

# **REPORT OF THE AUDIT COMMITTEE 2007-08**

## **COUNCIL 13 OCTOBER 2008**

Chair:  
Councillor Gmmh Rahman Khan

Deputy Chair:  
Councillor Toni Mallett

### **INTRODUCTION**

- 1.1 This report covers matters considered by the Audit Committee during the municipal year 2007/08.

### **2. Background**

- 2.1 The Terms of Reference of the Audit Committee require it to maintain an overview of the Council's arrangements for corporate governance and the regulatory framework; internal control; risk management; and internal and external audit. This report has been produced to advise Full Council of the matters considered by the Audit Committee at its meetings during the municipal year 2007/08, in fulfilment of its Terms of Reference. It is presented to Full Council for information.
- 2.2 The Audit Committee is required to meet at least four times per year in accordance with the Council's reporting and financial cycles. During 2007/08, the Committee has met on five occasions and each meeting was quorate.
- 2.3 To support members in their role, officers provided a briefing session on the function, status, responsibilities and role of the audit committee. The Council's Section 151 Officer (or his deputy) and Head of Audit and Risk Management were in attendance at each meeting. The Council's external auditors, The Audit Commission, attended the Committee to present, amongst other reports, their Annual Audit and Inspection Letter.

### **3. Summary**

- 3.1 The Audit Committee takes its responsibilities very seriously and considers its role in enhancing the Council's internal control environment, which is considered effective by both internal and external audit, to be significant in assisting the Council achieve the highest possible rating as part of the Comprehensive Performance Assessment (CPA) process. During 2007/08, key achievements for the Committee were:
- Contributing to the CPA process and assisting the Council achieve a score of 3 out of 4 for Internal Control as part of the Use of Resources assessment;
  - Providing input into the Internal Audit function thorough review and approval of the annual audit plan and quarterly review process, including monitoring implementation of audit recommendations as part of the formal follow up reporting process;
  - Reviewing and approving the Council's internal audit strategy; and
  - Contributing to and approving the Council's Statement of Internal Control and Annual Governance Statement.
- 3.2 The following sections describe the work of the Audit Committee in relation to the key tasks identified within the committee's agreed Terms of Reference which were in effect during 2007/08.

#### **4. Corporate Governance and regulatory framework**

- 4.1 In performing their role in this area, the Audit Committee consider the actions taken by the Council's managers and receive information during the course of the year in order to discharge their responsibilities. Council officers are responsible for ensuring adequate systems of control and assurance are in place and the s151 Officer and Head of Audit provide assurances to this effect to the Audit Committee.
- 4.2 During 2007/08, the Committee fulfilled this responsibility by reviewing and approving the Council's Annual Governance Statement (AGS). The Accounts and Audit Regulations 2006, require the Council to review the effectiveness of its systems of internal control and to publish an AGS each year, with the financial statements. The Audit Committee are the lead body for this and are able to discharge this duty by receiving at their meetings, reports relating to the key areas of Internal Audit; Risk Management; External Audit; and Housing Benefit Counter-Fraud activity. In 2007/08, the Committee made recommendations at its meeting on 12 May 2008 which were incorporated into the final AGS and published with the Council's financial statements.
- 4.3 In addition, the Audit Committee reviewed the Council's draft Local Code of Corporate Governance (LCCG) which was presented to its meeting on 12 May 2008. Members recommended changes to the draft LCCG, including the need to reflect the political reality of having an opposition party, and providing greater clarity in relation to the distinctions between the ruling party, the opposition and committees, such as the Audit and Pensions Committees, where all Members worked together for the best interests of the taxpayers. The changes were incorporated into the LCCG prior to presentation at Full Council for formal adoption.
- 4.4 Members reviewed and approved the 2007/08 annual audit plan at the Audit Committee meeting on 26 April 2007, part of the 2006/07 Municipal year. Members were satisfied that the plan was appropriate to deal with the Council's key risks. The Head of Audit and Risk Management provided the Committee with quarterly reports on performance against this plan and a summary of key findings and recommendations for individual audits. This provided the Committee with assurance that any significant weaknesses were being addressed by management. The Committee noted that no key financial systems were provided with a 'no' or 'limited' assurance rating during 2007/08.
- 4.5 The Audit Committee received and considered the 2007/08 annual audit and inspection plan from the Council's external auditors, which had been issued jointly by the Audit Commission and RSM Robson Rhodes (now Grant Thornton) at the meeting on 10 July 2007. The Committee raised a number of issues relating to the plan and questioned whether the actions highlighted in the plan with regard to the social services and ICT were achievable. The Audit Committee also requested the Chief Financial Officer to ensure compliance with specific issues relating to the plan, including risks with regard to the operations conflict between the BSF programme and the existing PFI schools and the management issues relating to Alexandra Palace and Park to safeguard the overall issues of tax-payers as well as the Council.

