



Audit Committee Annual Report to Council

2012-13

To be considered at the City Council meeting
on the 10th September, 2013

Audit Committee Annual Report 2012-13

Introduction by Chair of Audit and Procurement Committee

In May 2013, the Council appointed me as the new Chair of the Audit and Procurement Committee. After a year spent as Deputy Chair of the Children and Young People Scrutiny Board, I am looking forward to the opportunity of ensuring that the Audit and Procurement Committee makes a positive contribution particularly given the challenging financial environment that the Council continues to operate in.

I am pleased to report that the Committee continues to make good progress in terms of discharging its key responsibilities in providing independent assurance on the adequacy of the Council's risk management framework and control environment, as well as the challenge and scrutiny it provides over the Authority's financial performance.

In looking forward to 2013-14 and beyond, the Committee has now extended its remit to include responsibility for oversight of procurement arrangements. This is a logical development, given that excluding salaries, the majority of spend incurred by the Council is through procurement activity. Whilst our focus around procurement is still being developed, I have already instigated work in this area through the 'JEEP' (Justify Expenditure, Example Performance) campaign, which is focused at looking at everyday changes that teams can make, not only to save cash, but to help the Council become more efficient.

The importance of an effective Audit and Procurement Committee remains critical, with the continued financial pressures facing the Council, and it is anticipated that the focus on procurement will supplement the significant contribution previously made by the Audit Committee.

Despite this new focus, there are a number of existing issues, including the implementation of a new finance system that the Committee will monitor closely in the coming year to ensure these issues are managed effectively and do not have a detrimental impact on the workings either the Committee and / or the key areas that the Audit and Procurement Committee provides oversight of.

This report provides an overview of the Committee's activity during the municipal year 2012-13 and outlines the breadth of coverage by the Committee. I look forward to continuing this good work with colleagues over the coming year.



Councillor Hazel Sweet
Chair, Audit and Procurement Committee

1 Activity of the Council's Audit Committee

During 2012-13, the Council's Audit Committee met on seven occasions. Meetings were held in July, August, September, October and December 2012 as well as in February and April 2013.

The Audit Committee receives a range of:

- Routine reports based on the clearly defined expectations of services / functions that report to the Audit Committee, for example internal / external audit and financial management.
- Ad-hoc reports which focus on either a specific concern raised by or developments that impact directly on the Committee.

The details of the reports considered in 2012-13 are expanded upon below.

1.1 **Accountancy** - The unaudited Statement of Accounts (including revenue and capital outturn) was considered by the Committee in July 2012 and then in September 2012, when the audited Statement of Accounts were approved by the Audit Committee. Additionally, progress reports were received in respect of:

- The Council's performance against its revenue and capital budgets (September and December 2012, as well as in February 2013).
- The Council's Investment Policy and Activity (July, September and December 2012, as well as in February and April 2013). The focus on investments stemmed from the Committee's concern regarding the volatility in the financial sector and the increased financial risk that this created for the Council.
- Savings made through the Council's Transformation Programme. A report considering savings delivered in 2011-12 was considered in July 2012, with a further progress report considered in September 2012, regarding progress against saving targets for the financial year 2012-13.

After considering the savings progress report covering the financial year 2012-13, additional reports were requested regarding concerns over the delivery of savings in respect of the Paper Review and the Fundamental Services Review of Sustainability and Low Carbon. These were considered in December 2012, where explanations of why targets may not be achieved, and assurance, was provided that the non-delivery of these targets would not have a detrimental effect on the Council's overall financial position for 2012-13.

