

<b>Item No.</b> 18.	<b>Classification:</b> Open	<b>Date:</b> 5 February 2024	<b>Meeting Name:</b> Audit, Governance and Standards Committee
<b>Report title:</b>		Annual report on the work and performance of the audit, governance and standards committee in 2023-24	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Audit, governance and standards committee	

## RECOMMENDATIONS

1. That the audit, governance and standards committee forward this report on its work and performance in 2023-24 to all councillors, subject to any amendments it wishes to make.
2. That the audit, governance and standards committee consider the CIPFA assessment questionnaire at appendix B be brought back to the audit, governance and standards committee in June 2024.

## BACKGROUND INFORMATION

3. The purpose of this report is to review this committee's work and performance in 2023-24.
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 are as 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. Audit committees are a key component of an authority's governance framework. 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. CIPFA has updated the practical guidance for audit committees which includes an updated '*Position Statement: Audit Committee in Local Authorities and Police 2022*', (appendix A), which sets out the purpose and core functions of local authority and police audit committees. It is intended to supplement specific legislation, is supported by the Department of Levelling Up, Housing and Communities, (DLUHC) and represents CIPFA's view on the practice and principles that local authorities should adopt to make effective audit committee arrangements.
9. 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.
10. The audit, governance and standards committee agrees a work programme each year. A summary of the committee's business during 2023-24 in relation to its areas of responsibility is set out below.

### **Audit activity**

#### **Internal audit**

11. 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 internal auditors' annual report on the work of internal audit and anti-fraud 2023-24. Members had questions for both officers and the engagement manager for the auditors, BDO.

#### **External audit**

12. The committee received a report from the external auditor, Grant Thornton, on the 2021-22 audit findings, including the pension fund. In addition, the committee received regular progress reports from Grant Thornton throughout the year on the progress of the 2022-23 audit together with a wider sector

update. The committee heard from officers that Grant Thornton will be replaced as the council's external auditor by KPMG in 2023-24 and onwards, and have thanked Grant Thornton for the work they have done for the council.

13. In recent years, the backlog of local authority audits has built up due to a number of complex factors including the shortage of experienced local authority auditors and accountants, the impact of covid-19, and technical accounting challenges. This has resulted in the majority of local authorities being unable to publish audited accounts within statutory deadlines, with many having backlogs of five years or more.
14. In recent months DLUHC has proposed introducing legislation (which is currently out for consultation) to give effect to a legal "backstop" i.e. a statutory deadline for auditors to issue audit opinions on year-end accounts for all years up to 2022-23. The proposed deadline is 30<sup>th</sup> September 2024 and for any audits incomplete by this the auditors would either need to provide a qualified opinion or a disclaimer of opinion which effectively states that they are unable to provide a formal opinion. In the case disclaimer opinions, auditors in subsequent years would be required to audit the opening balances of accounts in order to get assurance.
15. In 2020 DLUHC commissioned Sir Tony Redmond to carry out an independent review of local audit and the transparency of local authority financial reporting. The Redmond Review produced a number of key recommendations, which have been broadly accepted by government including additional funding to local authorities for the financing of audit fees to improve recruitment and training of local authority auditors and a requirement for local authorities to produce a standardised financial statement to increase transparency of financial information for council tax payers

### **Accounts**

16. The committee considered and agreed the 2021-22 statement of accounts at its November 2023 meeting, delegating authority to sign the final accounts to the chair in consultation with the strategic director of finance.

### **Governance and standards activity**

17. The committee continued its approach to the consideration of governance matters for 2023-24. It completed the discussions with strategic directors on their department's governance arrangements, and considered specific areas of interest.
18. In July 2023, Clive Palfreyman, the strategic director of finance, attended the committee. In September 2023, Caroline Bruce, strategic director of environments, neighbourhoods and growth, attended. In November 2023, David Quirke-Thornton, the strategic director of children's and adults' services, attended the committee. In February 2023, the committee heard from Doreen Forester-Brown, the assistant chief executive – governance and assurance, and Althea Loderick, the chief executive, updated the committee on the Southwark Council peer review.

19. The committee have also had an in depth series of reports on the in-housing of the council's leisure contract, the members' enquiries service, and interviews with officers discussing the outcomes of internal audit reports.
20. The work on corporate risk and insurance for 2023-24 has been supported by the council's internal auditors and integrated into their regular update reports.
21. The committee's annual report on whistle blowing outcomes has been considered by the committee at its November 2023 meeting.
22. A report on the council's use of RIPA (Regulatory Investigatory Powers Act) and the OSC (Office of Surveillance Commissioners) inspection of Southwark has been considered by the committee at its February 2023 meeting.
23. The establishment of the two standards sub-committees (civic awards and conduct) were approved by the committee in July 2023. The committee continued its agreement from July 2018 that the number of co-opted community members on the civic awards sub-committee stand at four, and that the sub-committee be as gender balanced as possible; in that two of the community representatives serving on the sub-committee should ideally be women.
24. The Civic Awards 2024 were launched in December 2023, and include the Diversity Award championed by members of the audit, governance and standards committee, and the new climate change award proposed by council assembly and agreed by the committee.

### **Treasury management**

25. Members received a report on the revised treasury management policy statement, and considered the council's 2024-25 treasury management strategy statement in November 2023.

### **Effectiveness of the audit and governance committee**

26. 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.

### **Training**

27. Training will be provided as required and officers will continue to arrange training as opportunities arise.

### **Development opportunities**

28. 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, through discussions with strategic directors and directors.
  - 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) Relevant attendance by officers when required following any late responses to audit reports.
29. 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) The CIPFA self-assessment of good practice (appendix B)
  - b) The CIPFA 'Evaluating the impact and effectiveness of the audit committee' (Appendix C)
  - c) Future and ongoing training needs.

## **Conclusion**

30. 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.
31. 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.
32. The committee has kept its work programme under review in 2023-24 and made changes when appropriate.
33. 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.
34. The work programme for the committee for 2024-25 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**

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

### **Community, equalities (including socio-economic) and health impacts**

#### **Community impact statement**

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

#### **Equalities (including socio-economic) impact statement**

37. There are no direct equalities implications in the proposals in this report.

#### **Health impact statement**

38. There are no direct health implications in the proposals in this report.

### **Climate change implications**

39. There are no direct climate change implications in the proposals in this report.

### **Resource implications**

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

### **Conclusion**

41. There has been no consultation on this report.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

### **Strategic Director of Finance**

42. The strategic director of finance 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.

43. 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).

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
CIPFA Audit committees – Practical Guidance for Local Authorities and Police 2022 edition	Finance and Governance, Second Floor, Tooley Street	Geraldine Chadwick

## APPENDICES

Number	Title
A	CIPFA Position Statement
B	CIPFA self-assessment of good practice
C	CIPFA 'Evaluating the impact and effectiveness of the audit committee'

## AUDIT TRAIL

<b>Lead Officer</b>	Clive Palfreyman, Strategic Director of Finance	
<b>Report Author</b>	Virginia Wynn-Jones, Principal Constitutional Officer	
<b>Version</b>	Final	
<b>Dated</b>	24 January 2024	
<b>Key Decision?</b>	No	
<b>CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER</b>		
<b>Officer Title</b>	<b>Comments sought</b>	<b>Comments included</b>
Assistant Chief Executive – Governance and Assurance	No	No
Strategic Director, Finance	Yes	Yes
<b>Cabinet Member</b>	No	No
<b>Date final report sent to Constitutional Team</b>	24 January 2024	