

North Somerset Council

Report to the Audit Committee

Date of Meeting: 24 November 2022

Subject of Report: Audit Committee Annual Report

Town or Parish: None

**Officer/ Member Presenting:
Councillor John Cato – Chair of the Audit Committee**

Key Decision: No

Recommendations

The Audit Committee approves the Annual Report for 2021/ 22 at Appendix 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.

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 including:

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

The Annual Report also incorporates the Committee's outline programme for 2022/23, as shown in Appendix 2. In noting this work programme, it should be acknowledged that the programme may change during the year to accommodate any emerging significant governance, internal control, or risk issues.

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.

3. Consultation

Prior to its production, this report has been discussed between the Chair and Vice-Chair of the Audit Committee, the S151 Officer, and the Head of Audit and Assurance.

Given the nature of the report, no further consultation and engagement was necessary beyond these interactions and those that there have been with the Committee over the period covered by the report. Committee Members will have the opportunity to comment and make suggestions in the meeting before it is approved.

4. Financial Implications

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

5. 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.

6. 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.

7. 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. The [Performance and Risk Management Framework is available on line by clicking here](#)

8. Equality Implications

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

9. Corporate Implications

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

Members of the Council.

10. 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.

<https://n-somerset.moderngov.co.uk/ieListMeetings.aspx?Committeed=153>

Appendix 1

Audit Committee Annual Report to Council - 2021/22

1. Introduction

This is the sixteenth annual report of the Committee since it was established by the Council in July 2006. It covers the work undertaken from August 2021 to July 2022. 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 regularly over the year to keep abreast of issues which may be of concern to it and to receive appropriate briefings/ updates from officers. Discussions have given consideration to the following main areas:

- Internal Audit
- Internal Control Frameworks
- External Audit
- Council Performance and CMMI culture
- Understanding of the Council's participation in the National Fraud Initiative
- Risk Management and Risk Management Reporting Improvement
- Audit Committee Training
- Significant partnerships governance and assurance; clarity and visibility of their responsibilities, objectives and KPIs
- Requesting clarity and visibility of the organisation chart, roles, responsibilities, objectives and KPIs
- External Best Practice and Peer Education
- Asset and Treasury Management
- Amendments to the Council's Constitution exc. Financial Regulations and CSO's which will be reviewed in future meetings.

And has:

- Promoted access to the Audit Committee and to Audit Committee meetings to all members and scrutiny committees
- Pressed for improvements to resident/customer experience

- Pressed for quarterly Voice of Customer Report
- Developed a workplan ad hoc template agenda for further in year focus on issues
- Maintained dialogue with Audit Committees in other authorities in pursuit of best practice, continuous improvement and to understand lessons learned
- Identified gaps in Audit Committee skills and undertaken training
- The chair has regular informal meetings with officers, auditors, and executive members to monitor performance, including monthly meetings with the Chief Executive and Director of Corporate Services/ S151
- Has noted their concerns about HR - resilience, succession planning, work load, stress, training and continuous improvement.
- Continued challenge on 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.
- Maintained peer connections outside of North Somerset Council.
- Recruited and appointed two skilled independent members of the audit committee

3. **Review of Work Undertaken in 2021/22**

a. Financial Governance – Annual Accounts

Due to the ongoing COVID-19 pandemic, local authorities were required to commence the public inspection period on or before the first working day of August 2021.

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 formally received reports on the outturn of performance for the year 2021/22 including a mid-year update on performance and the strategy for the year 2022/23. Members had concerns about longer term treasury assets, risk monitoring, and control and request further assurance on integrated risk management of these assets at the January 2023 Audit Committee meeting. Members expressed their thanks to the officers and advisors on additional informal work 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 2020/21 which were examined during the last 12 months the external auditor also conducted work in relation to Value for Money for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a Satisfactory review of our main grant returns. The committee is pleased to note that there were no significant findings or recommendations arising from the first Value for Money report.

