



Coventry City Council

10.1

Public report

Report to

Scrutiny Board 1
Audit Committee
Council

5th August, 2009
6th August, 2009
15th September, 2009

Report of

Director of Finance and Legal Services

Title

2008-09 Annual Report of the Audit Sub Group as the Council's Audit Committee

1 Purpose

- 1.1 The purpose of the report is to comply with the terms of reference for the Audit Sub Group (now Audit Committee) which requires the Audit Committee to report annually to full Council on its work.
- 1.2 The report is submitted to Scrutiny Board 1 because in 2008/2009 the Board had overall responsibility for the work of the Audit Sub Group.
- 1.3 The report is submitted to the new Audit Committee because it sets out the Committee's priorities for the coming year.
- 1.4 The new Audit Committee is independent of the Scrutiny function and will in future report directly to the Council.

2 Recommendations

Scrutiny Board 1 – is requested to endorse the report as the record of the Audit Sub Group's work during 2008/2009.

Audit Committee - is requested to approve the priorities for 2009/10 set out in section 4 of the report.

Council – is requested to note the activity of the Audit Sub Group, as the Council's Audit Committee, during 2008-09 and the new Audit Committee's priorities for 2009/2010.

3 Activity of Audit Sub Group as the Council's Audit Committee

- 3.1 During 2007-08, the Council's Audit Sub Group met on seven occasions. In June 2008 a joint meeting was held of Scrutiny Board 1 and the Audit Sub Group to

consider issues relating to the Council's Statement of Accounts. Subsequent to that, meetings were held in July, September and October 2008, as well as in January, February and April 2009.

The following paragraphs give details of the work completed by the Audit Sub Group and the support provided to it.

3.2 **Audit Sub Group Development** – In 2007-08, the Audit Sub Group undertook an assessment of its workings against recommended practice produced by CIPFA. As a result of this piece of work, the following action has been taken to enhance audit arrangements within the Council:

- In order to demonstrate the importance given to audit arrangements, the Council now operates a stand alone Audit Committee which reports directly to Council with effect from the municipal year 2009-10.

As part of the decision above, action has been taken to enhance the independence of the Committee, with clarification on membership of the Committee including the requirement that the Chair / Deputy Chair of the Audit Committee are not allowed to have similar roles on other Council Boards.

- A report has been submitted and approved by Full Council to clarify that responsibility for Whistleblowing now rests with the Audit Committee.

3.3 **Accountancy** - In addition to the Statement of Accounts 2007-08 (including revenue and capital financial out turn) presented to the joint meeting of Scrutiny Board 1 and the Audit Sub Group in June 2007, progress reports in respect of the Council's financial performance against its revenue and capital budgets were reported to the Audit Sub Group in September 2008, January and February 2009. Additionally, linked to the quarterly monitoring reports, information on the area of capital receipts was provided in November 2008 and January 2009.

3.4 **Internal Audit Reports** - During the year, the Audit Sub Group received the following reports in respect of the Council's Internal Audit Service:

- As part of the Annual Accounts process for 2007-08, Internal Audit co-ordinated the development of the Council's Annual Governance Statement. This Statement was reported to the Audit Sub Group in June 2008 (with a follow up report in February 2009) and was informed through the following reports:
 - The Internal Audit Annual Report for 2007-08. This report had two main purposes:
 - To summarise the Council's Internal Audit activity for the period April 2007 to March 2008 against the agreed Internal Audit Plan for the same period.
 - To provide the Audit Sub Group with the Audit & Risk Manager's opinion on the overall adequacy and effectiveness of Coventry City Council's internal control environment. Based on the work of Internal Audit in 2007-08, the Internal Audit Manager concluded that 'moderate' assurance be provided that there is generally a sound system of internal control designed set to meet the organisation's objectives.
 - The review of the effectiveness of the system of Internal Audit – This stemmed from the requirement under the revised Accounts and Audit

Regulations 2003 that the Council "at least once in a year, conduct a review of the effectiveness of the system of Internal Audit." The review focused on two main areas namely, the performance of the Internal Audit Service during 2007-08 including the views of key stakeholders (i.e. External Audit / senior officers of the Council) and an assessment of the Council's Audit Committee arrangements against CIPFA practice. A follow up report documenting action taken in response to the areas for improvement identified in this review was considered by the Audit Sub Group in February 2009.