- 4.6 The Audit Committee received quarterly reports on counter-fraud activity relating to Housing Benefit and Council Tax Benefit from the Deputy Head of Benefits and Local Taxation. In order to ensure that the Committee fulfilled its Terms of Reference, Members requested that information on payments made and resultant overpayments be included in all quarterly reports after the first report was reviewed and this was completed. Members raised concerns about whether sufficient resources were in place to prevent fraud at the outset and were advised that verification processes were in place to ensure the risk was minimised and that the procedures had been reviewed by the Benefits Fraud Inspectorate and were found to be adequate.
- 4.7 Members were advised that, at the end of 2007/08, the Housing Benefit service had achieved a good performance against targets and a CPA rating of 4 (excellent). Members were advised of a Housing Benefit anti-fraud and corruption strategy which had been drafted and recommended that this be subject to further review and input from relevant Members to ensure that the strategy was effective.
- 4.8 Members also received details of the inspection by the Benefits Fraud Inspectorate and the 20 recommendations made as a result. Members expressed concerns about the emphasis of targets, set by the Department for Work and Pensions, on fraud rather than benefit take up and were advised that income maximisation in respect of benefit take up was a Council priority. Members raised concerns that the emphasis from the Council appeared to focus on fraud, rather than benefit take up, but were assured that the Council's procedures met central government standards and requirements and the Council had a clear responsibility to both prevent and detect fraud.

## **5. Risk Management**

- 5.1 The Audit Committee are responsible for reviewing the effectiveness of systems for the assessment and management of material areas of risk within Haringey and monitoring their maintenance and development in accordance with the Council's Risk Management strategy. In order to fulfil this responsibility, the Audit Committee has received regular reports during 2007/08 on the Council's Risk Management framework, together with summary details of business unit and departmental risk registers. The Council's corporate risk register was presented to the Audit Committee twice yearly for review.
- 5.2 At its meeting on 12 May 2008, the Audit Committee reviewed the proposed new risk management framework for the Council which set out how all the various processes involving risk, including health and safety, business continuity, emergency planning and business planning would be drawn together and managed. Members questioned if all areas of the Council had risk registers in place and the Head of Audit and Risk Management confirmed that all Business Units and Departments had these in place. Members also questioned who was responsible for monitoring that risk registers were kept up to date and were advised that Business Unit managers and Directors were responsible, but that Internal Audit completed regular checks on risk registers as part of the annual audit plan. Members were also advised when each risk register was last updated and reviewed as part of the regular reports to the Audit Committee. Members were

satisfied with the assurances given on the Council's compliance with the risk management framework.

## **6. Internal Audit**

- 6.1 Internal Audit is provided primarily by an outsourced function, through a contract awarded to Deloitte and Touche, and supplemented by in-house staff undertaking investigations into allegations of fraud and financial irregularities.
- 6.2 During 2007/08, Internal Audit completed 91 reviews across all Council directorates, including schools and individual social services establishments, with 76 final reports and 16 draft reports having been issued at the year end. Quarterly reports on progress against the annual audit plan were provided to the Audit Committee throughout the year. The Chair of the Audit Committee commented on a number of areas during the year which were highlighted by the audit recommendations made and which he considered needed to be addressed. Members were given assurance that appropriate action would be taken.
- 6.3 In 2006/07, Members requested that Internal Audit provide detailed reports on the implementation of audit recommendations as part of the agreed follow up programme. The provision of detailed reports on the implementation of Priority 1 recommendations continued throughout 2007/08 and Members were advised that, at the end of the year, 93% of all Priority 1 recommendations had been fully implemented, with the remaining 7% in progress. Members wanted to ensure that all outstanding recommendations were addressed and required officers to take appropriate action to resolve any issues and provide the Committee with target dates for final implementation. Revised target dates and reports monitoring compliance with these were presented to the Committee. The Committee subsequently agreed that the actions taken were considered reasonable.
- 6.4 The Chief Financial Officer informed the Committee that the Chief Executive and Chief Financial Officer were reviewing progress against outstanding Priority 1 recommendations on a monthly basis. The Committee asked how Priority 2 and 3 recommendations were followed up, and the Head of Audit and Risk Management reported that all recommendations would be followed up as part of the audit programme for the financial year following the year in which the report was completed. The Committee asked officers that details of the implementation of all recommendations be reported to the Committee as part of the quarterly progress report. In order to ensure that sound management practices were in place, the Chief Financial Officer further reassured the Chair that in addition to Internal Audit procedures he had his own systems of financial administration and control in place.
- 6.5 The Committee also considered reports detailing investigations into financial irregularities. During 2007/08, Members noted that 26 investigations had been completed, but were concerned about the effect of officers being suspended from duty while investigations were completed. Members were advised that Internal Audit worked closely with Human Resources to manage the cases as quickly and effectively as possible. In addition, performance information on the length of time taken to complete investigations was included in the quarterly reports for 2007/08 to provide Members with further information in this area.

