



Audit Committee Annual Report to Council

2011-12

To be considered at the City Council meeting
on the 18th September, 2012

Audit Committee Annual Report 2011-12

Introduction by Chair of Audit Committee

This report provides an overview of the Audit Committee's activity during the municipal year 2011-12.

I am pleased to report that the Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the Council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

During 2011-12, the Audit Committee invited PwC to attend two meetings in order to provide informal feedback on the performance of the Audit Committee based on their expectations and experience of such committees. The feedback provided by PwC was positively received by the Committee and identified a number of areas for improvement that we will look to address during 2012-13.

In looking forward to 2012-13 and beyond, the importance of an effective Audit Committee remains critical, given the continued financial pressures facing the Council. Additionally, there are a number of developments planned in the year that may have a detrimental impact on the workings of the Audit Committee and / or on key areas that the Audit Committee provides oversight of, if not managed successfully. As a result, these will be a specific focus of the Audit Committee in 2012-13. These include:

- The implementation of the Council's new finance system.
- The appointment of the Council's new external auditors, Grant Thornton.
- The creation of the Single Fraud Investigation Service (merger of benefit fraud teams from DWP, HMRC and Local Authorities) from the point of view of ensuring that this does not impact on the overall fraud arrangements within the Council.



A handwritten signature in black ink, appearing to read 'D. Chater'.

Councillor Dave Chater
Chair, Audit Committee

1 Activity of the Council's Audit Committee

During 2011-12, the Council's Audit Committee met on seven occasions. Meetings were held in July, August, September, October and December 2011, as well as in February and April 2012.

The Audit Committee receives a range of:

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

The details of the reports considered by the Audit Committee in 2011-12 are expanded upon below.

1.1 Routine Reports - The following reports were considered in 2011-12:

1.1.1 **Accountancy** - The unaudited Statement of Accounts (including revenue and capital outturn) was considered by the Committee in July 2011 and then in September 2011, the audited Statement of Accounts was approved by the Audit Committee. Additionally, progress reports in respect of the Council's performance against its revenue and capital budgets were considered in September and December 2011, as well as in February 2012.

1.1.2 **Internal Audit and Risk Service** - As part of the Annual Accounts process, the Service co-ordinated the development of the Council's Annual Governance Statement (AGS) for 2010-11. The Statement was presented in July 2011, and then approved by the Audit Committee in September 2011 after considering the audited Statement of Accounts.

In addition, during the year, the Audit Committee received the following annual reports from the Service at the July and August 2011 meetings:

- Internal Audit Annual Report - This report had two main purposes:
 - To summarise the Council's Internal Audit activity for the period April 2010 to March 2011, 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 2010-11, 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 2010-11 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 2010-11 across a variety of internal and external measures; and

reviewing progress against the action plan developed to support the assessment of the Council's Audit Committee arrangements made in the light of CIPFA recommended practice.

- Annual Fraud Report - This report summarised fraud activity for the financial year 2010-11, focusing on the work of both of the Corporate Fraud and Benefit Fraud Teams.

Other reports considered during the year include:

- Quarterly reports on Internal Audit work - Monitoring reports were received in August and October 2011, as well as in February 2012. 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.
- In September 2011, a progress report on the Council's corporate risk register was considered. The purpose of this report was to provide an overview of the Council's corporate risk register, along with the actions being taken to mitigate these risks from occurring.
- Half Yearly Fraud Update - A report was received in December 2011, focusing on the outcome of work by both the Corporate Fraud and Benefit Fraud Teams in the first six months of 2011-12.
- Recommendation Tracking Report - In October 2011, 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.
- The Internal Audit Plan for 2012-13 - This builds on the Internal Audit Strategy and continued to focus resources on a more risk-based approach, with clear links with the Council's corporate risk register and Corporate Plan.

1.1.3 **External Audit Reports** - The following reports were received from the Audit Commission (the Council's external auditors) in 2011-12:

- Value for Money (VfM) Conclusion Audit Plan - This report was considered in August 2011 and documented the audit work plan that the Audit Commission would undertake to allow them to reach a conclusion on the Council's arrangements to secure economy, efficiency and effectiveness for 2010-11.
- Recommendation Tracking Report - This report was also considered in August 2011 and assessed action taken by the Council in respect of implementing agreed audit recommendations from reviews carried out by the Audit Commission. This highlighted generally high levels of compliance with the implementation of agreed actions, although some slippage in implementing recommendations was identified.
- IT Environment Report - This report documented the findings of the Audit Commission's review of the Council's IT environment and highlighted that a number of improvements were required to enhance IT controls in place across the Council. Two reports were received on this subject in the

municipal year, based on work linked to the audit of the annual accounts for the financial year 2010-11 (considered in September 2011) and 2011-12 (considered in April 2012).

