

<b>Item No.</b> 7.4	<b>Classification:</b> Open	<b>Date:</b> 27 March 2013	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Annual Report on the Work and Performance of the Audit and Governance Committee in 2012/13	
<b>Ward(s) or groups affected:</b>		All	
<b>From:</b>		Audit and Governance Committee	

## **RECOMMENDATION**

1. That council assembly note the work and performance of the audit and governance committee in 2012/13.

## **BACKGROUND INFORMATION**

2. The audit and governance committee's terms of reference include a requirement to report annually to council assembly on its work and performance during the year.
3. The aims of the report are to make council aware of the audit and governance committee's work in relation to its audit, regulatory, financial reporting and treasury management responsibilities and to provide assurance on areas covered or to identify any concerns.
4. The purpose of this report is to review the audit and governance committee's work and performance in 2012/13. The audit and governance committee considered its annual report on 28 February 2013 and subject to an update to take account of that meeting and minor amendments, all of which have been incorporated, agreed to refer it to council assembly.
5. This report also considers the effectiveness of the audit and governance committee which forms a part of the review of internal audit and which will in turn be reported to that committee as part of the review of the system of internal control, as required under the Accounts and Audit Regulations 2011.

## **KEY ISSUES FOR CONSIDERATION**

### **Role of the committee**

6. The purpose of the audit and governance committee is to provide:
  - Independent assurance of the adequacy of the council's governance arrangements, including 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 treasury management strategy and policies.

7. In line with the above, the committee's terms of reference are structured by reference to its four key functions in terms of audit activity, the regulatory framework, the accounts and treasury management.

### **Work Programme 2012/13**

8. The following paragraphs summarise the matters considered by the committee in 2012/13.

### **Audit Activity**

#### **Internal Audit**

9. The committee considered the Head of Anti-Fraud and Internal Audit's annual report on the work of internal audit and anti-fraud 2011/12. Members questioned the Head of Internal Audit and the engagement manager for the auditors, RSM Tenon, and requested officers to include further information on the use of external data matches in their September report.
10. The committee received and considered regular reports on the performance of internal audit and the outcome from its work during the year. Members questioned the Head of Internal Audit and the RSM Tenon engagement manager about the internal audit progress and made requests for further information on areas to be included in future reports, including further information on foster carers and on the possibility and cost effectiveness of data matching historical records for signs of possible council tax fraud.
11. The committee also requested a briefing note on council tax discounts and exemptions.
12. The committee agreed the internal audit plan for 2013/14 and strategy for internal audit for 2013/14 – 2017/18.

#### **External Audit**

13. The committee received regular progress reports from the external auditor (the Audit Commission and then Grant Thornton) throughout the year. It also considered the external auditor's annual report on the certification of claims and returns for 2011/12 and opinion plans for 2011/12 for both the council and the Southwark pension fund and the annual audit letter for 2011/12.
14. The committee considered the annual governance report for 2011/12 for the council and for the Southwark pension fund. Following consideration of the impact on the pension fund of changes in workforce numbers and changes to the Local Government Pension Scheme, the committee agreed to invite the Pensions Advisory Panel to attend a future meeting for a wider discussion. This has been scheduled for the committee's meeting on 30 April 2013.
15. The committee considered the external auditor's annual fee letters for 2012/13 for both the council and the Southwark pension fund.

### **Accounts**

16. The committee considered a draft of the 2011/12 statement of accounts at its July 2012 meeting and requested a clarifying amendment to the explanatory foreword. It formally approved the accounts at its meeting in September 2012.

