

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA

MEETING OF THE COUNCIL - 13 OCTOBER 2010

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 councillors are highly experienced, including a number who chair Overview and Scrutiny committees. The three 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 2009/10. The terms of reference were updated in September 2009 to take into account the additional role of scrutinising treasury management activity. The Committee's current Terms of Reference are attached at Appendix 1.

2. AUDIT COMMITTEE WORK PROGRAMME 2009/10

- 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's membership during the year was as follows:

Cllr Mary Weale	Chairman
Cllr Paul Warrick	Vice Chairman
Cllr John Cox	Member
Cllr Keith Cunningham	Member
Mr Andrew Ling	Independent Member
Ms Lorraine Mohammed	Independent member
Mr Ian Luder CBE	Independent member-from 1/10

2.3 The committee met on the following dates during the year:

20 May 2009
23 June 2009
15 September 2009
6 January 2010
24 March 2010

2.4 The meeting was quorate on each occasion. The Executive Director of Finance, Information Systems and Property and the Head of Internal Audit and Risk Management were in attendance at each meeting.

2.5 The Council's External Auditor, The Audit Commission, attended the September 2009 Committee to present their draft Annual Governance report for 2008/09, they also attended in January 2010 to present their final Annual Audit and Inspection Letter for the Council's 2008/09 financial accounts. The meeting in September provided the opportunity for the Committee to meet privately with the External Auditor; no issues were raised during this session.

2.6 The Committee reviewed the 2009/10 Internal Audit Plan and was 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.

2.7 In relation to its principal role in providing independent assurance on the Council's governance arrangements including the risk management framework and the associated control environment, the Committee gains assurance from a number of sources. On the adequacy and effectiveness of internal control the Committee obtains assurance 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.

2.8 The Committee also reviews management's progress in implementing key recommendations arising from Internal Audit's work. The Committee gained additional assurance on the control environment from the independent review of Internal Audit's effectiveness undertaken in 2010 by the London Borough of Enfield.

2.9 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 2009/10. The report confirmed that the 2009/10

Internal Audit Plan was completed in full while overall satisfactory internal control arrangements and procedures were in place across the Council. The Committee noted the increase in the number of audit being issued with "Limited" or "No" assurance scorings and was assured this was due to audits being undertaken on new areas or where audit had not been undertaken in recent years. The Committee was satisfied that officers were taking appropriate action to rectify system weaknesses in these areas.

2.10 In relation to the risk management framework the Committee received regular reports during the year on the risk management framework and the management of individual key corporate risks.

2.11 The Committee received a report on the External Auditor's Use of Resources Report for 2009 in January 2010 and noted that the system for the assessment had changed significantly from the previous year with the introduction of three new themes, with separate Key Lines of Enquiry for each, effectively raising the bar. The Committee noted the EDFISP's view that the Council's overall rating of '3' (performs well) for the new Use of Resources assessment was a reasonable one and was encouraged that the key areas of Risk Management and Internal Control and Governance had each received the top level score of '4'. The individual scorings were:

Element	KLOE score	Theme score
1. Managing Finances		3
1.1 Financial Planning	4	
1.2 Understanding Costs and achieving efficiencies	3	
1.3 Financial Reporting	3	
2. Governing the Business		4
2.1 Commissioning and procurement	4	
2.2 Data quality and use of information	3	
2.3 Good governance	4	
2.4 Risk management and internal control	4	
3. Managing Resources		3
3.1 Use of natural resources	3	
3.2 Strategic asset management	3	
3.3 Workforce Planning (to be assessed in 2010)		
OVERALL SCORE		3

2.12 The Committee received assurance from a report on the 2009 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 was encouraged that the in-house developed interactive e-learning tool for fraud awareness had been completed by over 700 members of staff during the year.

2.13 The Committee received regular reports during the year on the Council's anti-fraud activity and noted the number of detections arising from both

in-house exercises and the Audit Commission's National Fraud Initiative (NFI) and the level of publicity given to the associated outcomes. The Committee welcomed the focus of anti-fraud resources on tenancy fraud issues and the close working with the Tenant Management Organisation and other Registered Social Landlords operating in the Royal Borough. It noted the work of the Scrutiny Sub Committee on Tenancy Fraud and the work of Internal Audit as part of that Sub Committee. The Committee also noted the close working between Internal Audit and the Audit Commission to facilitate the extension of future national fraud exercises into additional Housing related areas, such as the Housing Register.

2.14 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 specifically requested follow up presentations from Cabinet members and/or senior management on the following areas of concern:

- Data Management, in particular email retention;
- Contract management controls at St. Quintin's;
- Failure to upgrade TMO's Academy system;
- Control weaknesses at a Primary School;
- The apparent leniency in not fully pursuing disciplinary proceedings in all alleged fraud cases;
- Members' Expenses;
- Preparedness for implementing International Financial Reporting Standards;
- Agency Staff engagement;
- Criminal Records Bureau checks in Family & Children Services;
- Letstart; and
- Adult Social Care – Client Affairs.

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 to implement agreed recommendations.

2.15 The Committee is required under its terms of reference to approve the Council's 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.

