

<b>REPORT TO THE</b>	<b>AUDIT COMMITTEE</b>
<b>DATE OF MEETING:</b>	<b>10 SEPTEMBER 2014</b>
<b>SUBJECT OF REPORT:</b>	<b>AUDIT COMMITTEE ANNUAL REPORT</b>
<b>TOWN OR PARISH:</b>	<b>NONE</b>
<b>OFFICER/PRESENTING:</b>	<b>COUNCILLOR TONY MOULIN – CHAIRMAN OF THE AUDIT COMMITTEE</b>
<b>KEY DECISION:</b>	<b>NO</b>

## **RECOMMENDATIONS:**

The Audit Committee approves the Annual Report for 2013/14 at Appendix 1 and refers it to full Council.

## **SUMMARY OF REPORT**

The Audit Committee has specific terms of reference given to it from Full Council and as such is required to report back annually to Council on its activities. Appendix 1 is the proposed summary report for approval by the Audit Committee.

### **1. POLICY**

There is no statutory obligation to have an Audit Committee, however they are widely recognised as a core component of effective governance as laid out in best practice from a number of professional bodies. The Audit Committee therefore has a key role in advising the council on the adequacy of its financial governance and other management arrangements for achieving the organisation's objectives.

### **2. DETAILS**

Appendix 1 sets out a report with details a high level summary of the activities of the Committee over its three formal meetings and three workshop meetings. It provides a commentary over key areas of financial and corporate governance and associated assurance activities.

In addition the report highlights a desktop review against best practice and has identified two areas for consideration in relation to its future terms of reference. A separate report has been compiled for the Committee to consider these issues.

### **3. CONSULTATION**

The report has been disseminated to the Chair of the Audit Committee, the committee members themselves and the S151 Officer.

#### **4. FINANCIAL IMPLICATIONS**

There are no direct financial implications in relation to this report.

#### **5. RISK MANAGEMENT**

An effective Audit Committee demonstrates good governance in that democratically elected Members carry out an independent scrutiny role on behalf of the Community. This helps to ensure that the Council is delivering good value to its residents from its services and is managing its key risks appropriately.

#### **6. EQUALITY IMPLICATIONS**

There are no specific equality implications. The elected members serving on the Audit Committee are representative of the council's political balance.

#### **7. CORPORATE IMPLICATIONS**

Good Corporate Governance and Risk Management is the responsibility of all officers and Members of the Council.

#### **8. OPTIONS CONSIDERED**

None.

#### **AUTHORS**

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#### **BACKGROUND PAPERS**

Members requiring further information are requested to refer to the agenda, reports and minutes of the Committee meetings posted on the council's website.

## **APPENDIX 1**

### **AUDIT COMMITTEE**

#### **ANNUAL REPORT TO COUNCIL - 2013/14**

##### **1. INTRODUCTION**

This is the eighth annual report of the Committee since it was established by the Council in July 2006. It covers the work done during the year September 2013 to July 2014.

##### **2. REVIEW OF WORK DONE IN 2013/14**

###### **a. Financial Governance – Annual Accounts**

- i. Following review at its July 2013 workshop and September 2013 meeting the Committee received and recommended on for approval by full Council the Annual Accounts for the year ended 31 March 2013.
- ii. As part of this process the Committee considered the formal governance report for the Council submitted by the external auditors (Grant Thornton) on their audit of the accounts.
- iii. The Council report highlighted some presentational and technical changes to the accounts, none of which had any financial effect on the accounts and there were no proposed changes to the General Fund Balances and Reserves. The auditors also noted that the accounts were presented promptly and that they were supported by good quality working papers.
- v. The Governance reports were therefore noted and the audit of the accounts formally completed.
- vi. In preparation for receiving the 2013/14 accounts in September 2014 the Committee considered that years Annual Accounts in detail at its July 2014 workshop where it invited all members to a session where presentations were made by officers to explain the accounts. The committee expressed its appreciation of the efforts by officers to prepare the accounts by the statutory deadline and explain the complex statements.

###### **b. Financial Governance - External Audit**

- i. This was the first full year for the Council's new external auditor – Grant Thornton – who had been successful in winning a new five year contract as a result of the governments changes to the public audit regime. In addition the primary Engagement Lead from Grant Thornton also changed during the year due to the retirement of the previous post holder.
- ii. The draft local Audit Bill was scrutinised before parliament during the year and finally enacted and as it provides for options on a differing approach to the future appointment and monitoring of external auditors its implications will remain an area of high priority for the Audit Committee.

- iii. Alongside the audit of the accounts for 2012/13 the external auditor also conducted work in relation to concluding a satisfactory VFM opinion for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a broadly satisfactory review of our main grant returns.
- iv. The external auditor also presented their new audit fees for the Council as well as their audit plans for 2013/14. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.

**d. Corporate Governance (Including Risk Management) –**

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review.
- ii. As part of the process there is a review of progress against actions identified in the previous years' statement and two updates were received by the Committee around safeguarding. The Committee had previously expressed concern over the issues raised and as a result took a robust line in trying to obtaining assurance that actions had been implemented.
- iii. In relation to the 2013/14 review, two reports were received to both introduce the Committee to the process and also debate the significant issues in relation to the 2013/14 statement. The committee discussed the proposed 2013/14 item in relation to financial governance arrangements between the CCG and Council in detail and plan to review progress later in 2014.
- iv. During the year the Committee received two reports on the Councils risk management arrangements and future risk management strategy including progress against its own Action Plan. This included a presentation on the risk appetite for significant risks and progress to date on actions. The Corporate Risk Register was updated during the year following a refresh and the Committee expressed a keen interest in being kept up-to-date with future progress against actions.

