1. SUMMARY

1.1. To provide an overview of the work of the Audit and Governance Committee during the 2015-16 civic year.

2. RECOMMENDATION

2.1. Council is recommended to receive the Audit and Governance Committee’s 2015-16 Annual Report.

3. BACKGROUND

3.1. The Audit and Governance Committee was established to provide independent assurance of the robustness of, and compliance with, the Council’s corporate governance procedures and its financial management and controls and risk management.

3.2. In May 2012 Council delegated to the Audit and Governance Committee its functions relating to the standards regime.

3.3. The Audit and Governance Committee’s composition and role are set out in its terms of reference, in Part 7 of the Council’s Constitution.

4. OVERVIEW

4.1 Constitutional - The Committee has considered in detail amendments to the Constitution before recommending them to Council. The main changes this year have concerned changes to the Finance Procedure Rules and Contract Procedure Rules.

4.2 The new contract procedure rules include a requirement to include a mandatory ten per cent weighting for community benefits in tenders, and to consider the London Living Wage in contracts for both suppliers and the supply chain where appropriate. Other changes reflect good practice and changes in EU regulations. The new financial procedure rules result from the first full revision since 2007 and now reflect the way a modern local authority operates.
4.3 Planning Code of Practice – We have updated the Code to allow for and govern pre-application developer presentations to the Planning Committee, as well as making reference to new planning policies and legislation.

4.4 Internal Control System – The Committee have considered and approved draft Annual Governance Statement. Monitoring of the Treasury Strategy and matters such as contract waivers and procurement continues routinely. In particular:

4.4.1 Audit – The External Auditor has reviewed the Council's accounts and the Pension Fund's business processes: no more than a few minor adjustments were required. The Committee approved the External Audit Plan for 2015-16 and the Internal Audit Plan and Strategy for 2016-17.

4.4.2 The Committee continues to monitor internal audit by proactively following up those instances where Priority 1 recommendations resulting from these have not been implemented. Members have noted the Assistant Director of Finance (Audit, Fraud and Risk)'s opinion for 2014-15 that there is reasonable assurance overall on the adequacy and effectiveness of the Council's controls. However, only limited assurance was placed on the adequacy and effectiveness of the internal controls, governance and risk management arrangements in place for the schools reviewed during the year. The opinion for 2015-16 will be considered at the committee meeting in June 2016.

4.4.3 Internal Control – The Committee has continued its systematic review of the different elements of the Council’s internal control systems. We agreed a counter fraud plan for 2016-17 which reflects the shift towards a strategy that is more indicative and will be varied during the year depending on the types and volumes of potential fraud cases identified.

4.4.4 The Whistleblowing strategy has been revised and updated.

4.4.6 Risk Management – The Committee has kept the risk management strategy and the corporate risk register under review. The effect of the revision of the risk matrix last year places a greater weighting on impact than likelihood can now be seen. The risks identified and managed by the former Ascham Homes are in the process of integration into the Council's risk registers.

4.4.7 Governance in Schools - During 2015-16 the Committee has taken a particular interest in governance in schools. We have noted that 2013-14 that there had been an improvement in internal control and governance in schools but this did not carry forward into 2014-15. The Committee has examined the reasons for this in detail and the support the Council provides, including the new Education Business Support Service, through
school business support managers. We will continue to keep the matter under review.

4.5 Local Government Ombudsman – The Committee has considered the Ombudsman's annual review letter and the number of complaints against the Council that have been upheld continues to reduce. There have been no findings of maladministration. Some complaints against the Council now fall under the jurisdiction of the Housing Ombudsman Service, which the Committee has also noted.

4.7 Financial Management

4.7.1 Treasury Management Strategy – The Committee has agreed a change to the Minimum Revenue Provision (MRP) strategy and the reasonable spread of expenditure over several years so as to match the services provided by the assets acquired throughout their useful life. This is due to changing circumstances including the business rate retention scheme and the potential phasing out of the Revenue Support Grant. The new approach envisages a more prudent, straight-line application of two per cent MRP and a 50 year payback period for debt pre 2008. For debt post-2008 an annuity method over the useful life of the asset will be used.

4.7.2 The proposed change to annuity basis is based on the notion that today’s taxpayers should pay a fair proportion of the use of current assets, and that due to inflation a pound in future is not worth as much as a pound today. We have also agreed the Prudential Indicators which demonstrate that the Council's capital investment plans are affordable, prudent and sustainable.

4.7.3 Revenues and Benefits Verification - The Committee has agreed the use of a risk-based verification policy for benefit claims. It applies different levels of evidence verification to claims and reported changes of circumstances according to the potential risk associated with those claims or reported changes in circumstances.

4.7.4 Accounting Policies – The Committee has agreed changes to the Council’s accounting policies that have been made as a result of changes to the local authority accounting framework for 2015/16. This includes the effect on the Council's accounting policies, and the statutory framework for preparing and reporting local authority financial statements. While these changes are not major, we have noted the future implications of how the value of the Highways Network Asset will be valued, which are likely to be considerable and will be kept under review.

4.8 Members Allowance Scheme - We recommended and Council approved a revised scheme, and asked for a working party to be
established that will carry out a wider review to report back to us next year.

4.9 Shared Services - The Committee has approved further work on the proposal to explore shared internal audit services in east London, which Cabinet subsequently agreed.

5. CONSULTATION
5.1. This is an information report.

6. IMPLICATIONS
6.1. Finance, Value for Money and Risk
6.1.1. The work undertaken by the Audit, Fraud and Risk division may disclose financial malpractice, prevent fraud and inefficiency, and improve the Council’s internal control system, and is a key part of the Council’s improvement strategy. Treasury Management and corporate accounting are key means by which the Council gets the best value out of its assets.

6.2. Legal
6.2.1. The Annual Governance Statement forms part of the annual accounts under The Accounts and Audit Regulations 2011.

6.3. Equalities and Diversity
6.3.1. None.

6.4. Sustainability (including climate change, health, crime and disorder
6.4.1. None.

6.5. Council Infrastructure (e.g. human resources, accommodation or IT issues
6.5.1. None.

Background Information
None.