2.16 The Committee also received the report on the accounts for 2008/09 from the External Auditor. No concerns arose from the financial statements or from the audit which needed to be brought to the attention of the Committee although the Committee noted that the accounts could not be formally signed off until outstanding objections to the accounts had been

closed. The Committee was reassured by the External Auditor that the outstanding issues would not materially affect the accounts.

- 2.17 The Committee continued to receive quarterly reports on the Council's Treasury Management activity and specifically requested quarterly updates on the implementation of the International Financial Reporting Standards and their impact on the Council's Accounts.

3. SELF ASSESSMENT

- 3.1 Over recent years members of the Committee have undertaken an annual self assessment of the Audit Committee's performance. These assessments have continued to indicate that the Committee is strong and influential with clear terms of reference and a clear focus on its objectives and responsibilities, and 2009/10 was no exception, summary survey results are attached at Appendix 2. The survey responses indicate a need amongst the Committee members for an element of background training and briefings from Senior Management. I have therefore asked officers to consider how this might be provided for Committee members.
- 3.2 For 2009/10 it was agreed that the views of third parties would be considered and as a result a survey was undertaken of those officers called to the Committee during the year. Summary results of the survey, at Appendix 3, indicate that generally senior officers are appreciative of the role and challenge offered by the Audit Committee. However, one response raised the concern that where the subject under review has specific technical challenges, Committee members are not sufficiently familiar with operational details to offer meaningful challenge. I have asked officers to consider how this might be addressed. It would perhaps be useful to emphasise to the officers and members asked to appear before the Committee the importance of ensuring that their appearance is accompanied by clear and lucid background papers which will allow the committee to be better informed and therefore able to offer more constructive scrutiny.

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 three very professional independent members who between them share extensive experience of the public and financial services sectors and of risk management. Mr Luder's appointment as Mayor of the City of London for 2009 meant he had to step down from the Committee in September 2008 but returned in January 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 FOR 2009/10
June 2010

Audit Committee

Terms of Reference

The purpose of the Audit Committee is to provide independent assurance on the Corporate Governance Arrangements, the adequacy of the risk management framework and the associated control environment, independent scrutiny of the authority's financial and non-financial performance to the extent that that it affects the authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

(a) Membership

(i) Four Councillors (three majority party, one minority party) including the Chairman of the Committee, who will not be a member of the Executive. The Chairman of the Audit Committee will have a significant and relevant financial background. Membership of the Committee shall include a maximum of three independent non-voting members who will be co-optees.

(ii) It is expected that the Executive Director of Finance, Information Systems and Property and the Head of Internal Audit and Risk Management will attend each meeting. Other Council officers may be required to attend for all or part of the meeting, at the request of the Chairman

(iii) The External Auditors will attend at least one meeting each year and External Audit will have right of access to the Chairman at any time. The Committee shall have the right to meet in private with the External Auditor and the Audit Commissions Relationship Manager at least once a year if it wishes. On an annual basis External Audit will present the Audit Plan, the ISA260 (the international standard currently reported as part of the External Audit reporting requirements) and the Annual Audit and Inspection Letter to Committee.

(b) Quorum

The quorum necessary for the transaction of business shall be two Councillor members for voting purposes and two members, including co-opted members, for other matters.

(c) Frequency of Meetings

The Committee shall meet at least four times a year at appropriate times in the reporting and financial cycle.

(d) Terms of Reference

The Terms of Reference and the effectiveness of the Audit Committee will be reviewed on an annual basis.

The Committee shall report annually to the Council. The Chairman or Vice-Chairman of the Audit Committee is entitled to speak at meetings of the full Council during the presentation of the committee's annual report.

To exercise the following functions:

Audit Activity

1. To review, comment and approve (but not direct) Internal Audit's strategy, plans and resources.
2. To receive Internal Audit progress reports on a quarterly basis summarising the audit reports issued and performance of the Internal Audit function.
3. To receive the Head of Internal Audit's annual report and opinion and the level of assurance given over the Council's corporate governance arrangements.
4. To consider reports from Internal Audit on the implementation of agreed recommendations where management have failed to undertake the necessary actions within the planned audit time frame.
5. To consider the External Auditor's annual Plan, relevant reports, and reports to those charged with governance. To review and comment on external inspection reports.
6. To consider specific reports as agreed with the External Auditor.
7. To discuss and comment on the assessment of risks identified by External Audit and the associated impact on the audit fee, audit risk assessment and the scope and depth of External Audit work and to ensure it provides value for money.
8. To liaise with the Audit Commission over the appointment of the Council's External Auditor.
9. To receive an annual report on the External Audit process.
10. To make recommendations to the Cabinet Member for Finance and Property on the Council's audit arrangements.
11. To commission work from Internal and External Audit.
12. To receive reports on internal or external fraud investigated by the Council.
13. To scrutinise the Council's treasury management activities and monitor compliance with strategies and procedures

Regulatory and Control Framework

14. To maintain an overview of the Council's constitution in respect of audit procedure rules, contract procedure rules, and financial regulations.
15. To review any issue referred to it by the Town Clerk and Chief Executive, or any Council body.