1.2 **External Audit** - The following reports were received from the Council's external auditors in 2012-13:

- Annual Governance Report – This report was considered in September 2012, and its purpose was to identify amendments in the Statement of Accounts, following the completion of the audit by the Audit Commission and also to make recommendations for improvements arising from the

audit process. The Audit Commission concluded that, pending satisfactory clearance of outstanding matters:

- An unqualified audit opinion would be provided on the Council's financial statements.
 - The Council has, in respect of value for money (vfm), proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources.
- Annual Audit and Inspection Letter - This was considered at the October 2012 meeting. The main focus being to summarise the findings from the 2011-12 audit carried out by the Audit Commission and to formally document their conclusions in respect of the audit of the accounts and the Council's arrangements for securing vfm. The conclusions reached for both these areas were consistent with those indicated in the Annual Governance Report.

The report did identify four areas (i.e. medium term financial position, business rate retention, council tax benefit reform and replacement of the Council's finance system) which the external auditors thought required focus by the Council during the year. An update on progress on these issues was provided by Council officers in April 2013, and highlighted that whilst progress had been made in all areas, these are viewed as on-going issues facing the Council and as such will be subject to another update in 2013-14.

- Following the appointment of Grant Thornton as the Council's new external auditors, a letter addressed to the Council's Director of Finance and Legal Services was considered by the Audit Committee in respect of the planned audit fee for 2012-13. The letter indicated that as a result of a change in the way audit fees are set nationally by the Audit Commission, the Council would receive a 40% reduction in the price of the audit for 2012-13, which equated to a saving of approximately £150,000.
- Certification of Claims and Returns Annual Report - This report was considered in February 2013 and summarised the findings from the certification of 2011-12 claims and returns that were subject to review by the external auditors. The report highlighted that improvements had been made in the administration of such grants and this was reflected in a reduced number of required amendments when compared with the previous year's findings.
- 2012-13 Audit Plan - This report was considered in April 2013 and set out the work that Grant Thornton would undertake in respect of the audit of the Council's financial statements for 2012-14. It also documented the expected outputs that the Committee would receive from the external auditors.

1.3 Internal Audit

During the year, the Audit Committee received the following annual reports at the July and August 2012 meetings:

- Internal Audit Annual Report - This report had two main purposes:

- To summarise the Council's Internal Audit activity for the period April 2011 to March 2012, against the agreed Internal Audit Plan for the same period.
 - To provide the Audit Committee with the Internal Audit and 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 2011-12, the Internal Audit and Risk Manager concluded that 'moderate' assurance could be provided that there was generally a sound system of internal control in place during 2011-12 designed to meet the organisation's objectives.
- The Annual Review of the Effectiveness of the System of Internal Audit - This review discharges a requirement of the Accounts and Audit Regulations that the Council "*at least once a year, conduct a review of the effectiveness of the system of Internal Audit*". The review focused on two areas: namely assessing the performance of the Internal Audit Service during 2011-12, and reviewing progress against the action plan developed to support the assessment of the Council's Audit Committee arrangements in comparison to CIPFA recommended practice.

Other Internal Audit reports considered during the year include:

- Progress reports on Internal Audit work - Monitoring reports were received in October 2012 and February 2013. These reports provided updates on the performance of the Service, along with a summary of the key findings from a sample of high profile audit reviews carried out in the relevant periods.
- Recommendation Tracking Report - In October 2012, a report on action taken by Council officers in respect of implementing agreed audit recommendations was presented. This highlighted high levels of compliance with the implementation of agreed actions.
- Public Sector Internal Audit Standards (PSIAS) - A briefing note was considered, which outlined that the PSIAS would replace the current code that applied to local authority Internal Audit, namely the CIPFA Code of Practice for Internal Audit in Local Government, with effect from April 2013. In terms of the next steps, the note indicated that the Internal Audit Plan for 2013-14 would be based around the requirements of the PSIAS and would be underpinned by an Internal Audit Charter. In addition, guidance from CIPFA was due to be published in March 2013, to assist the Council in undertaking a self-assessment against the new standard.
- The Internal Audit Plan for 2013-14 - This builds on previous plans in continuing to focus resources using a risk-based approach, with clear links with the Council's corporate risk register and Corporate Plan.
- Internal Audit Charter - This report was considered and approved in April 2013 along with the Internal Audit Plan. In highlighting that the Charter defines the purpose, authority and responsibility of the Internal Audit Service within the Council, it was recognised that such information was already reflected in the existing Internal Audit Terms of Reference which had previously been considered by the Committee.

