

Leicester
City Council

WARDS AFFECTED:
ALL

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

Council

24th January 2013

Annual Report of the Audit & Risk Committee to Council for the financial year 2011-12

Report of the Director of Finance

1 PURPOSE OF REPORT

- 1.1 To present to the Council the annual report of the Audit and Risk Committee setting out what the Committee has achieved over the financial year 2011-12.
- 1.2 There is no specific requirement for such a report. However, best practice is for the Audit and Risk Committee to be able to demonstrate its effectiveness in overseeing the City Council's control environment and this is reflected in the Committee's terms of reference. This report was approved by the Committee at its meeting on 4th December 2012.

2 RECOMMENDATIONS

- 2.1 The Council is recommended to receive this report.

3 SUMMARY

- 3.1 The Audit and Risk Committee has considered a wide range of business in fulfilment of its central role as part of the Council's system of corporate governance and internal audit and control. It has conducted its business in an appropriate manner through a programme of meetings and has fulfilled the expectations placed upon it.

4 REPORT

- 4.1 During the year under review, the Committee's terms of reference were reviewed to ensure compliance with best practice. Changes were minor (reflecting the fact that they were substantially re-written in 2010) and primarily these reflected the impact on the Committee of the change to a Mayoral system of governance. The changes were agreed by the Committee on 13th July 2011 and the Council on 15th September 2011.

- 4.2 The Committee is well established and is making an important contribution to the effectiveness of the City Council's internal control and corporate governance frameworks and is a central component of the Council's system of internal audit.

Achievements of the Committee

- 4.3 During the financial year 2011-12, the Committee met on six occasions, their agreed schedule of meetings is for at least three meetings a year.
- 4.4 Attached at Appendix 1 is a summary of the Committee's work for the period under review.
- 4.5 Key outcomes from the Committee's work:

The role of the Committee

- The Committee has continued to keep its own terms of reference under review to ensure compliance with best practice.
- Members received briefings on a number of relevant topics, including the characteristics of an effective audit committee. The intention was to help them discharge this important function.

Internal Audit

- The Committee considered the Internal Audit plan and monitored its delivery and outcomes during the year. The Committee requested the attendance of officers to discuss in more depth specific issues raised by Internal Audit reports. This has helped to maintain the profile of the Committee and its role in promoting adherence to procedures and improved internal control. The Committee received regular updates on the abortive project to develop a shared internal audit service with the County Council.

Fraud

- The Committee maintained an effective overview of the Council's measures to combat fraud and financial irregularity. Specifically, the Committee:
 - Considered and approved the Council's Anti-Fraud, Bribery and Corruption Policy and Strategy, including specific reference of the requirements of the Bribery Act 2010, plus other measures to manage the risk of fraud
 - Considered the annual counter-fraud report, which brought together the various strands of counter-fraud work in 2011-12 with examples of the types of work carried out by the teams involved
 - Considered specific investigation matters and their implications for the Council's whistle-blowing (public interest disclosure) policy.

External audit

- The Committee considered the external auditor's plans and progress and the outcomes of this work. The Committee participated in the

government's consultation on the new external audit arrangements for local authorities.

Risk Management

- The Committee confirmed the Corporate Business Continuity Management and Risk Management Strategies and maintained a regular overview of the risk management arrangements including the Council's Strategic and Operational risk registers and the insurance Loss Reduction Fund.

Corporate Governance

- The Committee fulfils the responsibilities of 'those charged with governance' for the purposes of the City Council's compliance with the *CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*.
- The Committee maintained its oversight of the Council's corporate governance arrangements. These include the Council's assurance framework, which was approved by the Committee to include changes reflecting the importance of information assurance plus the role of the City Mayor. The Committee considered the annual corporate governance report and approved the draft Annual Governance Statement.
- This annual report to Council is also part of the governance arrangements, through giving a summary of the Committee's work and contribution to the good governance of the City Council and demonstrating the associated accountability.

Financial reporting

- The Committee received and approved the Council's statutory Statement of Accounts for 2010-11 and associated external audit reports. It approved the Council's letter of representation, by means of which the City Council gives assurance to the external auditor; there were no significant items that were not reflected in the Council's accounting statements.

Effectiveness of Committee's work

- 4.6 One of the core objectives of the Committee is to support the Council's corporate governance responsibilities in relation to internal control. Table 1 and the accompanying graph demonstrate that the proportion of audits where *little or no assurance* was given has decreased in 2011-12, as has the percentage of *partial* and *little or no assurance* combined. The majority of audits resulted in a substantial assurance level, which is reflected in the large proportion of schools audits in 2011-12 giving this assurance level.
- 4.7 The Committee retains the right to 'call to account' officers responsible for those areas where little or no assurance can be given. The Committee has also requested that Internal Audit closely monitor delivery of management's action plan to repair any breakdown in control environment and report their findings back to the Committee at an agreed future date. This has happened

on several occasions during the year in question. In terms of the effectiveness of the Committee the overall trend is positive.

