

THE ROYAL BOROUGH OF KENSINGTON AND CHELSEA**MEETING OF THE COUNCIL - 12 OCTOBER 2011****REPORT BY THE CHAIRMAN OF THE AUDIT COMMITTEE
ANNUAL REPORT 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 forms an integral part. The committee is comprised of both councillors and independent 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 2010/11. The Committee's current Terms of Reference are attached at Appendix 1.

2. AUDIT COMMITTEE ACTIVITY 2010/11

- 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 Paul Warrick	Chairman
Cllr Quentin Marshall	Vice Chairman
Cllr Todd Foreman	Member
Cllr Joanna Gardner	Member
Mr Andrew Ling	Independent Member
Ms Lorraine Mohammed	Independent member
Mr Ian Luder CBE	Independent member

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

22 June 2010
14 September 2010
5 January 2011
23 March 2011

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 In June 2010 the Committee reviewed the 2010/11 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 had been taken in account. The Committee was also satisfied that the Plan provided sufficient flexibility to enable the team to react to requests for ad hoc consultancy work.

2.6 The Committee noted the decrease in the 2011/12 audit plan days due to reductions in the section's staff budgets in 2011/12 and sought assurance from the Head of Internal Audit that the reductions would not impinge on her ability to deliver the plan, nor lead to a failure to provide overall assurance on the Council's systems of control. The Head of Internal Audit was able to provide this assurance but indicated that further cuts were expected in 2012/13. The Committee agreed to monitor this situation going forward to ensure adequate resources are available to maintain a robust Internal Audit and Anti-fraud function.

2.7 The Committee also noted that officers were at the initial stages of discussing the arrangements for delivering an appropriate level of joint assurance on areas where services were to be shared under Tri-Borough arrangements.

2.8 In relation to its principal role in providing the Council with 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. In June 2010 the Committee received a report from the Head of Internal Audit regarding the Council's Corporate Governance arrangements and noted the Satisfactory Assurance provided as a result of the review. At the same meeting the Committee also gained assurance from individual assurance statements and governance reports received from each of the Executive Directors for 2009/10, along with a draft copy of the Council's Annual

Governance Statement which concluded satisfactory arrangements were in place during the year.

- 2.9 The Head of Internal Audit presented an annual report to the June 2010 Committee on Internal Audit's work and the Council's internal control arrangements. The report confirmed that the 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 audits 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 During the year the Committee continued to receive reports on the progress against the Audit Plan and the associated outcomes from individual audits undertaken. The reports provided continued assurance to the Committee that a satisfactory level of internal control is being maintained across the Council's key systems. The Committee requested that when audit reviews concluded that there was only "Limited" or "No" assurance that the Committee be provided with fuller detail in the progress reports to enable members to determine why that conclusion had been reached.
- 2.11 The Committee gained additional assurance on the control environment from the independent peer review of Internal Audit's effectiveness undertaken in 2010 by the London Borough of Enfield. The review concluded that the Council's arrangements were satisfactory and fully compliant with CIPFA's Code of Practice for Internal Audit.
- 2.12 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 reports or presentations from senior management on key areas of concern or risks:
- Adult Social Care - Client Affairs;
 - SEN Transport;
 - NNDR write-offs in Liquidation cases;
 - Preparedness for major incidences such as Flu Pandemic;
 - High Priority Corporate Risks;
 - Loss of funding from Key Partners (Housing, Health and Adult Social Care)
 - Risk from failure of major programme or project.

The Committee was satisfied that officers had in place or were implementing, appropriate controls in these areas.

- 2.13 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.
- 2.14 In relation to the Council's risk management framework the Committee received a report from Internal Audit on the Council's arrangements. The report confirmed that the arrangements continued to reflect best practice and were compliant with the new International Standards Organisation's standard on Enterprise Risk Management as codified in ERM SO 31000. The Committee also received regular reports during the year on the risk management framework including a report on the management arrangements for the key corporate risks.
- 2.15 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 continued focus of anti-fraud resources on tenancy fraud issues and the close working with the Tenant Management Organisation and other Registered Housing Providers operating in the Royal Borough. It noted the specific grant funding from the Government to support the Council's joint working arrangements in 2010/11 with housing providers in the key area of unlawful sub-letting.
- 2.16 The Committee approved the procurement of specialist audit services from April 2011 through the London Borough of Croydon's Framework Contract as it represented the most flexible and economic option. The Committee accepted that the likelihood of challenge regarding the Framework contract and the associated risk were minimal.

