

Item No. 11.	Classification: Open	Date: 27 February 2017	Meeting Name: Audit, governance and standards committee
Report title:		Annual report on the work and performance of the audit, governance and standards committee in 2016-17	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee review the draft self-assessment of good practice attached at Appendix 1 and consider whether it would wish to make any amendments to it.
2. That the audit, governance and standards committee forward this report on its work and performance in 2016-17 to all councillors, subject to any amendments it wishes to make.

BACKGROUND INFORMATION

3. The purpose of this report is to review this committee's work and performance in 2016-17.
4. The audit, governance and standards committee's terms of reference include a requirement to report annually to all councillors on its work and performance during the year.
5. The aims of the report are to make councillors aware of the audit, governance and standards committee's work in relation to its audit, financial reporting, treasury management, governance and standards responsibilities, and to provide assurance on areas covered or to identify any concerns.
6. This report also considers the effectiveness of the audit, governance and standards committee which forms a part of the review of internal audit, and which will in turn be reported as part of the review of the system of internal control, as required under the Accounts and Audit Regulations 2015.

KEY ISSUES FOR CONSIDERATION

Role of the committee

7. The purpose of the audit, governance and standards committee is to provide:
 - Independent assurance of the adequacy of the council's governance arrangements, including its standards regime, the risk management framework and the associated control environment.

- Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
 - Oversight of the financial reporting process.
 - Scrutiny of the treasury management strategy and policies.
 - Operation of a framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.
8. In line with the above, the committee's terms of reference are structured by reference to its key functions in terms of governance and standards, audit activity (internal and external), the accounts and treasury management. Since the new standards regime for councillors was introduced in 2012, the frequency and business for the standards committee had reduced, and there was no statutory requirement to have a standards committee. In May 2016 the standards committee was not re-established as a stand-alone committee, and its roles and functions were amalgamated with the audit and governance committee.
9. The audit, governance and standards committee agrees a work programme each year. A summary of the committee's business during 2016-17 in relation to its areas of responsibility is set out below.

Audit activity

Internal audit

10. The committee received and considered regular reports on the performance of internal audit and the outcome from its work during the year, as well as the head of anti-fraud and internal audit's annual report on the work of internal audit and anti-fraud 2015-16. Members had questions for both officers and the engagement manager for the auditors, RSM (previously known as Baker Tilly). Members are asked to note that the council's internal auditors changed in December 2016; this function is now conducted by BDO.
11. This meeting's agenda includes a report on the internal audit plan for 2017-18, an updated strategy for internal audit for 2017-18 to 2021-22 and a progress report on the work of internal audit and anti-fraud.

External audit

12. The committee received regular progress reports from the external auditor (Grant Thornton) throughout the year; there is an update report on this meeting's agenda. It also considered Grant Thornton's audit plans for 2015-16 for both the council and the Southwark pension fund, and the audit findings reports and annual audit letter for 2015-16. Their summary of findings from the certification of claims and returns for 2015-16 is on this meeting's agenda.
13. The committee considered the external auditor's annual fee letters for 2016-17 for both the council and the Southwark pension fund in July 2016. Grant Thornton also reported to the committee on their review of the council's arrangements for securing financial resilience and on assurance work undertaken by them as to management processes and the committee's oversight of the risk of fraud,

compliance with laws and regulation, and matters in relation to going concern, to inform their audit risk assessment. Their 2016-17 review is on this meeting's agenda, as are the audit plans for the council and the pension fund; these are being considered a little earlier than usual (February instead of May). The audit fee letters for 2017-18 have been deferred and will be considered at the committee's meeting in May 2017.

14. Progress on the implementation of recommendations made by external audit was included in a report to the committee in November 2016.
15. In November 2016 the committee recommended to council assembly to opt into the authorised national scheme for the appointment of external auditors through the sector-led body Public Sector Audit Appointments, which was considered a less resource-intensive way of procuring a new external auditor. Council assembly subsequently approved a decision to opt into this national scheme.

Accounts

16. The committee considered a draft of the 2015-16 statement of accounts at its July 2016 meeting and formally approved them at its meeting in September 2016.