- 4.8 The work of the Committee is also reflected in the 'Annual Governance Report' of the external auditor. In this statement they have confirmed that their audit opinion will be 'unqualified' and that the Council has 'secured economy, efficiency and effectiveness in its use of resources'.

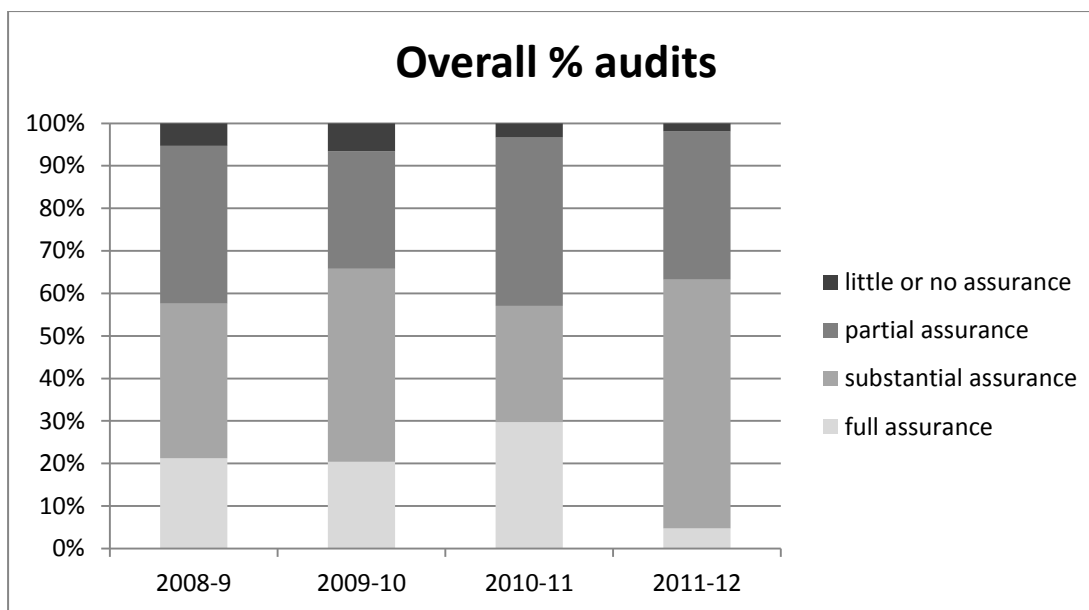
Table 1: Levels of assurance in Internal Audit final reports 2008-9 to 2011-12

	2008-9	2009-10	2010-11	2011-12
Audit reviews (excluding schools)				
full assurance	10	5	9	5
substantial assurance	30	38	29	40
partial assurance	56	42	43	26
little or no assurance	6	2	3	2
not assessed ¹	17	9	11	17
Total	119	96	95	90
Schools (FMSiS)²				
full assurance	22	26	27	
substantial assurance	25	31	2	
partial assurance			1	
little or no assurance	2	8	0	
not assessed			0	
Total	49	65	30	
School (KYB)³				
full assurance			0	0
substantial assurance			2	22
partial assurance			4	11
little or no assurance			1	0
not assessed			0	0
Total			7	33

¹ Some audit work is purely advisory or is based on the accuracy of, for example, grant claims and does not involve an assessment of the strength of controls in the activity in question. No level of assurance is given for these.

² FMSiS (Financial Management Standard in Schools): a process of independent assessment against mandatory national criteria set by the Department for Education. The scheme was abandoned by the DfE late in 2010 and since then Internal Audit has been undertaking KYB school audits (see below).

³ KYB: traditional financial audits of schools using the *Keeping Your Balance* good practice guidance issued jointly by Ofsted and the Audit Commission as a basis.



4.9 The Committee considered at its meeting on 17th June 2012 the annual review of the effectiveness of the system of internal audit, as required by the Accounts and Audit Regulations 2011. This review found that for 2011-12 the Audit and Risk Committee met all of the main indicators of being an effective audit committee as set out by CIPFA⁴. The criteria include:

- Regular meetings
- Sufficient independence of other functions
- Constructive meetings, conducted freely and openly and without political influence
- Properly approved terms of reference with a sufficient spread of responsibilities for internal and external audit, governance and risk management
- Playing a sufficient part in the management of Internal Audit including approval of audit plans, review of Internal Audit performance and the outcomes of audit work plus management's responses to it
- Maintaining a proper overview of the relationship with and the work of the external auditor.

