

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA**COUNCIL MEETING - 14 OCTOBER 2009****REPORT BY THE CHAIRMAN OF THE AUDIT COMMITTEE**

The terms of reference of the Audit Committee require that the Committee, through the Chairman, provide an annual report to Council on the activity of the Committee during the year.

FOR INFORMATION**1. INTRODUCTION**

- 1.1 The Royal Borough has a history of strong corporate governance and scrutiny of which the Audit Committee is an integral part. The committee is comprised of both councillors and external members. The councillor members are highly experienced, in many cases ex Overview and Scrutiny Chairmen, while the two external, independent members bring a wealth of commercial and governance experience and knowledge to the Committee.
- 1.2 This report sets out how the Committee met its terms of reference during 2008/09. The terms of reference, last revised in January 2008 were reviewed in January 2009 and subject to minor changes.

2. AUDIT COMMITTEE WORK PROGRAMME 2008/09

- 2.1 The Committee's programme of work is agreed at the start of the year. The programme has been achieved in the year.
- 2.2 The Committee met on four occasions during the year and was quorate on each occasion. The Chief Finance Officer or Executive Director of Finance, Information Systems and Property and the Head of Internal Audit and Risk Management were in attendance at each meeting. The Council's External Auditors, PriceWaterhouseCoopers, attended the September 2008 Committee to present their final Annual Audit and

Inspection Letter for the Council's 2007/08 financial accounts. The meeting provided the opportunity for the Committee to meet privately with the External Auditor; no issues were raised during this session. In June 2008 the Committee were introduced to the Audit Commission staff who would be taking on the external audit role from 2008/09.

- 2.3 The Committee reviewed the 2008/09 Internal Audit Plan and were satisfied that the Plan was robust and that the processes involved in drawing together the plan ensured that the key risks facing the Council were taken in account and, where appropriate, subject to review.
- 2.4 In relation to its principal role to provide independent assurance on the Council's governance arrangements, the risk management framework and the associated control environment, the Committee gained assurance on the adequacy and effectiveness of internal control from the quarterly reports on progress against the Audit Plan it receives from Internal Audit. These reports outline the progress and findings of audits undertaken as part of the agreed audit plan for the year. The reports also provide continued assurance to the Committee that a satisfactory level of internal control is being maintained across the Council's key systems. The Committee also reviews management's progress in implementing key recommendations arising from Internal Audit's work.
- 2.5 The Head of Internal Audit and Risk Management presented an annual report on Internal Audit's work and the Council's internal control arrangements along with a report on the corporate governance arrangements during 2008/09. The report confirmed that the 2008/09 Internal Audit Plan was completed in full while overall satisfactory internal control arrangements and procedures were in place across the Council during the year with a relatively low number of audit reports being issued with "Limited" or "No" assurance scorings.
- 2.6 In relation to the risk management framework the Committee receives regular reports on the framework and the management of the key corporate risks. The Committee received a report on the outcome of a Risk Management survey of senior management. The Committee noted that the response was on the whole positive, however the Committee felt further development work was required on risk management arrangements in partnerships and requested an

improvement agenda to be taken forward across the Council where such relationships exist.

- 2.7 The Committee received a report on the External Auditor's Use of Resources Report for 2008 and noted that the top mark of 4 had again been retained in the three key areas of: risk management; internal control and probity.
- 2.8 The Committee received assurance from the report on the 2008 annual staff fraud awareness survey that Council staff continued to have a high level of awareness of the Council's anti-fraud culture and the associated policies and procedures. The Committee were encouraged that the in-house developed interactive elearning tool for fraud awareness was being rolled out across the Council to all staff and that the product, a first, had received national acclaim and endorsement.
- 2.9 During the year the Committee continued to challenge the Council's key systems and procedures and the associated management of risk in these areas and received follow up presentations from Cabinet members and/or senior management on the following areas of concern:
 - Email Retention;
 - Sickness recording and Monitoring;
 - Business Continuity;
 - TMO Leaseholder Income; and
 - Notting Hill Carnival.

The Committee will continue to call in Cabinet members and senior officers where appropriate to reinforce the need to strengthen controls and risk management processes and implement actions agreed with Internal Audit.

- 2.10 The Committee is also required under its terms of reference to approve the Council Annual Statement of Accounts and to consider whether appropriate accounting policies have been followed. In relation to that role the Committee received reports on the Statement of Accounts and directed that the statement could be signed after the issue of the signed annual Governance Statement. The Committee also received the report on the accounts for 2007/08 from the External Auditors. No concerns arose from the financial statements or from the audit which needed to be brought to the attention of the Executive. Following a request for regular information the Committee received quarterly activity reports on the Council's Treasury Management during the year.

