the work of internal audit and anti-fraud 2010/11. Members questioned the Head of Anti-Fraud and Internal Audit and the engagement manager for the auditors, RM Tenon. The committee asked officers to email an update on the status of recommendations due to be completed in June and July 2011.
10. The committee received and considered regular reports on the performance of internal audit and the outcome from its work during the year. Members questioned the Head of Internal Audit and the RM Tenon engagement manager about the internal audit progress and made requests for further information on areas to be included in future reports, including the audit of the housing complaints procedure and the number of prior years' sanctions for fraud and for an update to be emailed to them on the Housing Improvement Agency recommendations.
11. The committee also requested briefing notes on:
- the transfer of assets from the council to new academies
  - the outcome of the campaign to reduce illegal subletting in January/February 2011.
12. The committee agreed the internal audit plan for 2012/13 and strategy for internal audit for 2012/13 – 2016/17. In considering the internal audit plan, the committee asked officers to bring the issue of IT performance/contract monitoring to the attention of the finance director.

#### **External audit (Audit Commission)**

13. The committee received regular progress reports from the District Auditor throughout the year and a briefing on fraud. It also considered the District Auditor's annual reports on the certification of claims and returns for both 2009/10 and 2010/11 and her opinion plans for 2010/11 for both the council and the Southwark pension fund and her annual audit letter for 2010/11.
14. The committee considered the District Auditor's Annual Governance Report for 2010/11 for the council and for the Southwark pension fund and asked officers to confirm the status of the prior year review of the fixed asset register against land registry. It also considered a follow-up report on the implementation of the Audit Commission's recommendations made in the annual governance reports for

2009/10 and in the 2009/10 annual audit letter.

15. The committee considered the Audit Commission annual fee letters for 2011/12 for both the Council and the Southwark pension fund.

### **Accounts**

16. The committee considered and approved the 2010/11 statement of accounts: in July 2011 the committee reviewed its work programme to take account of new arrangements under the Accounts and Audit Regulations 2011 for approving accounts and as a result, the accounts were noted at its July meeting and formally approved at its meeting in September 2011.

### **Regulatory framework**

17. As with the statement of accounts, the committee reviewed the annual governance statement for 2010/11 at its July meeting and approved it at its September meeting. Following the committee's decision to invite strategic directors to attend meetings to report on governance arrangements in their departments, the governance-themed meetings during the year were attended by the finance director, the strategic director for housing services, the strategic director of children's services and the strategic director of environment and leisure. Members asked questions about particular aspects of their arrangements and asked for further information from each director on such matters as the definition of partnerships, information on the electrical testing regime in the council's housing and fostering figures.
18. The committee received reports on retrospective contract-related decisions. In considering them, members asked questions of the officers responsible for the decision reports and requested further information. At its September meeting, the committee recommended that in future retrospective decisions should be brought to the attention of the chair of the committee prior to reports being put on the agenda and this has been put in place. Following a discussion at their February meeting about the adoption of advice given on contract-related reports, further information is to be brought to the committee on departmental and corporate contracts review boards.
19. Following consideration by the committee of the annual report on corporate risk and insurance for 2010/11, the committee identified further specific areas for inclusion in the report on key risks and insurance. These were picked up and considered by the committee at its meeting in November.
20. The committee received its annual report on whistle blowing outcomes and, following discussion, asked officers for a briefing note about the fraud outcomes.
21. Following a review by the Audit Commission, the committee received a report on the revised governance arrangements of the Southwark local strategic partnership (LSP). Members asked officers to ensure that the findings of the review were made available to LSP members.

### **Treasury management**

22. Members received a report on the 2011/12 treasury management strategy which had been approved by council assembly in February 2011 and sought

clarification and assurance from officers on a number of points.

### **Effectiveness of the Audit and Governance Committee**

23. The Accounts and Audit Regulations require a review of internal audit to be carried out, including consideration of the effectiveness of the audit and governance committee. This will be carried out later in the year and the results will be brought to a future meeting of the committee.
24. To complement this, the audit and governance committee assesses itself using a checklist produced by CIPFA. The committee considered this on 27 February and requested an amendment, which has 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 internal audit and the annual governance statement.
25. 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 that members may wish to continue to keep under review.

### **Training**

26. Induction training was made available to new members in June 2011 and members were asked to indicate areas in which they would welcome training in order to help focus future provision.
27. With the 2010/11 accounts being the first year of the requirement on local authorities to produce their accounts on an IFRS (International Financial Reporting Standards) basis, a session was held on IFRS issues for members prior to their consideration of the accounts. The training materials were made available to those members not able to attend the session.
28. The self-assessment checklist (see above) identified that training will be provided as required and officers will continue to arrange training as opportunities arise.

### **Development opportunities**

29. The audit and governance committee has now been in place for five years. The management of its agenda in order to ensure that it can focus its resources effectively remains one of the key challenges for the future.
30. The year saw the following principal achievements:
  - greater assurance of departmental governance arrangements, following constructive sessions with strategic directors throughout the year
  - further strengthening of the external audit relationship with the chair and committee members
  - further 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.
31. 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:

- review of committee membership and remit in context of emerging issues including the localism agenda and the future of local public audit, following the outsourcing by the Audit Commission of its audit service
- role of the committee in relation to fraud prevention, including use of data interrogation and other appropriate measures
- future training needs.

## **Conclusion**

32. 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 to cover the key areas of audit activity, the regulatory framework, financial reporting and scrutiny of the treasury management strategy and policies.
33. During the committee's fifth 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.
34. The committee kept its work programme under review in 2011/12 and made changes when appropriate. It agreed at its meeting in July to revise its work programme in line with requirements in the Accounts and Audit Regulations 2011 relating to the approval of the statement of accounts.
35. 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.
36. The work programme for the committee for 2012/13 was included elsewhere on the 27 February 2012 agenda for consideration and agreement, and this will be reviewed and amended on an ongoing basis as necessary to help ensure that the committee can continue to provide assurance of the adequacy of the council's governance arrangements.

## **Policy implications**

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

## **Community impact statement**

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

## Resource implications

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

## Consultation

40. There has been no consultation on this report.

## SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

### Finance Director

41. 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, in the context of changes in funding arrangements for local authorities and the likelihood of continued reductions in resources available for services.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Financial Governance files	Finance and Resources, 160 Tooley Street London SE1 2QH	Jo Anson 020 7525 4308

## APPENDICES

No.	Title
Appendix 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>	12 March 2012	
<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	Yes	Yes
Finance Director	Yes	Yes
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>	12 March 2012	