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| Item No. 6.5 | Classification: Open | Date: July 8 2009 | Meeting Name: Council Assembly |
| Report title: | | Annual report on work and performance of the Audit & Governance Committee in 2008-09 | |
| 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 2008-09.

BACKGROUND INFORMATION

2. The purpose of this report is to review the audit and governance committee's work and performance in 2008-09. The audit and governance committee on June 25 2009 considered the annual report 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 and which will in turn be reported as part of the review of the system of internal control.

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.

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 March 2008

8. The following paragraphs summarise the matters considered by the committee at its meetings since March 2008.

Meeting on 27 March 2008

9. As well as considering its first annual report on work and performance, which members agreed to forward to council assembly, the committee received the annual audit and inspection letter from the Audit Commission, a follow up audit report on internal audit recommendations, and the draft internal audit, fraud and risk management strategy for 2008/09 to 2010/11. Members asked a number of questions of officers on these reports and requested a further report on two internal audit recommendations on which they had concerns about the lack of management action. A report on a proposed code of corporate governance was considered by the committee and, after asking a number of questions, members agreed that the code should be formally adopted. The committee also received an update on the process of managing the council's key corporate risks.

Meeting on 26 June 2008

10. The committee considered a report on the statement of accounts and annual governance statement for 2007/08. The committee was advised of changes to the reporting of accounts needed to ensure compliance with International Financial Reporting Standards. Members asked a number of questions of officers. They also requested that officers make several changes to the annual governance statement before they approved both statements.
11. 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 March meeting.

Meeting on 25 September 2008

12. At its September meeting, members received a report on the implementation of critical and high audit recommendations which included an action plan and approach to follow up of themes and members resolved that in future they should receive an update on all internal audit recommendations, including those classified as medium or low. The committee also received a presentation on the role of the committee in relation to risk management and agreed that it should receive an annual review of the top risks at its December meeting.
13. The committee also reviewed its work programme for the year and agreed to amend it to include a new standing item on retrospective contract decisions. It also reiterated its wish to see a report on housing rent and repairs and requested that an action list from the previous meeting be brought to each committee

meeting.

14. The committee had been due to receive the Audit Commission's report to those charged with governance on issues arising from the audit of the accounts at this meeting. However, the audit of the accounts was not complete and although an interim report had been produced, the committee was advised that in the light of purdah guidance (in relation to a forthcoming by-election), consideration should be deferred to a future meeting.

Meeting on 18 November 2008

15. This meeting was held in order to consider the interim annual governance report 2007/08 (see paragraph 14 above). The committee asked a number of questions of officers and of the district auditor and agreed to note the report and to add the accounts to the agenda of the December meeting.

Meeting on 3 December 2008

16. As agreed at its November meeting, the committee received the annual governance report for 2007/08. This and the revised statement of accounts were noted and amendments to the accounts were agreed.
17. The committee considered the internal audit update, which included details on the rents and repairs data review as previously requested. In response to feedback on the format of the report provided by members, officers agreed to try and integrate risk more fully within the audit plan and to provide greater clarity in relation to timescales. Further to members' request at their September meeting, they also received an update to the risk register and agreed to revisit it in February 2009.
18. A report on retrospective contract decisions was considered by the committee and suggestions were made as to information which could usefully be included in future reports. Members also requested a further report on the background to the de Menezes decision.

Meeting on 11 February 2009

19. The committee received a report on the progress of the implementation of all audit recommendations. Following the request made at the December meeting, each project was given an individual risk assessment. Members confirmed that if the committee is not satisfied at its April meeting with information received from departmental officers, they would consider summoning the responsible officers to the June meeting.
20. The Audit Commission presented its 2008/09 audit progress report. Several questions were raised and further to these, the finance director confirmed that the new processes put in place should ensure that the 2008/09 audit does not have the same issues. The committee also received a report on the proposed action plan in response to the 2007/08 annual governance and officers undertook to meet with the chair in mid-audit to brief him on the process and to provide a progress report to the next meeting of the committee.
21. Members considered a report on retrospective contract decisions and made suggestions to improve monitoring and clarification of responsibility. The committee also received a follow-up report on the de Menezes coroner's inquest

as requested at its December meeting, a verbal update on proposed amendments to contract standing orders and a report on the corporate risk register.

Meeting on 2 April 2009

22. The committee considered a draft work programme for 2009/10 and agreed that the changes set out in the programme (including the deferral of this annual report from the March meeting to the June one) be approved.
23. The committee received a report on the progress of the implementation of all audit recommendations which included coverage of areas as requested at its February meeting. Suggestions for improvement to the format of future reports to the committee and a number of specific requests for further information relating to items in this particular report were made. Members also requested that in future they should be made aware of reports where management responses were not agreed within the agreed timescale of three weeks.
24. The committee received the draft 2009/10 to 2011/12 internal audit, fraud and risk plan and internal audit strategy and, after clarifying several points, noted the report.
25. The Audit Commission presented a report on its annual audit and inspection letter 2007/08 and use of resources judgement for 2007/08. After raising a number of questions, the committee noted the reports.
26. Further to the request made at its February meeting, members received a report on progress on the preparation for closing the 2008/09 accounts and audit. A report was also presented to the committee on compliance with international auditing standards. The committee noted the assurance provided to the audit Commission by the chair of the committee on the overview of management process for identifying and reporting the risk of fraud and possible breaches of internal control and on compliance with relevant laws and regulation.
27. The committee also received a verbal update on the de Menezes report which informed members that funding for the inquest had been confirmed by central government.