4.10 As in the previous year, the Audit and Risk Committee made further good progress in developing its role and effectiveness in improving the overall control framework of the Council. There were some changes in the membership of the Committee in May 2011, most significantly, a new Chair of the Committee was appointed. However, because of other commitments, she was replaced by a new Chair with effect from the September 2011 meeting. Both of these Chairs demonstrated their commitment to and understanding of the Committee's work.

⁴ Chartered Institute of Public Finance and Accountancy: *Audit Committees: Practical Guidance for Local Authorities*, 2005.

- 4.11 Annual changes in membership are to be expected but can hinder the development of expertise and knowledge acquired by members. As a result, and given the complexities of the Committee's business, meetings of the Committee (since the start of 2011-12) are preceded by a briefing or training session on a particular topic with relevance to that evening's agenda. Overall, during 2011-12, the Committee's membership was such as to ensure that the Committee had a positive effect on the Council's control environment.

Conclusions

- 4.12 It is the view of the Head of Internal Audit and Risk Management and the Director of Finance that during the municipal year 2011-12 the Audit and Risk Committee made a significant contribution to the good governance of the City Council. Through its work, it has reinforced the Council's systems of internal control and internal audit and has given valuable support to the arrangements for corporate governance, legal compliance and the management of risk.
- 4.13 However, there remains a need to support members with relevant training and briefings on the Committee's responsibilities for internal and external audit, risk management and internal control and governance. As this is quite a task and often takes the whole of the year for which Members are appointed to this Committee, it is recommended that this particular Committee would benefit from longevity of membership, extending beyond the normal annual appointment. At the very least, it is recommended that the Chair should be retained or replaced by a previous Committee member to ensure the Committee can be fully effective from its very first meeting of the year.

5 FINANCIAL, LEGAL AND OTHER IMPLICATIONS

5.1 Financial Implications

An adequate and effective Audit and Risk Committee is a central component in the governance and assurance processes intended to help ensure that the Council operates efficiently, cost effectively and with integrity. Its support for the processes of audit and internal control will help the Council as it faces the financially challenging times ahead.

5.2 Legal Implications

The Audit and Risk Committee also aids the fulfilment by the Council of its statutory responsibilities under the Accounts and Audit Regulations 2011 for monitoring the Council's system for internal control. It is an important part of the way the duties of the Director of Finance are met as the responsible financial officer under s151 of the Local Government Act 1972.

5.3 Climate Change Implications

This report does not contain any significant climate change implications and therefore should not have a detrimental effect on the Council's climate change targets.

6 Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph references within supporting information
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Crime and Disorder	Yes	4.5 – references to fraud
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities	No	
Risk Management	Yes	The whole report concerns the audit, risk management and governance process, a main purpose of which is to give assurance to Directors and this Committee that risks are being properly identified and managed appropriately by the business.

7 BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

Minutes of the Audit and Risk Committee 15th June, 13th July, 28th September, 16th November 2011, 8th February, 14th March 2012.

8 CONSULTATIONS

City Barrister and Head of Standards
Corporate Risk Manager (now Head of Internal Audit and Risk Management)

9 REPORT AUTHOR

Steve Jones, Audit Manager, Internal Audit, Financial Services, extension 29 7447.