)(☞ The external auditor also presented 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.

)(X)(☞ The Committee supported the recommended option for the future procurement of External Auditors to the Council by Public Sector Audit Appointments Limited.

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. In terms of significant issues identified, the Committee did recognise through the Annual Governance Statement the state of the financial challenge facing the Council, not least due to the ongoing issues with COVID-19. Additionally, a significant issue has been added to reflect the need to ensure robust governance and transparency of risks to the Councils capital programme.
- iii. During the year the Committee received updates on the Councils key risks. This included a presentation on Corporate Risk Registers. The Committee spent time discussing these and are looking to see further improvements in reporting for members.
- iv. The Committee are pleased to note the Chief Executive, the Director of Corporate Services/ S151 and the Head of Business Insight, Policy and Partnerships have brought a commitment to a standard model dashboard for risk assessment and reporting which is in the process of being implemented.
- v. The Audit Committee expressed continued interest in respect to the governance, transparency, and visibility to Councillors over major projects and will be following progress on this.
- vi. The Committee reviewed and recommended the refresh of the Council's Constitution, including changes to parts of the Financial Regulations and Contract Standing Orders.

e. Corporate Assurance -

Internal Audit & Counter Fraud

- i. The Committee was satisfied with the balance of the 2022/23 forward 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.
- ii. In relation to performance the Committee received quarterly updates on key issues and service performance for 2021/22, notably high-risk audits and the impacts of COVID-19 unplanned work and investigations and follow-up of recommendations made during previous audits.
- iii. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets as well as a continuing theme of staff homeworking, choices on the degree of internal control had to be made and, as per 2020/21 there was a continued heightened level of risk being accepted.

- iv. The Committee received briefings on areas of Counter-Fraud work in reducing and eliminating fraud and corruption within the Council's activities and monitored progress. They also received and approved the Council's updated Counter-Fraud Strategy and associated policies.

f. Audit and Assurance Annual Report

This was the closing Internal Audit Annual Report to the Committee for the financial year 2021/22. Also included was a summary of audit performance and key issues, as well as the formal opinion on the internal control framework.

g. 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.

h. 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.

i. 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 -
 - Ongoing Impact of COVID-19 on Council Finances
 - External Audit
 - Internal Audit
 - Treasury Management
 - Annual Accounts
 - Fraud Prevention/ Counter-Fraud inc. National Fraud Initiative
 - Risk Management, Risk Assessment and Risk Registers
- ii. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas which will continue into 2022/23. The committee have also identified areas where they would like to receive briefings next year.

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.

As well as attending the briefings identified in this report, in addition some Audit Committee Training has been achieved by free courses identified by audit committee members and voluntarily completed. All members of the audit committee also received formal training from CIPFA regarding Local Government Financial Statements.

The Chairman of the Committee is also a member of the South West Chairs of Audit and Governance Forum, which considers and compares best practice in areas of audit, governance and risk management. The Chairman shares this information with Members at North Somerset Council.

The committee is looking to find ways to achieve more external training for all committee members in the forthcoming year and a training plan is being developed in this respect. We have an intention to have a robust training plan ready for the next council elections.

5. **Work Plan for 2022/23**

The workplan is kept under review in the informal and formal meetings of the committee and in discussions with the officers and auditors. Planned subjects for 2022 – 2023 are shown in detail in Appendix 2, however it is acknowledged that it may not be possible to cover all of these areas within the financial year and thus the work plan will be update as necessary.

6. **Membership and Support**

- i. Councillor John Cato is the Chair of the Committee. The Vice Chair is Councillor Sandra Hearne, and the other members are Councillors Patrick Keating, Marcia Pepperall and Richard Tucker. There were no independent co-opted members for year 21-22.

Work has been completed in-year to recruit independent co-opted members. Two members have been successfully recruited and looking ahead they will attend their first formal meeting in September 2022.