Statement of Accounts

- 2.17 The Committee is required, under its terms of reference, to recommend for approval 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 from officers on the Statement of Accounts for 2009/10 during the year.
- 2.18 The Council's External Auditor, the Audit Commission, attended the September 2010 Committee to present his draft Annual Governance report for 2009/10. The Committee noted that the District Auditor was minded to issue an unqualified opinion on both the Council's

Statement of Accounts and the Pension Fund Statement of Accounts. It noted the various adjustments made to the accounts as a result of the Audit and the ongoing disagreement over the valuation of assets relating to the Holland Park School (HPS) site. The Committee concurred with the officers' reasons for not adjusting the accounts at that stage. The Committee also requested that schools be reminded of their responsibility to provide full information as part of the year-end process. The Committee also noted the issues raised in respect of the production of the Pension Fund statements and requested that Internal Audit include a specific review in this area as part of their work to ensure full compliance in 2010/11.

- 2.19 In January 2011 the Committee received the District Auditor's Annual Audit Letter in relation to the Audit of the 2009/10 accounts. No further concerns arose from the financial statements or from the audit which needed to be brought to the attention of the Committee. The Committee noted that the Council's accounts and Pension Fund had both received unqualified opinions in September 2010. The Committee sought assurances that the Pension Fund's relative underperformance against the agreed benchmark was being addressed which the Executive Director was able to provide. The Committee also noted that officers were seeking independent advice over the disputed treatment of the asset valuation in relation to the Holland Park School site sale in the 2009/10 accounts.
- 2.20 The Committee was pleased to note that following the completion of a review by the former District Auditor, resulting from a formal objection to aspects of expenditure, the 2008/09 accounts were finally signed off.
- 2.21 The Committee was reassured by the District Auditor's statement that he had found the implementation of IFRS to be progressing well in 2009/10 and that he also considered the Council were approaching the forthcoming budget cuts in an appropriate manner.
- 2.22 The Committee received a separate report from the External Auditors in relation to a review of Members Expenses. The review arose following representations made to the Audit Commission by members of the public regarding issues in this particular area of expenditure. The Committee was satisfied that the issue was minor in terms of the statement of accounts and that agreed actions from the report were appropriate and either had been or were in the process of being implemented.
- 2.23 The Committee was aware of the Government's proposed abolition of the Audit Commission and during the year received reports and advice from officers updating on the progression of these proposals.

The Committee remains mindful of the need for a controlled migration from one system of external audit to another and of their role in that process.

- 2.24 The Committee continued to receive quarterly reports on the Council's Treasury Management activity and on the progress in implementing 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. The survey of Committee members for 2010/11 continued to indicate that the Committee is strong and influential with clear terms of reference and a clear focus on its objectives and responsibilities. Summary survey results are attached at Appendix 2. The survey responses indicate a perceived 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 As part of the review the opinions of third parties were also considered. The results from the 2010/11 survey of officers who presented to the Committee during the year confirm that they remain appreciative of the role and challenge offered by the Audit Committee. The summary results of the survey are included at Appendix 3.

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 professional independent members who between them share extensive experience of the public and financial services sectors and of risk management and I would like to record my appreciation of their support and that of my fellow Councillors during what has been another busy year for the Committee.

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. Mindful of the

Government's proposals around the abolition of the Standards Board for England apparatus and the proposed changes in public sector audit the Committee will want to ensure that any changes in responsibilities for the Council and particularly the Committee are managed effectively.

- 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, particularly in response to the significant budget cuts and Tri-Borough Working proposals. The Committee will continue to review the compliance with recommendations raised to ensure a strong corporate governance framework is in operation and ensure that Cabinet and other relevant Members are brought to account where standards in any area are considered to be inadequate.

6. RECOMMENDATION

- 6.1 That the report be received by Council for information.