- Progress reports were provided covering:
 - The outcomes of Internal Audit work during 2008-09. Quarterly reports were received in September 2008, January and February 2009. The reports provided updates on the performance of the Service along with a summary of the key findings from a sample of high profile audit work carried out in the quarter. This enabled the Group to gain more understanding of how Internal Audit can contribute to the improvement of Council services.
 - Corporate Fraud Activity - A half yearly progress report was received in January 2009 summarising fraud (including Whistleblowing) activity in 2008-09 and highlighting performance against the 2008-09 Corporate Fraud Plan.
- In addition, the following individual reports were provided by Internal Audit:
 - In September 2008, a report on action taken by Council Officers in respect of implementing agreed audit recommendations was presented. This highlighted high levels of compliance with implementing agreed actions.
 - Under the private business section of the agenda in November 2008, an Internal Audit Report was presented into the sale of the Menagerie in response to concerns raised by a member of the public.
 - In January 2009, the Internal Audit ICT Healthcheck review was considered. This focused solely on measuring progress against the original ICT Healthcheck audit carried out by the Audit Commission in the summer of 2007.
- In April 2009, the following documents were considered and approved:
 - The Internal Audit Terms of Reference and Strategy – These documents were originally produced in 2005 and have been updated to reflect recommended and current Internal Audit practice.
 - The Internal Audit Plan for 2009-10 - This builds upon the Internal Audit Strategy and continues to focus resources to a more risk based approach, with clear links with the Council's objectives as reflected in its Corporate Plan for 2008-09 to 2010-11.
 - The Corporate Fraud Plan 2009-10 –This plan is closely linked with the Council's Strategy and Policy in respect of Fraud and Corruption and builds upon the 2008-09 plan. The focus of the work covers four areas, namely awareness, data matching, proactive fraud and reactive fraud.

3.5 External Audit Reports - Various external audit reports were received by the Audit Sub Group in 2008-09. In addition to the standard reports (e.g. audit and inspection plan, progress report, recommendation tracking report and opinion plan), the following specific reviews have been completed in 2008-09:

- Data Quality – July 2008 and February 2009. These were two separate reports covering the financial years 2007-08 and 2008-09.
- New Deal for Communities – July 2008.
- Business Continuity Management (BCM) – July 2008.
- Coventry Direct – January 2009.
- Internal Audit – April 2009.
- Use of Resources – April 2009.

Other documents considered during 2008-09 included:

- Two Annual Governance Reports - The first report, covering the Statement of Accounts for 2005-06 and 2006-07 was received in June 2008, with the report covering the 2007-08 accounts received in September 2008. The purpose of these reports was to identify amendments in the Statement of Accounts, following the completion of the annual audit by the Council's appointed External Auditors and to make recommendations for improvements arising from the audit process.
- Linked to the Annual Governance Report, two Annual Audit and Inspection Letters were also considered by the Audit Sub Group during the last year. The 2006-07 letter was presented in June 2008 and the 2007-08 letter was presented in April 2009. The main focus of these report was to provide an overall summary of the Council's assessment of the Council for the relevant financial years. The reports draws on the most recent Comprehensive Performance Assessment and other reviews and inspection work during the year.

3.5 Other

Other reports / presentations received during 2007-08 included:

- Housing Benefit Fraud – The following reports were received:
 - In July 2008, the annual report covering the work of the Housing Benefit Fraud Team for 2007-08 was considered.
 - In January 2009, A progress report was presented, summarising benefit fraud activity in first half of the financial year 2008-09.
- Updates were received in July 2008 and April 2009 in respect of the Council's Corporate Risk Register, to allow the Audit Sub Group to assess whether corporate risks are being adequately identified and managed.
- In response to the findings of the Audit Commission's 2007-08 Review of Data Quality, a report was submitted in September 2008, which included the Council's Data Quality Policy and implementation plan.
- As a result of the Audit Commission review of BCM, a presentation was made to the Group in November 2008 highlighting the Council's approach to BCM and the response to the findings of the Audit Commission review.