- Annual Governance Report - The purpose of this report was to identify amendments in the Statement of Accounts, following the completion of the audit by the Audit Commission and 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.
- Annual Audit and Inspection Letter - This was considered at the December 2011 meeting. The main focus being to summarise the findings from the 2010-11 audit carried out by the Audit Commission. It included messages arising from the audit of the financial statements and the results of the work undertaken to assess the Council's arrangements to secure value for money in its use of resources. The report indicated that the external auditors had provided an unqualified audit opinion on the Council's financial statements and an unqualified VfM conclusion. In terms of the VfM conclusion, this indicated that the Council had proper arrangements in place to secure financial resilience and for challenging how it secures economy, efficiency and effectiveness.
- Audit Committee Update - This is a progress report and was considered by the Committee in December 2011 and April 2012. The report has two purposes:
 - To provide an update on progress by the Audit Commission in delivering their responsibilities as the Council's external auditors.
 - To highlight key emerging national issues and developments that may be of interest to members of the Audit Committee.
- Certification of Claims and Returns Annual Report - This report was considered in February 2012 and summarised the findings from the certification of 2010-11 claims and returns that were subject to review by the Audit Commission. The report highlighted that some amendments were required to the grant returns as a result of their work and also provided recommendations to improve arrangements in relevant areas.
- 2011-12 Audit Plan - This report was considered in February 2012, which set out the audit work that the Audit Commission would undertake for the audit of the financial statements and the value for money conclusion for 2011-12. It also included the proposed fee for this work, along with the expected outputs that the Committee would receive.

1.2 **Ad-hoc Reports** - The following reports were considered in 2011-12:

1.2.1 **Accountancy** - Based on information provided in the progress reports in respect of the Council's performance against its revenue and capital budgets, the Audit Committee looked into three areas in more detail:

- abc Financial Savings - Given the importance of the Council's Transformation Programme in assisting the Council to deliver a balanced budget, a report was considered in September 2011 highlighting progress

to date in delivering the financial savings agreed for 2011-12 for each of the current projects. Given the report was considered relatively early in the financial year, an assessment by officers was also provided of which projects may not deliver the planned savings in 2011-12.

As a result of this assessment, additional reports were also considered in both December 2011 and February 2012 regarding progress with the delivery of financial savings in respect of the Corporate Transport and Commercial Waste reviews. Explanations of why targets would not be achieved were provided and assurance given that the non delivery of these targets would not have a detrimental affect on the Council's overall financial position.

- City Council Investment Policy and Activity - A briefing note was considered in October 2011 in response to changing current economic climate and issues within the banking sector. Whilst assurance was provided that risk is a key consideration in the Council's approach to investment, a decision was made that this item would be considered at all future meetings of the Committee.
- Capital Receipts and Future Forecasting Update - This report was requested by the Audit Committee as they wished to be kept informed on the progress in obtaining capital receipts from property sales, as well as gaining a better understanding of future expected sales.

1.2.2 **Internal Audit & Risk Service** - During 2011-12, two key documents that underpin the work of teams based within the Internal Audit and Risk Service were revised.

- Risk Management Strategy - The Committee considered a report which had previously been approved by the Cabinet in March 2012, setting out the Council's underlying approach to risk management. The report documents the roles and responsibilities of Members and officers for the ongoing management of risk, and explains key aspects of the Council's risk management process. It is the key document that supports risk management across the Council, including the development of the corporate risk register.
- Benefit Fraud Prosecution and Sanction Policy - The Committee considered a report which had previously been approved by the Cabinet Member (Strategic Finance and Resources) in March 2012, setting out the Council's Benefit Fraud Prosecution and Sanction Policy. This document defines the procedures that underpin all investigations carried out by the Benefit Fraud Team.

1.2.3 Detailed below are the remaining reports considered in 2011-12:

- Purchasing Cards Update - In response to the ongoing concerns of the Audit Committee around the levels of non-compliance with purchasing card procedures, a briefing note on how action taken had been effective in reducing levels of non-compliance with agreed procedures was considered. As a result, the Committee confirmed that they were now satisfied with the effectiveness of actions taken to mitigate non-compliance with agreed procedures.