3. SELF ASSESSMENT

- 3.1 The majority of members of the Committee have undertaken an evaluation of the committee's performance in 2008/09 using a self assessment process. The summary results of the assessment are attached at Appendix 1. The assessment indicates that the Committee continues to be strong and influential with clear terms of reference and a clear idea of its objectives and responsibilities.

4. Independent Committee Members

- 4.1 Since the Audit Committee's inception the independent members have played a vital role within the Committee, providing a strong external challenge to the Council's systems of internal control and to the audit process. The Committee has been fortunate to retain the services of the original independents since 2006. Both members share extensive experience of the financial services sector and of risk management. Unfortunately in September 2008 Mr Luder had to resign from the Committee to focus on his Lord Mayor duties for the City of London for 2008/09. The complement of independent members has been increased to three under the Committee's terms of reference and a further independent member has been appointed. Mr Luder is expected to return in 2010.

5. CONCLUSION

- 5.1 The Audit Committee continues to present a focussed and professional challenge to the Council's systems of governance and financial reporting arrangements. Over the next 12 months we will continue to enhance and develop that role and ensure that the Committee's terms of reference are used to the full.
- 5.2 The Royal Borough's governance processes, including the system of internal control are highly regarded by both internal and external agencies, with many of our procedures held up as best practice. The Committee's role over the next 12 months will be to ensure that the high standards of the Royal Borough are maintained and that Cabinet Members and Senior Management are brought to account where standards in any area are considered to be inadequate.

5.3 I would like to take the opportunity to thank both the Committee Members and the officers who support the Committee's work for their contributions and support during the year. Particular thanks go to our independent members who continue to bring a wealth of knowledge and experience to the challenge process.

6. RECOMMENDATION

6.1 That the report be received by Council for information.

COUNCILLOR MARY WEALE
CHAIRMAN OF THE AUDIT COMMITTEE

**AUDIT COMMITTEE SELF ASSESSMENT SURVEY
MAY 2009**

Appendix 1

1. GENERAL OVERVIEW OF AUDIT COMMITTEE ARRANGEMENTS

Statement	Strongly Agree (1) %	Partly Agree (2) %	Neither agree nor disagree (3) %	Partly Disagree (4) %	Disagree (5) %
1). The Audit Committee comprises of members with the right mix of skills and experience.	25	75	0	0	0
2). The Terms of Reference of the Audit Committee are clear and up to date.	75	25	0	0	0
3). The Committee understands its role in respect of risk management and internal control.	100	0	0	0	0
4). Audit Committee papers are relevant and timely.	100	0	0	0	0
5). Audit Committee members attend and actively engage.	50	50	0	0	0
6). The Audit Committee is effective in challenging the Council to improve in areas where failings have been identified.	50	50	0	0	0
7). The Audit Committee actively engages with external audit.	50	50	0	0	0
8). The Audit Committee responds positively and constructively to bad news to encourage future transparency.	100	0	0	0	0
9). The Audit Committee understands the interaction between various sources of assurance available to it.	0	100	0	0	0
10). The number and length of meetings are sufficient for the Committee to discharge its duties.	75	0	25	0	0
11). The Audit Committee is confident in requesting Senior Officers/Members to attend to respond on issues as appropriate.	100	0	0	0	0
12). The Audit Committee focuses on the right questions and is effective in avoiding minutiae.	75	25	0	0	0
13). The Audit Committee has a good understanding of	0	100	0	0	0

the key financial issues, critical accounting policies and complex transactions.					
--	--	--	--	--	--

2. INDIVIDUAL VIEW ON THE AUDIT COMMITTEE ARRANGEMENTS

Comment	Strongly Agree (1) %	Partly Agree (2) %	Neither agree nor disagree (3) %	Partly Disagree (4) %	Disagree (5) %
I would welcome more training in respect of the responsibilities of the Audit Committee	0	50	25	25	0
I believe the Audit Committee is challenging and effective.	50	50	0	0	0
I would welcome more training on risk management.	0	0	100	0	0
I would welcome more training on financial accounting management.	0	50	0	25	25
I have sufficient time and commitment to fulfil my responsibilities	75	25	0	0	0
I am confident that questions raised by the Audit Committee will be answered honestly.	75	25	0	0	0
I believe the Audit Committee is constantly improving as a challenge mechanism.	75	0	0	25	0
I believe the Audit Committee acts as an independent source of assurance.	75	25	0	0	0

Comments:

As a member with no other involvement with the Borough, I would value a programme of meetings or briefings from the Executive Team on issues facing the Borough and particular concerns within Executive areas, starting with the CEO. This would give a broader 'context' for the Audit Committee discussions.