- The Council's Code of Governance was considered by the Audit Sub Group in February 2009 prior to approval by Full Council. This Code is a key document linked to the Annual Governance Statement, whose development is overseen by the Audit Sub Group and forms part of the Council's Statement of Accounts.

4. 2009-10 Priorities

4.1 The Council has made significant enhancements to its Audit Committee arrangements over the last few years and this has been further enhanced with the setting up of a stand alone Audit Committee for the municipal year 2009-10. This provides a solid foundation for the Committee to support the still considerable work required especially given the economic climate facing the Council in the short and medium term.

4.2 In 2009-10, the Audit Committee initial focus will be on ensuring that effective action is taken in response to areas for improvements highlighted in the 2008-09 Annual Governance Statement. From an audit perspective, five areas were identified as a result of work carried out by the Council's Internal and External Auditors. There were:

- Addressing the actions highlighted in Internal Audit's review of the Council's governance arrangements including:
 - Developing a framework of protocols to oversee partnership working and ensuring that assurance is provided that effective governance arrangements are in place in key partnerships as required by the Comprehensive Area Assessment.
 - To define the level of awareness / understanding it expects its employees to have of key Corporate Governance guidance such as the Code of Conduct and Whistleblowing Policy.
 - The need to enhance both local and corporate systems to ensure effective arrangements exist to guarantee 'fit for purpose' corporate governance arrangements with the Council.
 - Despite progress to date, the Council faces a significant challenge in terms of ensuring that all Coventry schools comply with the Financial Management Standard in Schools by the target date of March 2010.
 - Whilst the Council has continued to make significant progress in enhancing its arrangements in the area of IT, the work to establish a formal Council-wide framework for information security management is still in development.
 - To ensure that the Council has effective governance / project management arrangements in place to oversee all significant Council projects.
 - To ensure that there is effective awareness of roles and responsibilities for Business Continuity Management (BCM) and that service BCM plans are stress tested to ensure that they are fit for purpose.

4.3 In progressing these issues, audit resources have been directed to these key areas in 2009-10 and progress reports will be considered by the Audit Committee and reported to Council during the year to gain assurance that appropriate action is being taken. It should be acknowledged that the majority of issues highlighted

are not issues that can be resolved with just enhancements in procedures but will also require action to embed improvements into practice across the Council. As such, it is likely that these issues will remain high profile from an audit perspective for some time.

4.4 The only time specific issue relates to the Finance Management Standard, which has a pre-defined deadline of March 2010. With less than a year remaining, 45 Coventry schools have yet to comply with the standard. Whilst the Council has developed a framework of training and support to schools to assist them in achieving the standard, the Council is not in a position that it can guarantee that all schools will comply with the standard by March 2010. It will be up to individual schools to ensure that they have systems and processes to meet the requirements of the standard. The Audit Committee will report to Council by January 2010 those schools that are identified as being at risk of non-compliance so that Local Authority nominated school governors might take supportive interventions.

4.5 The remit of the Audit Committee is emerging based on advice drawn from the Council's pool of expert advisors (Grant Thornton, PWC and Coopers & Lybrand Deloitte) as well as the Audit Commission and a detailed work plan is being developed. This will focus on traditional areas such as the work of Internal and External Audit, the Council's response to Fraud and Corruption and the monitoring of the Council's financial performance. In addition, strategic priorities for the Committee will include:

- Providing challenge and scrutiny through looking at the Council's financial position in greater detail and beyond 2009-10. This will include focus on areas such as the Council's Investment Strategy, capital programme and Medium Term Financial Strategy.
- An ongoing assessment of the quality of the work of both Internal and External Audit to ensure that the Council gets maximum value from its investment in audit.
- Providing challenge and scrutiny through by making sure that officers respond promptly to issues highlighted. This can range from implementation of audit recommendations through to responding to budgetary control pressures. As part of this process, we will if appropriate ask officers to attend meetings to justify their actions especially where progress made fails to match expectations.
- Ensuring that the Audit Committee praxis reflects recommended best practice. Focus in 2009-10 includes ensuring that members of the Audit Committee receives appropriate training to support them in discharging their responsibilities. This will also assist the Committee in demonstrating its role both in terms of independence and challenge.