- ICT Disaster Recovery and Business Continuity - This issue originated from a report by the Audit Commission in 2010-11, highlighting that limited progress had been made in addressing audit recommendations to enhance business continuity arrangements. A briefing note was received in July 2011 which highlighted that whilst significant work had taken place in this area, there was still further work required to put in place effective continuity arrangements across the Council. This was subsequently followed up in the IT Environment Report considered by the Committee in April 2012, and this area remains a priority issue for 2012-13.
- Procedure for Approving Senior Officer Expenses - A briefing note was considered by the Committee in order to provide them with an understanding of the level of expenses being claimed by senior officers, and the procedures in place to approve such claims. As a result, the Committee confirmed that based on the information presented, no further reviews were required on this issue at this time.
- In response to concerns raised in quarterly internal audit reports, the Audit Committee considered briefing notes produced by the relevant managers setting out how they were responding to concerns raised in the following reviews:
 - Job Descriptions - Mandatory Requirements
 - Back to Basics Review - Occupational Therapy Team

Whilst assurance was provided by the relevant manager, these areas will be audited by Internal Audit in 2012-13.

- Future Local Public Audit - A presentation was received in April 2012 in respect of changes resulting from the abolition of the Audit Commission. The key point from this presentation was that there would be little impact initially, given that the first external auditor appointments under the new arrangements would be made by the Audit Commission. Based on this exercise, Grant Thornton had been appointed as the Council's external auditors from 2012-13, for a period of five years. In terms of longer term issues, these will be considered in due course and relate to:
 - The need to establish an Independent Auditor Appointment Panel (IAAP) to oversee the selection of future external auditors. The expectation being that the Panel has an independent chair and a majority of independent members.
 - Expectations regarding the continued independence of the Audit Committee in relation to the membership of the IAAP.

1.3 Private Reports

Due to the confidential nature of some of the work presented to the Audit Committee, the following private reports were also considered:

- Significant Frauds - This report documented all significant frauds against the Council. Significant frauds are defined as those of a financial impact in excess of £10,000 but can also be less, based on the view of the Internal Audit and Risk Manager, if he considers the nature of the fraud justify reporting to the Audit Committee. Two reports were considered in the year:

- The report on significant frauds in 2010-11, which was considered at the August 2011 meeting.
 - The report on significant frauds in the first half of 2011-12, which was considered at the December 2011 meeting.
- Adult Social Care - CareDirector Financial Processes Update.
 - Benefits Risk Based Verification Policy.

1.4 **Audit Committee Priorities** - The Council has made significant enhancements to its Audit Committee arrangements over the past few years and this has been supported through the setting up of a 'stand alone' Audit Committee. Nevertheless, there are still areas for development for the Audit Committee, as follows:

- Ensuring that all members of the Audit Committee are provided with appropriate training to allow them to discharge their responsibilities. Whilst processes exist to ensure new members receive induction training, and officers also provide briefings on new developments, there is a need to consider whether this needs to be supplemented with some external focus to ensure training can incorporate issues emerging across the wider public / private sector experiences.
- To look at introducing improvements to the operation of the Audit Committee that were identified by PwC, based on them observing two committee meetings.
- To keep abreast of national developments and the potential impact that these may have on the operation of the Audit Committee.

In 2012-13, the Audit 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 2011-12. From an audit perspective, four areas were identified as a result of work carried out by the Council's Internal Auditors. These were:

- Developing processes to support the implementation of the Schools Financial Value Standard across Coventry maintained schools.
- Ensuring the effectiveness of arrangements in place to oversee the Council's ICT requirements.
- Ensuring that the required significant improvements identified from audit reviews of key systems in 2011-12 are addressed as a matter of urgency. These cover CareDirector, direct payments and aspects of the Housing Benefit system, namely change of circumstances and overpayments.
- Reviewing the systems and processes in relation to key activities that underpin the Code of Conduct for employees, namely declarations of interests and hospitality registers.

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 Committee. These are:

- The implementation of the Council's new finance system.
- The appointment of the Council's new external auditors, Grant Thornton.
- The creation of the Single Fraud Investigation Service (merger of benefit fraud teams from DWP, HMRC and Local Authorities) from the point of view of ensuring that this does not impact on the overall fraud arrangements within the Council.