

North Somerset Council

REPORT TO THE	AUDIT COMMITTEE
DATE OF MEETING:	19TH NOVEMBER 2020
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 2019/20 at Appendix 1.

1. 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. .

The Committee is requested to consider the Annual Report and recommend its approval by Full Council.

2. 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.

3. 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 including:

- Internal audit
- External audit
- Risk management
- Governance
- Anti-fraud and corruption
- Audit Committee performance

The Annual Report also incorporates the Committee's outline work programme for 2020/21. In noting this work programme, it should be acknowledged that the programme may be changed during the year to accommodate any emerging significant governance, internal control and risk issues.

4. CONSULTATION

Given the nature of the report no consultation and engagement was necessary beyond the interactions there have been with the Committee over the period covered by the report, which have informed the preparation of the Committee's Annual Report. Further, Committee Members will have the opportunity to comment and make suggestions in the meeting before the Annual Report. The report has been disseminated to the Chair and Vice-Chair of the Audit Committee and the S151 Officer.

4.1 BENEFITS FOR CUSTOMERS/ RESIDENTS

The committee's work is based around ensuring the council's systems of control and arrangements for the management of risk are effective. This effectiveness is central to the council achieving its corporate objectives. In addition, a strong control environment and effective risk and governance arrangements enable the council to secure its assets and ensure that they are used in the best interests of customers and residents of the council.

5. FINANCIAL IMPLICATIONS

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

6. LEGAL POWERS AND IMPLICATIONS

There are no direct legal implications from this report which is focussed on a high-level summary of the activities of the Committee.

7. CLIMATE CHANGE AND ENVIRONMENTAL IMPLICATIONS

There are no direct environmental implications from this report which is focussed on a high-level summary of the activities of the Committee.

8. RISK MANAGEMENT

The Audit Committee is tasked with ensuring that there are effective arrangements within the Council for managing significant risks. This responsibility is reflected in the Audit Committee's Terms of Reference. 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.

9. EQUALITY IMPLICATIONS

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

10. CORPORATE IMPLICATIONS

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

11. 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 - 2019/20

1. INTRODUCTION

This is the fourteenth annual report of the Committee since it was established by the Council in July 2006. It covers the work done from August 2019 to July 2020. The purpose of this report is to comply with the Constitution that requires the Full Council to receive a report from the Audit Committee, detailing its activities and effectiveness for the year and the proposed work programme for the following year. The Committee's annual report is one of the means by which the Council is assured that the Committee is carrying out its role effectively.

2. GENERAL APPROACH

The Audit Committee is committed to the principles of openness, effectiveness, and collaboration. The Committee is a key component of the Council's governance framework. Its function is to provide an independent and high-level resource to support good governance and strong public financial management. The purpose of the Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing both internal and external audit activity it makes an important contribution to ensuring that effective assurance arrangements are in place.

To this end, in the last year the Audit Committee has held informal working group meetings for on average two a month over the year, and discussions have given consideration to the following main areas:

- Terms of Reference.
- Internal Audit
- Risk Management
- Internal Control Frameworks
- Council Performance Improvement
- Information Management and Accessibility
- Climate Emergency Governance and Internal Control
- Audit Committee Training
- External Best Practice and Peer Education
- Asset and Treasury Management

And we have:

- Embedded a Terms of Reference rewritten in line with best practice from The Chartered Institute of Public Finance & Accountancy (CIPFA) (See Appendix 2)
- Promoted access to the Audit Committee and to Audit Committee meetings to all members and scrutiny committees
- Maintained dialogue with Audit Committees in other authorities in pursuit of best practice and continuous improvement
- Identified gaps in Audit Committee skills and undertaken training
- Arranged Informal regular meetings with officers, auditors, and executive members to monitor performance
- Held a meeting with Treasury advisors and the Treasury strategy reviewed

- Reviewed the Annual Governance Statement to make it shorter, more readable, and more relevant.
- Identified topics for in depth review for the next year.
- Challenged the way that risks are presented to members to ensure that members are more aware when making decisions and caused action to be initiated on improving the council's Risk Management frameworks.
- Reviewed approach of Internal Audit.
- Made active progress towards influencing Climate Emergency metrics,
- Established peer connections outside of North Somerset Council.