Based on requests from the Audit Committee stemming from concerns raised in audit reports, the following reports / briefing notes were considered:

- IT Environment Report - This report followed up recommendations made previously by the external auditors in their review of the Council's IT environment. The review highlighted significant progress had been made in implementing all the actions agreed although, due to the nature of some of the actions, they had not all been fully implemented at the time of the review. In respect of the outstanding actions, it was agreed that these would be considered as part of planned reviews reflected in the three year Internal Audit IT Plan that had been endorsed by the Committee in April 2012.
- Corporate Complaints Progress Update - A briefing note was considered in October 2012 and provided an update on the progress made against the recommendations identified within the Corporate Complaints Audit conducted in August 2010, which was subsequently followed up in February 2012. After considering the update, a decision was made to request the Assistant Director, Customer and Business Services to attend the next meeting, to further explain the reasons for the delay in implementing actions agreed. When discussed at the December 2012 meeting, the Committee accepted that some progress had been made but that a final follow up audit be completed in early 2013, with the expectation that all actions would be implemented by this time.
- CareDirector Update – A briefing note was considered that provided an update on progress in addressing serious weaknesses identified when this system was audited earlier in 2012. This highlighted that since remedial work had commenced in July 2012, demonstrable progress had been made against the issues identified, which has included improvements to internal processes, control measures and technical fixes to the CareDirector System. It was agreed that as a further audit review of CareDirector was scheduled for early 2013, this would allow further progress to be measured and provide a mechanism to provide assurance to stakeholders that the System was working as intended.

1.4 **Fraud**

The following fraud reports were considered in 2012-13:

- Annual Fraud Report - This report summarised the Council's response to fraud activity for the financial year 2011-12, focusing on the work of both of the Corporate Fraud and Benefit Fraud Teams.
- Fraud and Corruption Strategy - The Committee considered this report in August 2012, before recommending it for approval by the Cabinet Member (Strategic Finance and Resources). The Strategy explained the Council's underlying approach to fraud and corruption, documenting the roles and responsibilities of Members and officers, as well as explaining key aspects of the Council's process for responding to this risk.
- Half Yearly Fraud Update - A report was received in December 2012, focusing on the outcome of work by both the Corporate Fraud and Benefit Fraud Teams in the first six months of 2012-13.

- Fuel Theft – In response to a theft reported in the half yearly fraud update, the Committee asked management in City Services and Development to consider the introduction of antisiphon devices on all Council vehicles and the removal of the use of jerry cans. A note was considered on these issues and highlighted that antisiphon devices are specified on all new Council vehicles, but that it was felt that the benefit of the actions proposed would be outweighed by the additional cost and / or operation impact. As a result, it was accepted that these additional control measures would not be implemented but that focus would be given to making improvements to existing procedures.

1.5 **Risk Management** - In July 2012 and February 2013, progress reports on the Council's corporate risk register were considered. The purpose of these reports were to provide an overview of the Council's corporate risk register, along with the actions being taken to mitigate these risks from occurring. A process now exists whereby this Committee considers these updates and then makes recommendations to Cabinet when they subsequently consider the reports.

