

# North Somerset Council

<b>REPORT TO THE</b>	<b>AUDIT COMMITTEE</b>
<b>DATE OF MEETING:</b>	<b>7 SEPTEMBER 2016</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 MARY BLATCHFORD – CHAIR OF THE AUDIT COMMITTEE</b>
<b>KEY DECISION:</b>	<b>NO</b>

## **RECOMMENDATIONS:**

The Audit Committee approves the Annual Report for 2015/16 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.

### **3. CONSULTATION**

The report has been disseminated to all the Members of the Audit Committee 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 - 2015/16**

#### **1. INTRODUCTION**

This is the tenth annual report of the Committee since it was established by the Council in July 2006. It covers the work done during the year September 2015 to July 2016.

#### **2. REVIEW OF WORK DONE IN 2015/16**

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

- i. Following review at its workshop and formal meeting in September 2015 the Committee received and recommended on for approval by full Council the Annual Accounts for the year ended 31 March 2015.
- 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 considering and recommending the 2015/16 accounts on for approval the Committee received a briefing from officers in July 2015. 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 – Treasury Management**

- i. Following a review of the committee's terms of reference in 2014/15 it was decided that the Committee should also act as a scrutiny function for the Council's Treasury Management arrangements as recommended by CIPFA.
- ii. The Council received an extensive briefing from its Treasury Management advisors – Arling Close – on the state of the economy, the Council's role and the various mechanisms we can use to maximise financial returns. Managing the level of risk and return also featured heavily alongside the essential role of Members in scrutinising our strategy.
- iii. The Committee then received reports on the outturn of performance for the year 2014/15, an update on performance in year for 2015/16 and the strategy for the year 2016/17. Members expressed their thanks to the officers and advisors on explaining the complexities and technical aspects of Treasury Management and were pleased

to see that the Council was taking a balanced view in how to exploit opportunities in this area to deliver increased value back to the Council.

**c. Financial Governance - External Audit**

- i. Alongside the audit of the accounts for 2014/15 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.
- ii. The external auditor also presented their new audit fees for the Council as well as their audit plans for 2015/16. 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. Whilst there were no significant issues identified the Committee did receive a number of briefings around the financial challenge facing the Council, our plans to meet this challenge and some of the potential risks and impacts.
- iii. During the year the Committee received updates on the Council's Corporate Risk Register. This included a presentation of a simple one page summary of the top ten risks and the Committee then focussed on two areas in more depth to understand progress against actions.
- iv. In that vein the Committee reviewed the current position and key risks around the Transformation Programme and the Council's approach to Procurement at its December meeting and requested updates later in 2016.

**e. Corporate Assurance -**

**Internal Audit**

- i. The Committee received a report on a new approach to the preparation of the Audit Plan – the reasonable assurance model – which looked at eight core themes of an organisation. It was supportive of this new methodology as well as the new style and presentation of the plan which demonstrated the linkages between the Council's priorities and the different elements of the Council's internal control framework.
- ii. 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.
- iii. In relation to performance the Committee commended the service on its performance against the plan with almost 99% of the plan completed as at the end of 2015/16 alongside a number of other key indicators such as customer satisfaction and the level of productivity.

- iv. 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.
- v. Updates were also received around the new 'Audit West' partnership arrangements with the new integrated service formally in operation under a five year contract. All staff have now successfully integrated into a single structure and financial benefits were well in advance of original projections within the original medium term financial plan.
- vi. The potential to now build on these arrangements to achieve further benefits is already being realised with new audit methodologies introduced, significant productivity gains through simplification and use of one single process across partners and increased use of areas such as Data Analytics to maximise the sharing of resources.
- vii. The committee was pleased to see the new arrangements working effectively and remains keen to support further progress so that the partnership continues to deliver value to the Council.

### **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.

### **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 several additional briefings were given this year which included -
  - Role of Audit Committee
  - Role of S151 Officer
  - Internal Audit
  - External Audit
  - Treasury Management
  - Risk Management
  - Annual Accounts
  - Transformation Programme
  - Procurement
- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2016/17.

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

- i. A high level desktop review of the Committee's work against CIPFA's best practice model was undertaken and no significant issues were identified following the change in the previous year with regard to Treasury Management.

### **3. WORK PLAN FOR 2016/17**

- i. Whilst the Committee's work in 2016/17 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
  - a) Financial resilience of the organisation;
  - b) Future contracting arrangements for External Audit;
  - c) Early closure arrangements for the Accounts and its implications;
  - d) Compliance of the organisation with international accounting standards;

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

- i. Councillor Mary Blatchford was the new Chair of the Committee for the year following the May 2015 elections. Further changes to the committee following the elections resulted in Councillor's Marcia Pepperall and Derek Mead also being selected as new members to the Committee.
- ii. The Committee is supported by a range of officers, notably the Head of Finance & Property (S151 Officer), Corporate Accounting Manager and Head of Audit West.
- ii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.