Governance and standards activity

17. As with the statement of accounts, the committee reviewed the annual governance statement for 2015-16 at its July 2016 meeting and approved it at the meeting in September 2016.
18. The committee changed its approach to the consideration of governance matters for 2016-17. Having invited strategic directors and other key players to attend meetings in recent years to report on governance arrangements in their own areas of responsibility, as well as having tried the approach of reviewing governance issues on a thematic basis, the committee decided to again change its approach. Rather than selecting a single governance theme for the whole year, it would identify a number of areas for consideration at future meetings.
19. The theme selected for February 2016 was human resources, following on from the visit of the then director of HR and the strategic director for housing and modernisation in September 2015, to talk about changes across HR services. The topics selected for September 2016 were the school building programme and the promotion of financial matters by the council. Presentations were received from the director of education and the head of regeneration, and a member of the communications team respectively. At the meeting in November 2016, the committee examined the governance arrangements of the Southwark Local Pension Scheme and received an update on the implementation of public health risk assessments into the decision making process from the acting director of public health. On the agenda for this meeting, the strategic director for housing and modernisation is returning to speak to the committee about the modernisation agenda (including IT provision) and to give an update on HR services and succession planning. Succession planning had been identified by the committee through consideration of a number of retrospective contract decisions in 2016-17.
20. In July 2016 the committee received an annual report on the work of the corporate risk and insurance team for 2015-16. A report on the council's top risks is on the agenda for this meeting.

21. The committee's annual report on whistle blowing outcomes was considered by the committee at its November 2016 meeting. Members asked that the format of the report be further amended to reflect the approach taken by the London Borough of Camden in their reports on whistleblowing. The committee also requested that during future whistleblowing investigations the whistle-blower be asked if they wish for the detail of the case to be reported to the committee anonymously.
22. As detailed at paragraph 19 above, a referral from overview and scrutiny received in 2015-16 was followed up in November 2016 when the acting director of public health attended the meeting to talk about the progress on implementation of public health risk assessments into the decision making process.
23. The committee considered a number of retrospective contract related decisions in 2016-17, and identified the common issue of a lack of appropriate succession planning and work handover following voluntary redundancy, long-term sickness and staff turnover. The committee emphasised the importance of ensuring that responsibilities were handed over in a timely manner from staff members who were leaving the council, in order to prevent deadlines being missed and contract decisions having to be made retrospectively. Officers from departments presenting retrospective contract decisions were asked to share information in order to learn from other cases. As mentioned at paragraph 19, the strategic director for housing and modernisation is on the agenda for this meeting to talk further about developments in HR and succession planning.
24. The committee's work programme for 2017-18 is on this agenda for members' consideration.
25. A report on the council's use of RIPA (Regulatory Investigatory Powers Act) and the OSC (Office of Surveillance Commissioners) inspection of Southwark are on the agenda for this meeting. In October 2010 the former standards committee agreed to consider reports on the use of RIPA by the council; the inspection and audit by the OSC took place in October 2016.
26. A report detailing the review of complaints made under the code of conduct is also on this agenda.
27. The establishment of the two standards sub-committees (civic awards and misconduct) were approved by the committee in July 2016. The committee agreed that the number of co-opted community members on the civic awards sub-committee be increased from three to four, and that the sub-committee be gender balanced; at least two of the Southwark members and two of the community representatives serving on the sub-committee should be women.
28. There is a report on this meeting's agenda asking the audit, governance and standards committee to assume responsibility for appointing members of the civic awards sub-committee, in order to avoid the convening of a very short meeting of the sub-committee simply to make this decision.
29. In November 2016 the committee received a report relating to the review of arrangements for dealing with standards allegations under the Localism Act 2011. The report recommended amendments to the arrangements due to the inclusion of standards functions into the audit and governance committee. The committee asked that two minor amendments also be made, relating to failure to comply with the code of conduct and hearings. These changes will be presented to council

assembly for approval in March 2017.

30. The member and officer and communications protocols in the constitution were reviewed in November 2016. Out of the review came the inclusion of an exemption for members accessing committee papers online during meetings. This will also be presented to council assembly for approval in March 2017.

Treasury management

31. Members received a report on the revised treasury management policy statement, and considered the council's 2017-18 treasury management strategy statement ahead of consideration by council assembly at its budget and council tax setting meeting in February 2017.

Effectiveness of the audit and governance committee

32. The Accounts and Audit Regulations require a review of internal audit to be carried out, including consideration of the effectiveness of this committee. An annual opinion is given by the head of anti-fraud and internal audit, and this will be carried out later in the year and the results brought to a future meeting of the committee, most likely in July 2017.
33. To complement this, it is proposed that (as in previous years) this committee assesses itself using a checklist produced by CIPFA. A draft completed checklist has therefore been prepared using this which is attached at Appendix 1. The checklist has had an additional section added to it which is not part of the information provided by CIPFA, but has been included by officers to reflect the standards role of the committee since May 2016.
34. As part of this exercise, input has been sought from the director of finance, the head of anti-fraud and internal audit, the external auditor and the head of the corporate legal team in order to gain a wider perspective.
35. The draft checklist confirms that there are no significant areas of concern in relation to the committee's effectiveness. However, it highlights that training is an area that members may wish to continue to keep under review.
36. Members are asked to consider and agree the assessment at Appendix 1, subject to any amendments they would wish to make. Members will be aware that the findings of the review, the opinion of the head of anti-fraud and internal audit and any recommendations from this report will be considered alongside the annual governance statement.