**e. Corporate Assurance -**

**Internal Audit**

- i. The Committee considered the Service's work plan as well as monitoring its progress during the year. The Committee was satisfied with the balance of the plan in relation to the Council's key corporate risks as well as the mix of its planned projects, unplanned commissions and follow-up of previous reports. It did however express a desire to be involved earlier in the planning process in order to ensure its views were taken fully into account.
- ii. In relation to performance the Committee commended the service on its highest ever performance against the plan with almost 99% of the plan completed as at the end of 2013/14. This benchmarks the team as the highest performer on this specific indicator in the South West.

- iii. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- iv. The committee also received updates on changes to senior management of the audit and assurance functions. The context for these changes were that senior level discussions between Bath & North East Somerset (B&NES) and North Somerset (NSOM) Councils had taken place in early 2013 where it was agreed that there should be a drive towards exploring shared service opportunities between the two Councils.
- v. As part of these early deliberations and consideration of future senior management requirements for both organisations an immediate opportunity was identified in the sphere of Internal Audit, Information Governance & Corporate Assurance.
- vi. An interim role was therefore created of 'Joint Head of Audit & Assurance' and a Divisional Director from B&NES was seconded into the role.
- vii. The scope of the role would be for a single officer to be shared equally across both Councils and take a lead role in managing the functions of Internal Audit & Information Governance within each Council. The single role would be the only officer formally shared and the first 12 months would be used to identify whether there were benefits in extending the arrangements into a more formal partnership or continuing to retain a degree of separation between each organisation.
- viii. Whilst this role was in place, regular contact and meetings were held at a senior board level to explore further opportunities and progress was positive with a number of initiatives now underway.
- ix. At a political level this also led to a formal co-operation agreement for shared services between the two Councils being approved by the B&NES Cabinet and North Somerset Executive in June 2014.
- x. The Committee has been kept apprised of these developments and current progress in relation to joint working on audit and assurance is positive in a range of areas, including –
  - Joint workshops held between the two teams to discuss future ways of working, vision and values;
  - Formal sharing of staff between the two organisations on pilot projects leading to cost savings;
  - Introduction of a single audit management system to control the end-to-end process for all reviews and maximise productivity;
  - Introduction of single templates for audit reports, audit briefs and quality assurance questionnaires;
  - Sharing of audit programmes and knowledge;
  - Ongoing sharing of ideas and opportunities and joint bids for funds.
- xi. The potential to build on these arrangements to achieve further benefits by integrating fully is now being assessed by both Councils in the context of wider sharing opportunities and the requirement to deliver significant savings to the Internal Audit budget.

## **Counter Fraud**

- xii. The Committee considered the annual plan for pro-active work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress.
- xiii. The Committee were pleased to hear of the significant and positive progress in reducing fraud, loss and error in a range of areas including Business Rates and Housing & Council Tax Benefits. The committee commended the officers on their progress and supported further activity.

## **Business Continuity**

- xiv. The Committee considered the annual plan for pro-active work in supporting services to plan appropriately for the ongoing delivery of vital services to the Community in the event of an incident and/or business interruption.
- xv. The Committee commended the officers on their success in mitigating the risks of business critical services failing to deliver services to the community in the event of an incident and supported the pro-active testing detailed in the plan.

## **f. Awareness & Briefings**

- i. Updates and briefings continue to be a strong part of the Committee's approach to raising awareness of key governance issues with members and three workshops were held over a number of areas which included -
  - Annual Accounts
  - Risk Management
  - Public Health
  - Information Governance
  - Welfare Reforms
  - City Region Deal

- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2014/15.

## **g. Review of Terms of Reference**

- i. As part of good practice the Committee had already reviewed itself and its operation in some detail during 2013 and therefore a high level desktop review against CIPFA's best practice model was only considered necessary for this year.
- ii. This review highlighted two specific areas relating to the Approval of the Annual Accounts and scrutiny of Treasury Management arrangements for further consideration. A separate report on these issues has been included for the September Committee meeting.
- iii. In relation to independent support the committee has taken a pro-active approach by allowing for two independent members to be appointed to the committee. During 2012/13 one of these members stepped down from their post and a recruitment process was finally completed in July 2014 with the appointment of Beverley Robertshaw.

### **3. WORK PLAN FOR 2014/15**

- i. Whilst the Committee's work in 2014/15 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
  - a) The future development of the Internal Audit service as it moves to implementing a formal partnership and the impact of these new arrangements;
  - b) The on-going development of the new public audit regime;
  - c) Financial resilience of the organisation through its Accounting and Treasury Management arrangements;
  - d) The planned improvements to governance highlighted in the Annual Governance Statement.

### **4. MEMBERSHIP AND SUPPORT**

- i. Councillor Tony Moulin remained as Chair of the Committee however the Committee's membership did change during the year. For four of the six meetings carried out, Councillor Mike Bell was a member of the committee but was replaced in May 2014 by Councillor Deborah Yamanaka
- ii. In total three formal meetings and three workshops were held during 2013/14 of which four required at least one substitute.
- iii. The Committee is supported by a range of officers, notably the Head of Finance (S151 Officer) and Head of Audit & Assurance as well as the Corporate Accounting Manager and Business Audit Manager.
- ii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.