Effectiveness of the audit and governance committee

28. The review of the system of internal audit, as required by the Accounts and Audit Regulations, includes consideration of the effectiveness of this committee. The peer review carried out last year by Lambeth Council, the results of which were reported to this committee in June 2008, concluded that no significant issues had been identified and that the committee had provided support to the work of the [audit] team.
29. This year, the review is again being carried out in line with an agreed terms of reference and is based on compliance with CIPFA's Code of Practice for Internal Audit in Local Government. A separate report on this committee's agenda sets out the findings of the review. However, as part of the review, it is proposed that this committee assesses itself using a checklist, also produced by CIPFA. A draft completed checklist has therefore been prepared (and included within the overall review) and this is attached at appendix A.

30. 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 members may wish to consider for improvement:
 - a. use of feedback from managers in response to internal audit work undertaken
 - b. training needs assessment of members.
31. 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 may wish to consider whether summaries of information, including relevant key performance indicators, about quality and performance of the service provided should be reviewed by the committee. Members should be aware that the internal audit contract is being re-let and it is expected that a new contract will be in place from December
32. As members for the year 2009-10 have now been confirmed, 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

33. 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 training session for members of the committee and for the executive member for resources was held in June 2008 on the statement of accounts and the annual governance statement. This was delivered by CIPFA's Better Governance Forum and provided members with an overview of the statements, an understanding of their role in examining and approving them and an appreciation of the items to be considered.
34. A one day conference entitled 'CAA – Are audit committees up to the challenge?' was organised by Croydon Council in November 2008 and was attended by the vice chair. Key aspects of the role of audit committees in the light of Comprehensive Area Assessment, including audit, risk management, fraud and partnership governance, were covered by speakers from the Audit Commission, Deloitte and Touche and the National Fraud Strategic Authority.
35. As the role of the committee continues to be developed, other areas may become relevant and future training needs will continue to be reviewed. Officers would be happy to arrange training as needs are identified.

Conclusion

36. 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 three key areas of audit activity, the regulatory framework and financial reporting.
37. During the committee's second 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 annual governance statement); in others, it has resulted in more detailed and meaningful reports being prepared for the committee (e.g. the internal audit monitoring report).

38. The committee has kept its work programme under review and made changes when appropriate. An example of this was the inclusion of reports on retrospective contract decisions.
39. The committee has sought to exercise its influence to try and ensure that the difficulties experienced last year 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.
40. 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.
41. As noted above, the work programme for the committee for 2009/10 was agreed at its April meeting, but this will be reviewed and amended 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

42. At its meeting on 20 May 2009, council assembly considered amendments to the constitution. In relation to this committee, the changes agreed were to update terminology by replacing 'statement on internal control' with 'annual governance statement' and to clarify this committee's role in relation to the approval of the statement of accounts. There are no policy implications in the proposals in this report.

Community impact statement

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

Resource implications

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

Consultation

45. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Finance Director

46. During the audit and governance committee's second year of operation, it has become increasingly embedded. The challenge going forward, given the scale of activities and the enthusiasm of members to play an active part, will be management of the committee's agenda, to ensure that it can devote its resources in appropriate areas.
47. The year saw the following achievements:

- a. ongoing development of audit monitoring reports
- b. progress in risk management reporting
- c. increased awareness of technical accountancy issues through briefings at committee meetings
- d. strengthening of the external audit relationship with the chair and committee members and careful management of this through a challenging period
- e. constructive suggestions for improvements following reports on retrospective contract decisions.

48. For this coming year, the following are areas where the committee has the opportunity to effect further improvement:

- a. greater integration of the audit, anti-fraud and risk management functions
- b. increased effectiveness through training
- c. further development of the relationship with external audit
- d. planning and monitoring of the implementation of International Financial Reporting Standards (IFRS).

BACKGROUND DOCUMENTS

| Background Papers | Held At | Contact |
|----------------------------|---|---------------------------|
| Financial Governance files | Financial Management Services Town Hall, Room 4.14 | Jo Anson 020 7525 4308 |

APPENDICES

| No. | Title |
|-----|--|
| A | Measuring the Effectiveness of the Audit Committee – Self-assessment Checklist |

AUDIT TRAIL

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|---|--|--------------------------|
| Lead Officer | Duncan Whitfield, Finance Director | |
| Report Author | Jo Anson, Head of Financial Governance | |
| Version | Final | |
| Dated | 26 June 2009 | |
| Key Decision? | No | |
| CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / EXECUTIVE MEMBER | | |
| Officer Title | Comments Sought | Comments included |
| Strategic Director of Communities, Law & Governance | No | No |
| Finance Director | Yes | Yes |
| Executive Member | No | No |
| Date final report sent to Constitutional/Community Council/Scrutiny Team | 26 June 2009 | |