16. To monitor the effective development and operation of risk management in the Council.

17. To monitor Council policies on 'Raising Concerns at Work' and the anti-fraud and corruption strategy.

18. To review the Council's Annual Governance Statement and supporting documentation.

19. To consider the Council's arrangements for corporate governance.

Accounts

20. To approve the Council's Annual Statement of Accounts, to consider whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Executive.

21. To consider the External Auditor's report to those charged with governance on issues arising from the audit of the accounts.

22. To consider the Audit Commission's annual Audit and Inspection

AUDIT COMMITTEE SELF ASSESSMENT SURVEY - MAY 2010

Appendix 2

1. GENERAL OVERVIEW OF AUDIT COMMITTEE ARRANGEMENTS

Statement	Strongly Agree (1) %	Agree (1a) %	Partly Agree (2) %	Neither agree nor disagree (3) %	Partly Disagree (4) %	Disagree (5) %
1). The Audit Committee is comprised of members with the right mix of skills and experience.	50	50		0	0	0
2). The Terms of Reference of the Audit Committee are clear and up to date.	50	17	17	16	0	0
3). The Committee understands its role in respect of risk management and internal control.	83	17	0	0	0	0
4). Audit Committee papers are relevant and timely.	83		17	0	0	0
5). Audit Committee members attend and actively engage.	100			0	0	0
6). The Audit Committee is effective in challenging the Council to improve in areas where failings have been identified.	67		33	0	0	0
7). The Audit Committee actively engages with external audit.	17	16	67	0	0	0
8). The Audit Committee responds positively and constructively to bad news to encourage future transparency.	67	16		17	0	0
9). The Audit Committee understands the interaction between various sources of assurance available to it.	0	17	83	0	0	0
10). The number and length of meetings are sufficient for the Committee to discharge its duties.	67	16	17	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.	33	17	50	0	0	0
13). The Audit Committee has a good understanding of the key financial issues, critical accounting policies and complex transactions.	33		67	0	0	0

2. INDIVIDUAL VIEW ON THE AUDIT COMMITTEE ARRANGEMENTS

Comment	Strongly Agree (1) %	Agree (1a) %	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	17	16	33	17	17
I have a clear understanding of local government finance, including Council Tax, grant systems and regulations generally	67		17		16	
I would welcome the opportunity to receive specific training on local government finance and regulation either directly or through attending new members' induction courses *	17	17	50			16
I believe the Audit Committee is challenging and effective.	83		17	0	0	0
I would welcome more training on risk management.	0	16	17	50	0	17
I would welcome more training on financial accounting management.	0		33	17	17	33
I have sufficient time and commitment to fulfil my responsibilities	50	17	33	0	0	0
I am confident that questions raised by the Audit Committee will be answered honestly.	83		17	0	0	0
I believe the Audit Committee is constantly improving as a challenge mechanism.	50	16	17	0	17	0
I believe the Audit Committee acts as an independent source of assurance.	83		17	0	0	0

Added comments and suggestions for improvement:

Comments:

1. I would welcome the opportunity to receive specific training on local government finance and regulation either directly or through attending new members' induction course. (Ind.)
2. Some supplementary training on financial accounting management and Risk Management in the context of the new IFRS would be useful.(Ind.)

3. It would be useful to understand appropriate channels and times to interact with the external auditors and the impact (cost) on the Council of doing so. (Ind.)
4. 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. (Ind.)
5. As a co-optee it would be helpful to be invited to that part of the new members' training where they are advised of the place and role of the Audit Committee. (Ind.)
6. It would also be helpful to receive an annual briefing on the Council's overall objectives.(Ind.)
7. An annual paper, for discussion, indicating concerns of Government and the Audit Commission regarding LG accounting and performance, and any proposed legislation. Also the effects of recently introduced legislation. (Cllr)

AUDIT COMMITTEE ASSESSMENT SURVEY

Appendix 3

Senior Officer Questionnaire

	Strongly Agree	Partly Agree	Neither agree nor disagree	Partly Disagree	Strongly Disagree
The Audit Committee demonstrated effectiveness in challenging the Council to improve in areas where failings have been identified.	60			40	
The calling of senior officers to the Audit Committee to explain progress on significant control failings is both appropriate and proportionate.	80			20	
The Audit Committee fully appreciated the strategic and operational issues in relation to the area under discussion.	60			20	20
The issues and questions raised by Committee members were pertinent, fair and proportionate.	40	20		40	
The work of the Audit Committee has had a direct impact on the way my area of responsibility operates in relation to risk management and internal control.	40	40			20
The Audit Committee focused on the right questions and was effective in avoiding minutiae.	20	60x			20

Add any comments, observations or suggestions for improvement to the way the Audit Committee operates or interacts with Senior Officers:

1. I always feel as though I have been challenged robustly by the members of the committee when attending to present a report to them.
2. The independent members add an additional ingredient to questioning of officers at meetings as they have a complete outsider's view on the matters under consideration.
3. The committee members demonstrate excellent preparation prior to the meetings and are demanding in their questioning. I think it works very well.
4. I felt there was a complete lack of understanding or willingness to understand the complexity of the matter under discussion.