3. REVIEW OF WORK DONE IN 2019/20

a. Financial Governance – Annual Accounts

Due to the COVID lockdown and impact the statutory date for sign off of the Annual Accounts has been delayed. Local authorities must commence the public inspection period on or before the first working day of September 2020.

b. Financial Governance – Treasury Management

- The Committee acts as a scrutiny function for the Council's Treasury Management arrangements as recommended by CIPFA.
- The Committee received a 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.
- The Committee formally received reports on the outturn of performance for the year 2019/20 including a mid-year update on performance and the strategy for the year 2020/21. 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

- 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.
- 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.
- The Committee also received the outcome of the external auditor's 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 was satisfied with the balance of the 2020/21 plan in relation to the Council’s key corporate risks as well as the mix of its planned projects, unplanned commissions including COVID-19 related work, and follow-up of previous reports.
 - ii. In relation to performance the Committee reviewed the outcomes of the service against its key performance indicators for 2019/20 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.
 - 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 received a detailed briefing of the elements of Counter-Fraud work in reducing and eliminating fraud and corruption within the Council’s activities and monitored progress.
 - v. 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. Emergency Governance and Decision Making**

This report provided the Audit Committee with details of the emergency decision making procedure and governance arrangements used during the COVID-19

response phase and proposals for policy development and scrutiny arrangements in the forthcoming period.

g. Covid-19 Risk Register

The report provided details of the Corporate Risk Register maintained by the council's Corporate Management Team to track and manage the key risks associated with the COVID 19 pandemic.

h. Business Support Grant Funding

This report provided a summary to the Audit Committee of work being undertaken across North Somerset Council to deter, prevent and detect fraud relating to COVID19 Business Support Grant Funding.

i. Audit and Assurance Annual Report

This was the closing Internal Audit Annual Report to the Committee for the financial year 2019/ 20. Also included was a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

j. Audit and Assurance Plan

This report described the reasonable assurance model for internal audit and summarised the Audit and Assurance work plan as identified and prioritised by internal audit

k. Internal Audit Charter

Internal Audit is an assurance function that primarily provides an independent and objective opinion to the Council on its control environment. Internal Audit helps the organisation to achieve its objectives through a systematic and disciplined approach to evaluate and improve the effectiveness of governance, risk management and control, processes. Its mission is to enhance and protect organisational value by providing risk based and objective assurance, advice and insight

l. 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
- Fraud Prevention
- Counter-Fraud
- Whistleblowing
- Anti-Money laundering
- Anti-Bribery and corruption
- Risk Management

- Corporate Risk Register
- Local Government Finance
- Impacts of COVID-19 on NSC Finances
- COVID-19 Emergency Governance & Decision-Making arrangements
- COVID-19 Risk register
- Business Support Grant Funding – Anti-Fraud work

ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue in 2020/21.

4. AUDIT COMMITTEE TRAINING

The Chair and Vice-Chair are keen that external formal training for all Audit Committee members is undertaken as a regular annual process.

This last year, some Audit Committee Training has been achieved by an LAQF day by the Chair in London identified by the S151 officer and other free courses identified by Audit Committee members and voluntarily attended, specifically Audit Committee training in Somerset by the Chair and Cllr Hearne, Leadership Essentials on Finance for Exec member portfolio holders and Audit Chairs residential weekend by the Chair, Leadership Essentials for Audit Committee Chairs and Vice-Chairs 2 day residential by the Chair and Vice-Chair.

The committee is looking to find ways to achieve more external training for all committee members in the forthcoming year.

5. WORK PLAN FOR 2020/21

The workplan is kept under review in the informal and formal meetings of the committee and in discussions with the officers and auditors. Subjects for 2020 – 2021 may include:

- i. Further training to develop the skills of the members of the committee
- ii. In depth review of specific areas within the council
- iii. Review of Covid Response by the council
- iv. Changes to Risk presentation in papers to enable members to make fully informed decisions
- v. Investigation of business process improvement
 1. Establishing Green measures in Council Reports

6. COVID IMPLICATIONS FOR FINANCIAL YEAR 20/21

The Financial statements for 19/20 were largely unaffected by the COVID pandemic. The Audit committee is acutely aware that this will not be the case for 20/21 and will be looking to assist the officers to address the issues that COVID has caused, is causing, and will continue to cause.

7. MEMBERSHIP AND SUPPORT

- i. Councillor John Cato is the Chair of the Committee. the Vice Chair is Geoff Richardson, and the other members are Sandra Hearne, Richard Westwood, and Marcia Pepperall. There are currently no independent co-opted members but the committee will actively pursue recruitment of these in 2021. 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.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.
- iv. The Committee is in frequent contact with Audit committees from other authorities to exchange views, methods of working, and ideas.