- ii. The Committee is supported by a range of officers, notably the Director of Corporate Services (S151 Officer), engagement leads from Audit West, the Head of Finance, the Head of Business, Insight and Policy, the Assistant Director Legal & Governance and Democratic Services.
- iii. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.
- iv. The Committee is in contact with Audit committees from other authorities to exchange views, methods of working, and ideas.

Appendix 2 – Audit Committee 2022/23 Formal Meetings Workplan

Main business provisional work plan:

Ad Hoc further items to be decided

Title	Frequency	Lead Officer	Purpose of Report	Sep-22	Nov-22	Jan-23	Apr-23	Sep-23	Nov-23
Governance - ad hoc reports when changes happen, a risk arises which requires additional assurance or as a result of audit recommendations									
Major Projects Governance Strategy Update	When required	Head of Major Projects	Major Projects Governance						
Outsourced Services Governance Strategy Update	When required	Director of Corporate Governance	Strategic Procurement Governance						
Procurement Governance Strategy Update	When required	Director of Corporate Governance	Outsourced Services Governance						
Support Services Contract Governance Briefing	When required	Director of Corporate Governance	Support Services Governance						
Critical Incident and Emergency Response Audit and Governance	When required	Director of Corporate Governance	Corporate Governance monitoring						
Information Technology Audit and Assurance	When required	Director of Corporate Governance	IT Governance Assurance						
Climate Emergency Governance, Metrics and Control	When required	Director of Corporate Governance	Corporate Governance monitoring						
Procurement Processes Governance Assurance	When required	Director of Corporate Governance	Procurement Governance Assurance						
Information Security Audit and Assurance	When required	Director of Corporate Governance	Security Governance Assurance						
Cyber Security Audit and Assurance	When required	Director of Corporate Governance	Security Governance Assurance						
Third Party Outsourced Services Governance Assurance	When required	Director of Corporate Governance	Delegated/Outsourced Services Governance						
Directorate Report on organisation and governance.	When required	As required	Directorate Governance and Improvement						
Constitution Review and Update briefing - informal	When required	Assistant Director - Governance	for recommendation of proposals						
Significant Partnerships Governance Strategy Update	When required	Director of Corporate Governance	Governance, Risk Management						
Contract Standing Orders	When required	Assistant Director - Governance	Principles and structure of governance						
Voice of the Customer Report	When required	Director of Corporate Governance	Governance, Customer/Resident						
Continuous Performance Improvement Update	When required	Director of Corporate Governance	Governance, Risk Management						
Ethics and Standards	When required	Internal Audit?	Ethics and Standards Assurance						
HR matters	When required	Director of Corporate Governance	HR Governance						
Council Continuous Improvement Update	When required	Director of Corporate Governance	HR Governance						
Financial Regulations	When required	Head of Finance	Finance Governance and Assurance						
Annual Training - suggest that training needs analysis is completed to ensure focussed									
AC Member Training - stage 1 - plan/specify/establish		Director of Corporate Governance	Redmond Review - Audit Committee						
AC Member Training - stage 2 - training commissioned		Director of Corporate Governance	Redmond Review - Audit Committee						
Principles of Governance, Assurance and Audit		Director of Corporate Governance	To ensure skills and knowledge						
Role of Audit Committee and deliverables		Director of Corporate Governance	To ensure skills and knowledge						
Role of External Audit and deliverables		Director of Corporate Governance	To ensure skills and knowledge						
Role of Internal Audit and deliverables		Director of Corporate Governance	To ensure skills and knowledge						
Role of S151/Finance		Director of Corporate Governance	To ensure skills and knowledge						
Role & Responsibilities of Senior Officers		Director of Corporate Governance	To ensure skills and knowledge						
Annual Accounts		Director of Corporate Governance	To ensure skills and knowledge						
Internal Controls		Director of Corporate Governance	To ensure skills and knowledge						
Risk Management		Director of Corporate Governance	To ensure skills and knowledge						
Business Performance		Director of Corporate Governance	To ensure skills and knowledge						