COUNCILLOR PAUL WARRICK
CHAIRMAN OF THE AUDIT COMMITTEE FOR 2010/11
June 2011

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 members 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 compliant governance report, (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 2011

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.	20	80	0	0	0	0
2). The Terms of Reference of the Audit Committee are clear and up to date.	0	100	0	0	0	0
3). The Committee understands its role in respect of risk management and internal control.	0	100	0	0	0	0
4). Audit Committee papers are relevant and timely.	0	80	20	0	0	0
5). Audit Committee members attend and actively engage.	60	40	0	0	0	0
6). The Audit Committee is effective in challenging the Council to improve in areas where failings have been identified.	0	100	0	0	0	0
7). The Audit Committee actively engages with external audit.	20	80	0	0	0	0
8). The Audit Committee responds positively and constructively to bad news to encourage future transparency.	20	80	0	0	0	0
9). The Audit Committee understands the interaction between various sources of assurance available to it.	20	80	0	0	0	0
10). The number and length of meetings are sufficient for the Committee to discharge its duties.	0	100	0	0	0	0
11). The Audit Committee is confident in requesting Senior Officers/Members to attend to respond on issues as appropriate.	80	20	0	0	0	0
12). The Audit Committee focuses on the right questions and is effective in avoiding minutiae.	0	100	0	0	0	0
13). The Audit Committee has a good understanding of the key	0	80	20	0	0	0

financial issues, critical accounting policies and complex transactions.						
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2. INDIVIDUAL VIEW ON THE AUDIT COMMITTEE ARRANGEMENTS

Comment	Strongly Agree (1) %	Agree (1a) %	Partly Agree (2) %	Partly Disagree (3) %	Disagree (4) %	Strongly Disagree (5) %
I would welcome more training in respect of the responsibilities of the Audit Committee	0	40	20	20	20	0
I have a clear understanding of local government finance, including Council Tax, grant systems and regulations generally	0	60	40	0	0	0
I would welcome the opportunity to receive specific training on local government finance and regulation either directly or through attending new members' induction courses *	20	40	40	0	0	0
I believe the Audit Committee is challenging and effective.	20	80	0	0	0	0
I would welcome more training on risk management.	0	20	60	20	0	0
I would welcome more training on financial accounting management.	0	40	20	20	20	0
I have sufficient time and commitment to fulfil my responsibilities	40	60	0	0	0	0
I am confident that questions raised by the Audit Committee will be answered honestly.	20	80	0	0	0	0
I believe the Audit Committee is constantly improving as a challenge mechanism.	20	80	0	0	0	0
I believe the Audit Committee acts as an independent source of assurance.	100	0	0	0	0	0

Added comments and suggestions for improvement:

Comments:

1. Councillors have a better understanding of the Royal Borough and pertinent issues which it is difficult to obtain as a co-opted member. A programme of briefing for the co-opted members would be useful (Ind.)
2. While I have good knowledge of financial accounting management, training that is Local Government specific e.g. Pensions Fund and other LG specific systems would be useful to enhance the challenge process. (Ind.)
3. I wonder if the June meeting to approve the draft accounts could be a separate meeting to avoid a too lengthy meeting. (Ind.)

AUDIT COMMITTEE ASSESSMENT SURVEY

Appendix 3

Senior Officer Questionnaire

	Strongly Agree (%)	Agree (%)	Partly Agree (%)	Partly Disagree (%)	Disagree (%)	Strongly Disagree (%)
The Audit Committee demonstrated effectiveness in challenging the Council to improve in areas where failings have been identified.	0	36	64	0	0	0
The calling of senior officers to the Audit Committee to explain progress on significant control failings is both appropriate and proportionate.	14	86	0	0	0	0
The Audit Committee fully appreciated the strategic and operational issues in relation to the area under discussion.	0	58	42	0	0	0
The issues and questions raised by Committee members were pertinent, fair and proportionate.	0	86	14	0	0	0
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.	0	43	43	0	14	0
The Audit Committee focused on the right questions and was effective in avoiding minutiae.	0	58	28	14	0	0

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

1. Having attended the Audit Committee for the first time I was personally impressed by the degree of engagement by the Committee's members (in relation to Annual Accounts);
2. I thought the level of engagement of the Committee members on the subject was OK, though I don't think it added a great deal to the Council's current approach.
3. I was very happy with the interest the Audit Committee took in the subject matter. Their politeness and intuition helped me to present the case sensibly.