- 6.6 In compliance with the Accounts and Audit Regulations, the Committee received a report on the effectiveness of internal audit. This assessment was completed as part of a reciprocal peer review process with the Royal Borough of Kensington & Chelsea and Waltham Forest LBC. Members noted that Haringey's internal audit function had been assessed as effective in comparison to the CIPFA Code of Practice. Members questioned the role of the Audit Committee in the decision making process and were advised of the Terms of Reference for the Committee and the opportunity that these presented to make recommendations and require explanations from officers.
- 6.7 The Audit Committee received the Council's annual internal audit plan and audit strategy at its meeting on 12 May 2008. Members questioned the level of resources allocated to the review of key financial systems and questioned whether these should be reviewed and more allocated to higher risk areas. Members were advised that resources were allocated on a risk basis and that changes to key financial systems took place every year which had to be reviewed. Members were also advised that external audit required an annual assessment of the effectiveness of the key financial systems and it was more cost-effective to use internal audit resources to complete this. Members were also advised of resources which were allocated to high risk areas including project management and procurement. The Chair was satisfied with the assurances of the Chief Financial Officer that the internal audit plan complied with standards required by CIPFA.
- 6.8 The Audit Committee received the annual audit and assurance report at its meeting on 24 June 2008 and requested that it be presented to Full Council for information. The report is therefore attached as an appendix for information.

## **7. External Audit**

- 7.1 The Council's external audit service in 2007/08 was provided by Robson Rhodes (subsequently merged with Grant Thornton), although the Audit Commission continued to complete work on the Council's statement of accounts and CPA Use of Resources assessment. The Council's external auditors attended all of the Audit Committee meetings during the year. The Audit Committee has received reports and presentations from the Audit Commission and Grant Thornton during the year to assist it in fulfilling its responsibilities in this area.
- 7.2 The Audit Commission's report on the Use of Resources auditor judgements was presented to the Committee on 12 May 2008. Members noted the improvements in ratings that the Council had received for Value for Money, to 3 out of 4 in the Use of Resources assessments and overall that the Council had retained its score of 3 out of 4 overall for the Use of Resources assessment. However, the Committee noted that the overall score in the theme of Financial Reporting had dropped from a 3 to a 2, largely as a result of the Council not maintaining its 'notable practice' status achieved the previous year. Members noted the issue raised in relation to capital budget underspends and expressed disappointment in the Financial Reporting score. Members requested officers to ensure that action was taken to address the issues raised. The Audit Committee received a report setting out the planned actions to address the Audit Commission's recommendations made in their Use of Resources judgement. Members noted that although the Use of

Resources test was getting more difficult each year, their expectation was that the Council should be focused on achieving a score of 4 out of 4.

- 7.3 The Audit Committee received the Annual Audit and Inspection Letter from the Audit Commission at its meeting on 12 May 2008. The issues and recommendations raised were discussed with the Audit Commission and Members expressed concern about the wording of specific improvement opportunities included in the Letter and as no recommendations had been raised to address the issue. Members were advised that the improvement opportunities were linked to the Use of Resources judgement. Members noted that two areas of potential risk had been included in Grant Thornton's work and requested that action was taken to resolve these.

## **8. Statement of Accounts 2006/07 and Accounting Policies**

- 8.1 At the meeting on 10 July 2007, Members received a report on the accounting policies which were in operation during 2006/07. The Committee were concerned over some aspects of the accounting policies followed in the preparation of the financial statements. The Committee were advised that the accounting policies would form part of the external audit review of the financial statements and any issues would be reported back to the Committee. No issues were subsequently raised by the external auditors.

## **9. Other issues**

- 9.1 Members wished to ensure that they had the necessary skills and training to be able to fulfil their roles appropriately. The Head of Audit and Risk Management agreed to ensure that appropriate training and briefing sessions were put in place for Members of the Committee. During 2007/08 separate training sessions were provided on the roles of internal and external audit, the role of the Audit Committee and risk management.
- 9.2 The Audit Committee was subject to a review of its effectiveness during 2007/08, in accordance with the recommendations of the CIPFA Guidance on Public Sector Audit Committees. The review was undertaken by the Head of Audit and Risk Management, in consultation with Members and recommendations made in order to comply with best practice and guidance. Members were satisfied with the outcome of the review and the implementation of the recommendations which would continue in 2008/09.
- 9.3 The Interception of Communications Commissioner's Office (ICCO) visited Haringey in 2007 to inspect the Council's policies and procedures in relation to the Regulation of Investigatory Powers Act 2000 (RIPA). The Audit Committee was informed of the Inspector's findings at their meeting on 28 January 2008. The ICCO reported that the Council complied with the requirements of RIPA and that the Council's arrangements for compliance were adequate. Members were satisfied with the Council's response to the recommendations made, all of which had been implemented.

## **10. Conclusion**

10.1 Over the last year the Audit Committee has fulfilled its terms of reference and presented a challenge in relation to the Council's system of internal control and financial reporting arrangements. Over the next 12 months it is intended that the proposed developments will continue to enhance and develop the Committee's role and provide an effective challenge to all areas of the Council.

## **11. Recommendations**

11.1 That this report is received by Full Council for information.