1.6 **Other** - The following reports were also considered by the Committee in 2012-13:

- As part of the Annual Accounts process for 2011-12, the Internal Audit and Risk Manager co-ordinated the development of the Council's Annual Governance Statement (AGS). The Statement was presented in July 2012, and then approved by the Audit Committee in September 2012, following consideration of the audited Statement of Accounts.
- Annual Regulation of Investigatory Powers Act (RIPA) 2000 Report – This was a new report in 2012-13 and focused on providing governance and oversight of the Council's compliance with this Act. In considering this report, the Committee approved the publication of performance statistics on this area through the Council's website. In February 2013, an update was provided on changes in legislation supporting the use of RIPA.
- Council Tax Bailiffs – A briefing note was requested by the Chair in respect of the use of bailiffs for recovering Council tax. This request stemmed from the fact that this issue had been raised at Council and it was felt that the Committee needed to understand the working practices in place regarding the use of bailiffs, including how the Council monitors this work. After considering the note, the Committee acknowledged that, despite the recent publicity around the work of bailiff companies, this had not resulted in a surge of complaints and that the data produced to support management oversight did not indicate that there was a problem within this area.
- Local Authority Error Benefit Overpayment – The Committee considered this report in response to concerns around the level of benefit overpayments due to local authority error. The note outlined that:
 - The Council pays out approximately £150 million a year on benefit payment and process around 6,000 work items a week.
 - Local authority error can be due to a processing error, but can also be due to a delay in processing information received by the Council.

- Error is built into the grant subsidy from the DWP in that if error is due to the local authority, as long as the annual error is less than 0.48% of the total payments made, then there is no impact on the Council from a financial perspective.

Whilst challenges existed around increases in volumes of work, it was accepted local practices existed to oversee this issue and minimise the financial risk to the Council from such errors.

1.7 **Private Reports**

After a request from the Committee, a briefing note titled 'Arena Risk Update' was considered in February 2013 in order to provide a better understanding of this issue given that it was now a corporate risk. As a result of this paper, it was agreed a six monthly update would be provided to the Committee.

1.8 **Training and Awareness**

Two training sessions were held during 2012-13:

- In advance of considering the Statement of Accounts, a session was provided by the Corporate Finance Manager to aid the Committee in better understanding the accounts and, in particular, guiding members through what is a complex document.
- In February 2013, a demonstration of the Council's e-learning fraud awareness module was given to the Committee. This provided a reminder of both national views on fraud risks facing the Council, along with some practical views from officers from within the Internal Audit and Risk Service on fraud challenges facing the Council.

2 **Audit Committee Priorities** - The Council has made significant enhancements to its Audit Committee arrangements over the past few years. Nevertheless, there are still areas for development for the Audit and Procurement Committee, including:

- Given the significant change in membership for the new municipal year, there is a clear need to ensure that all members of the Audit and Procurement Committee are provided with appropriate training to allow them to discharge their responsibilities. A process exists to ensure new members receive an induction to the Committee, but further work is required to identify and meet individual member training needs.
- To keep abreast of national developments and the potential impact that these may have on the operation of the Audit and Procurement Committee.

In 2013-14, the Audit and Procurement Committee's initial focus will be on ensuring that effective action is taken in response to areas for improvement highlighted in the Annual Governance Statement for 2012-13. From an audit perspective, four areas were identified as a result of work carried out by the Council's Internal Auditors. These relate to the need to ensure that:

- Effective safeguards are in place to oversee the Council's IT arrangements.

- Control weaknesses that have been identified in 2012-13 audits of the Oracle System (i.e. creditor payments, income and debtors) are addressed as part of the implementation of the replacement finance system, Agresso.
- Robust processes and procedures exist to minimise the risk of fraud and error in relation to the award of council tax discounts and exemptions.
- Effective and standardised procedures exist to oversee cash received across all areas of the Council.

There are also a number of planned changes over the next year which, if not managed, may have a detrimental impact on the effectiveness of the Council's governance arrangements, including the Audit and Procurement Committee. In addition to the Committee ensuring that it discharges its new responsibilities in relation to procurement, there is a need to ensure that:

- Robust governance / project management arrangements are in place to oversee the implementation of the Council's new finance system.
- Any potential impacts that the creation of the Single Fraud Investigation Service (merger of benefit fraud teams from DWP, HMRC and Local Authorities) has on local fraud arrangements need to be identified and managed.