

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	25TH JULY 2019
SUBJECT OF REPORT:	AUDIT COMMITTEE ANNUAL REPORT
TOWN OR PARISH:	NONE
OFFICER/PRESENTING:	COUNCILLOR JOHN CATO – CHAIR OF THE AUDIT COMMITTEE
KEY DECISION:	NO

RECOMMENDATIONS:

The Audit Committee approves the Annual Report for 2018/19 at Appendix 1 and proposes a refreshed terms of reference for approval by full Council at Appendix 2.

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 and Appendix 2 refreshes a revised terms of reference based on CIPFA's Best Practice guide.

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. It provides a commentary over key areas of financial and corporate governance and associated assurance activities. Appendix 2 is a revised set of Terms of Reference based on CIPFA's best practice guide, there are no material changes but they are presented in a different style based on CIPFA's guide.

3. CONSULTATION

The report has been disseminated to the Chair 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.

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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 - 2018/19

1. INTRODUCTION

This is the thirteenth annual report of the Committee since it was established by the Council in July 2006. It covers the work done from September 2018 to July 2019.

2. REVIEW OF WORK DONE IN 2018/19

a. Financial Governance – Annual Accounts

- i As most of the Committee had changed following the elections in May 2019 a briefing session on the role of the Committee, External Audit, Internal Audit and S151 Officer was held including a separate session on the key issues and changes within the Accounts from the previous year. The committee expressed its appreciation of the efforts by officers to prepare the accounts by the statutory deadline and explain the complex statements
- ii. Following review at its formal meeting in July 2019 the Committee received and recommended for approval the Annual Accounts for the year ended 31 March 2019.
- iii. 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.
- iv. The Council report highlighted a range of issues around risks, materiality and triviality and potential impacts on transactions and the accounts including 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 and approved with an unqualified opinion.

b. Financial Governance – Treasury Management

- i. The Committee acts as a scrutiny function for the Council's Treasury Management arrangements as recommended by CIPFA.
- ii. The Committee has previously 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. During the year the Council's S151 Officer and Corporate Accounting Manager updated Members with the latest position with regard to our investments and the state of the economy.
- iii. The Committee formally received reports on the outturn of performance for the year 2018/19 including a mid-year update on performance and the strategy for the year 2019/20. 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 2018/19 which were examined during the last 12 months 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. 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.
- iii. The Committee also received the outcome of the external auditors key grant certification work and were pleased there were no significant issues identified.

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 recognise through the Annual Governance Statement the state of the financial challenge facing the Council and issues affecting senior management capacity during the year with a number of key positions being vacant during this time. The financial pressures were especially prevalent in Children’s Services and the Committee was updated on some of the plans to meet this challenge and the potential risks and impacts.
- iii. During the year the Committee received updates on the Councils key risks. This included a presentation on the overall financial challenge alongside an update of contract management and procurement. The Committee spent time discussing the scale of these risks along with progress against actions.
- iv. The Committee also received a revised Risk Management Strategy and its associated process and procedures setting out the framework for managing risk in the future. The Committee discussed this in detail and commended the efforts of officers in the clarity of the proposed new processes and endorsed the strategy.

e. Corporate Assurance -

Internal Audit & Counter Fraud

- i. The Committee had previously received a report on the new approach to preparing the audit and assurance 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 2019/20 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 reviewed the outcomes of the service against its key performance indicators for 2018/19 notably high risk audits and the impacts of unplanned work and investigations 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. The committee was also pleased to see that the formal independent review of the service against its professional standards resulted in the highest rating and remains keen to support further progress so that the service continues to deliver value to the Council.
- xii. The Committee considered the annual plan for pro-active Counter-Fraud work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress.
- xiii. The Committee had previously heard 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.

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 briefings were given this year through the normal meeting cycle which included -
 - Council's overall financial position and Savings Plan
 - Role of the Committee
 - External Audit
 - Internal Audit
 - Treasury Management
 - Annual Accounts
 - Procurement
- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2019/20.

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 the new Chair of the Committee recommended a refresh to ensure that all elements of CIPFA's advice was taken on board and revised set sent to Council for approval.

3. WORK PLAN FOR 2019/20

- i. As the majority of the Committee has changed since the elections in May 2019 including the Chair, the Committee's work whilst being broadly similar to the year ended will be kept under close review.

4. MEMBERSHIP AND SUPPORT

- i. Councillor John Cato is now the new Chair of the Committee following the elections in 2019 and nearly all the members have changed as a result of the elections in May 2019. The long-standing independent co-opted member Anthony Roche ended his tenure in April 2019 and the make-up of the Committee will be kept under close review during the year.
- ii. The Committee is supported by a range of officers, notably the engagement lead from Audit West, Director of Finance & Property (S151 Officer) and the Corporate Accounting Manager.
- ii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.

Appendix 2 - TERMS OF REFERENCE – AUDIT COMMITTEE

1. Governance

The Audit Committee receives its authority and purpose direct from full Council and is independent of the Executive and Scrutiny functions.

2. Statement of Purpose

- a) The Audit Committee is a key component of the council's corporate governance arrangements. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- b) The purpose of our audit committee is to provide independent assurance to full Council of the adequacy of the risk management framework and the internal control environment. It oversees the financial reporting and supporting governance processes including the work of internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.
- c) To consider and make recommendations of any other matters relating to corporate governance which are properly referred to the Committee or which come to its attention;
- d) To make an annual report to council on the work of the Committee, including (if necessary) any measures necessary to improve the effectiveness of the Committee.

3. Corporate Governance, Risk Management and Internal Control

- a) To oversee the framework of assurance for the review of the council's corporate governance arrangements against its local code of corporate governance;
- b) To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and any supporting assurances including those from significant partnerships;
- c) To monitor the effective development and operation of risk management in the council and monitor progress in addressing risk-related issues where they are reported to the committee.

4. Internal Audit and Fraud

- a) To monitor the counter-fraud strategy, actions and resources;
- b) To approve the internal audit charter;
- c) To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources;
- d) To review significant interim changes to the risk-based internal audit plan and resource requirements;
- e) To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations;
- f) To consider reports from the head of internal audit on internal audit's performance during the year. These will include updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- g) To consider the head of internal audit's annual report including conformance with professional standards and the opinion on the risk and internal control

environment;

- h) To consider summaries of specific internal audit reports where significant weaknesses have been identified and monitor the implementation of agreed actions;
- i) To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable or there are concerns about progress with the implementation of agreed actions;
- j) To contribute to the external quality assessment of internal audit that takes place at least once every five years;
- k) To provide free and unfettered access to the audit committee for the head of audit, including the opportunity for a private meeting with the committee.

5. External Audit

- a) To oversee the appointment process for the External Auditor whether through Public Sector Audit Appointments Ltd (PSAA) or the authority's own auditor panel as appropriate;
- b) To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate;
- c) To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements following receipt of the External Auditor's assessment;
- d) To consider the external auditor's annual letter, relevant reports and the report to those charged with governance;
- e) To consider specific reports as agreed with the external auditor;
- f) To comment on the scope and depth of external audit work and to ensure it gives value for money.

6. Financial Control & Reporting

- a) To review and approve the Council's annual statement of accounts;
- b) Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council;
- c) To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts;
- d) To review and scrutinise the Council's Treasury Management arrangements including its Treasury Management & Investment Strategy and to make recommendations as appropriate;
- e) To review and consider any changes to Accounting policies and procedures that impact on the Council's accounting arrangements;
- f) To review and consider any changes to the Council's Financial Regulations and Contract Standing Orders prior to approval by Council.