Training

37. At the council's annual meeting in May 2016, the membership of the newly constituted audit, governance and standards committee was increased from six members to seven. Introductory sessions on the work and responsibilities of the committee were provided in summer 2016.
38. During the year, information on relevant issues and developments have been provided through CIPFA Better Governance Forum's 'Audit Committee Update', which is published three times a year. These focus on key topics and include a round-up of legislation, reports and developments and are circulated to all members of the committee for their information.

39. Briefing sessions for committee members were offered before the committee's meetings in September 2016 and November 2016, on contract monitoring and borrowing respectively.
40. The self-assessment checklist at Appendix 1 identifies that training will be provided as required and officers will continue to arrange training as opportunities arise.
41. In September 2016 the committee received an update on member training and continuous development. Members noted the report, which contained details of training identified, developed and delivered in 2015-16. A group of senior officers were already planning for post-election induction training in 2018, and working to develop a detailed training and development strategy that linked to the Council Plan's 'Fit for the Future' agenda and the digital strategy. There is a further report on digital governance and engagement on this meeting's agenda.

Development opportunities

42. The audit, governance and standards committee has been in place for almost a year. The management of its agenda in order to ensure that it can focus its resources effectively remains one of the key challenges for the future.
43. The year saw the following principal achievements:
 - a) Coverage of all elements of the committee's work programme, including the successful inclusion of standards work into the responsibilities of the committee
 - b) Continued assurance of corporate governance arrangements, for example, through the committee's thematic reviews of a number of governance matters, such as the schools building programme, public health impact assessments and pensions
 - c) Further assurance as to the operation of the council's whistle blowing policy
 - d) Ongoing constructive challenge from members in respect of reports received by them.
 - e) The identification of a pattern of common issues across some teams through consideration of retrospective contract related decisions.
44. For the coming year, the following are areas where the committee has the opportunity to effect further development or to which it may wish to give consideration:
 - a) Working with a new internal audit contractor, shortening timescales for the closing of accounts, and developments in how finance support is provided across the council
 - b) The continuing impact of welfare reform and further cuts in government funding from a governance perspective and, in particular, the identification of risks and ongoing risk management
 - c) Future and ongoing training needs.

Conclusion

45. The committee's work programme aims to ensure that the committee is able to carry out its functions effectively. To this end, the programme is structured to cover

the key areas of audit activity (both internal and external), governance and standards activity, financial reporting and scrutiny of the treasury management strategy and policies.

46. The committee continued to ask questions on matters before it in a challenging yet constructive way. In some cases, this has resulted in further information being provided to the committee to provide the assurance sought; in others, it has resulted in increased focus on the implementation of action plans.
47. The committee has kept its work programme under review in 2016-17 and made changes when appropriate.
48. Through its work, the committee is able to confirm that:
 - The council's system of risk management is adequate to identify risk and to allow the authority to understand the appropriate management of those risks;
 - There are no areas of significant duplication or omission in the systems of governance in the authority that have come to the committee's attention and not been adequately resolved.
49. The work programme for the committee for 2017-18 is included elsewhere on this agenda for consideration and agreement, and this will be reviewed and amended on an ongoing basis as necessary to help to ensure that the committee can continue to provide assurance of the adequacy of the council's governance arrangements.

Policy implications

50. There are no policy implications in the proposals in this report.

Community impact statement

51. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Resource implications

52. There are no direct resource implications in this report.

Conclusion

53. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (F&G16/010)

54. The strategic director of finance and governance remains committed to the important role of the audit, governance and standards committee and notes that it continues to function in line with its terms of reference. The performance of the committee continues to be strengthened by the attendance of officers with key governance roles and it is expected that the committee will continue to obtain assurance of governance arrangements from this.
55. It is noted that the committee has a themed approach and has invited not only

strategic directors but operational directors. This enables a more detailed overview of the issues being addressed.

56. The committee has operated in accordance with its responsibilities in key finance and audit matters, including the statement of accounts, treasury policies, and internal audit work, which are key issues for the s.151 officer (Local Government Act 1972). Looking forward, there will be changes of interest to the committee, not least a new internal audit contractor, shortening timescales for the closing of accounts, and developments in how finance support is provided across the council.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
CIPFA Audit committees – Practical Guidance for Local Authorities and Police 2013 edition	Finance and Governance, Second Floor, Tooley Street	Jo Anson 020 7525 4308

APPENDICES

No.	Title
Appendix 1	Self-assessment of good practice

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance		
Report Author	Victoria Foreman, Constitutional Officer		
Version	Final		
Dated	17 February 2017		
Key Decision?	No		
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER			
Officer Title	Comments sought	Comments included	
Director of Law and Democracy	No	No	
Strategic Director of Finance and Governance	Yes	Yes	
Cabinet Member	No	No	
Date final report sent to Constitutional Team		17 February 2016	