Summary of work of the Audit and Risk Committee – financial year 2011-12

Theme	Activity	Outcomes
Internal Audit planning and performance	Internal Audit progress monitoring	Regular reports on the progress made in delivering the Internal Audit plan.
	Annual Internal Audit Report 2010-11	Annual review of Internal Audit service delivery and performance.
	Proposal for a shared Internal Audit service with the County Council	Updating the Committee on developments in this significant proposal for the future provision of the internal audit service. (Note, however, that the shared service project was subsequently abandoned, in March 2012.)
	Annual Internal Audit Plan 2012-13	Consultation to seek the Committee's views on the programme of Internal Audit work for the next financial year, 2011-12, and approval of the plan.
Fraud and irregularity (prevention, detection, investigation)	Counter-Fraud Annual Report 2010-11	Annual review of the Council's counter-fraud activity, comprising the Corporate Counter-fraud team, the Revenues and Benefits investigation team and Trading Standards, including service delivery and performance.
	Consideration of 'top ten risks' of fraud (CLG guidance)	Review of the CLG's 'top ten risks' (actually concerns rather than risks) of fraud and the Council's performance against the associated best practice.
	Update on the National Fraud Initiative (NFI)	Update on progress in investigation of potential fraud as identified through the NFI data provided by the Audit Commission.
	Review of the Anti-Fraud, Bribery and Corruption Policy and Strategy	Approval of update policy and strategy, with specific reference to the Bribery Act 2010 and consideration of the Council's whistle-blowing (disclosure) policy.
	Preventing and Detecting Housing Benefit and Tenancy Fraud	Consideration of arrangements to prevent and detect housing fraud such as illegal sub-letting of Council houses plus the arrangements for reporting housing benefit fraud.
	Consideration in private session of specific investigation matters	Consideration of individual investigations matters including the control mechanisms in place and associated policies including the Council's whistle-blowing (disclosure) policy.
External Audit planning and performance	Relationship between the Committee and the external auditor	Consideration of and training for Members on the Committee's relationship with the external auditor, with particular reference to the Committee's designation as 'those charged with governance' for the Council.
	External Audit Planning	Approval of the external audit plan for the audit of the 2010-11 accounts.
	External Audit fees for 2011-12	Approval of the external audit fees for 2011-12.
	<i>Future of Local Public Audit consultation</i>	Consideration of and contribution to the Council's response to the government's consultation on the reform of the external audit regime for local authorities.

Summary of work of the Audit and Risk Committee – financial year 2011-12

Theme	Activity	Outcomes
Audit and Inspection Findings	Outcomes from Audit Work (internal and external)	Regular reports setting out the findings from all internal and external audit reports and inspection reports, and progress made in implementing recommendations arising from the reports.
	Annual Audit Letter 2010-11 (external audit)	Consideration of the external auditor's summary report on the external audit of the City Council's accounts and financial performance in 2010-11.
	Certification of Claims and Returns 2010-11 (external audit)	Outcome of external audit work on grant claims and returns.
	Annual Governance Report 2010-11 (external audit)	Consideration of the external auditor's Annual Governance report arising from the external audit of the 2010-11 accounts.
	Summary of Internal Audit Conclusions 2010-11	Omnibus edition of above report covering the last financial year. This also gives Internal Audit's overall opinion on the effectiveness of the City Council's system of internal control.
	Follow-up reports on management action following previous Internal Audit reports: <ul style="list-style-type: none"> De Montfort Hall Passenger Transport services 	Updates from Service Directors on work done to address the findings and recommendations in Internal Audit reports.
Governance	Annual Corporate Governance Report	Annual review of the policies and procedures that form the Council's corporate governance framework.
	Assurance Framework	Consideration of the basis for conducting the requisite review of the system of internal control. Updated to take account of City Mayor and to make more specific reference to information assurance alongside the other audit and risk processes.
	Annual Governance Statement and Review of the System of Internal Control	Annual review as required by the Accounts and Audit Regulations. Approval of the Council's statutory Annual Governance Statement prior to formal signature and publication.
	Audit and Risk Committee – Annual Report to Council	Summary of the Committee's work in the previous municipal year.
	Revised terms of reference for the Audit and Risk Committee	Update so as to reflect changes in terminology and to maintain best practice particularly in external audit matters and the monitoring of management action in response to internal audit recommendations.
	Consideration of the involvement of Members in work areas falling within the Committee's remit	Discussion of the involvement of Committee members in Committee-related work and further training of Members in aspects of audit, risk and governance processes.

Summary of work of the Audit and Risk Committee – financial year 2011-12

Theme	Activity	Outcomes
Financial Reporting	Statutory Statement of Accounts 2010-11	Approval of the published financial statements for the previous financial year.
	Letter of Representation for 2010-11 financial statements	Approval of the letter giving assurance to the external auditor that there were no significant items that were not reflected in the accounting statements.
Control Strategies	Risk Management and Insurance Services updates	Regular updates on the identification and management of the Council's strategic and operational risks and associated matters.
	Assurance Framework (also included under Governance, above)	Consideration of the basis for conducting the requisite review of the system of internal control.
	Corporate Business Continuity Management Strategy 2012	Approval of this crucial part of the Council's risk and governance process.
	Corporate Risk Management Strategy 2012	Approval of this crucial part of the Council's risk and governance process.
	Risk Management – Loss Reduction Fund	Approval of this important component of the Council's risk management process.
	Housing Benefits – Risk-Based Verification	Approval of revised approach to Housing Benefit claims as required by the Department of Works and Pensions (DWP) to help safeguard against fraud and error.
Training and Presentations	Briefings or presentations on the Committee's role and responsibilities, its training needs, its relationship with the external auditor, and internal audit planning.	Introduction or refreshers for Members on aspects of the remit of the Committee.