## **Regulatory framework**

17. As with the statement of accounts, the committee reviewed the annual governance statement for 2011/12 at its July 2012 meeting and approved it at its September 2012 meeting. Following the committee's decision two years ago to invite strategic directors to attend meetings to report on governance arrangements in their departments, the following strategic directors attended during 2012/13: the strategic director for health and community services, the chief executive, the strategic director of finance and corporate services, the strategic director of environment and leisure and the strategic director of housing and community services. Members asked questions about particular aspects of their arrangements.
18. The committee received reports on seven retrospective contract-related decisions. In considering them, members asked questions of the officers responsible for the decision reports. At its November 2012 meeting, the committee recommended that in addition to the current practice of notifying retrospective decisions to the chair as early as possible, they should in future also be brought to the attention of the vice-chair of the committee, to enable them to consider wider circulation to other committee members, prior to reports being put on the agenda.
19. Following consideration by the committee of the annual report on corporate risk and insurance for 2011/12, the committee asked for a briefing note on insurance benchmarking comparisons collated by the Chartered Institute of Public Finance and Accountancy (CIPFA). It also requested that a report on the council's insurance framework be included on the committee's agenda for its meeting on 30 April 2013.
20. The committee received its annual report on whistle blowing outcomes.
21. Following concerns expressed by members of the committee at its January 2013 meeting about the use of postage and franking services, a report on the control framework for these facilities was considered at its February 2013 meeting.

## **Treasury management**

22. Members received a report on the 2012/13 treasury management strategy which had been approved by council assembly in February 2012 and sought clarification and assurance from officers on a number of points.

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

23. The Accounts and Audit Regulations require a review of internal audit to be carried out, including consideration of the effectiveness of the audit and governance committee. This will be carried out later in the year and the results will be brought to a future meeting of the committee.
24. To complement this, the audit and governance committee assesses itself using a checklist produced by CIPFA. The committee considered this on 28 February 2013 and requested an amendment, which has been made. The completed checklist is attached at appendix 1. The committee was advised that the checklist should be considered as part of the review of internal audit.

25. The completed 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.

### **Training**

26. Induction training was made available to new members in June and July 2012 and members were asked to indicate areas in which they would welcome training in order to help focus future provision. Information on relevant issues and developments is provided by the CIPFA Better Governance Forum which publishes its 'Audit Committee Update' 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.
27. A one-day training session on 'Influential Audit Committees', also organised by the Better Governance Forum, was attended by the chair of the committee in January 2013. Areas covered included assurance planning and assessing effectiveness and an update on the new Public Sector Internal Audit Standards.
28. The self-assessment checklist (see above) identified that training will be provided as required and officers will continue to arrange training as opportunities arise.

### **Development opportunities**

29. The audit and governance committee has now been in place for six years. 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.
30. The year saw the following principal achievements:
- greater assurance of departmental and corporate governance arrangements, following constructive sessions with the chief executive and strategic directors throughout the year
  - higher level of implementation of 'High' rated recommendations, resulting in part from member scrutiny
  - ongoing constructive challenge from members in respect of reports received by them.
31. 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:
- development of relationship with Grant Thornton, the council's new external auditor
  - implications of the new Public Sector Internal Audit Standards which are effective from 1 April 2013 and their impact on the role of the committee
  - future training needs.

### **Conclusion**

32. 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, the regulatory framework, financial reporting and scrutiny of the treasury management strategy and policies.
33. During the committee's sixth year of operation, it 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, in others, it has resulted in increased focus on the implementation of action plans.

34. The committee kept its work programme under review in 2012/13 and made changes when appropriate.
35. 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.
36. The work programme for the committee for 2013/14 was included elsewhere on the 28 February 2013 agenda for consideration and agreement, and this will be reviewed and amended on an ongoing basis if necessary to help to ensure that the committee can continue to provide assurance of the adequacy of the council's governance arrangements.

#### **Policy implications**

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

#### **Community impact statement**

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

#### **Resource implications**

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

#### **Consultation**

40. There has been no consultation on this report.

### **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

#### **Strategic Director of Finance and Corporate Services**

41. The strategic director of finance and corporate services is mindful of the important role of the audit and governance committee and is pleased that it continues to function in line with its terms of reference. He notes that its remit will remain under review as circumstances change, in the context of changes in funding arrangements for local authorities and the likelihood of continued reductions in resources available for services. 2012 saw the introduction of the new external audit arrangements, and looking forward, the committee will have special interest in the conduct of the audit. It is noted that the performance of the committee has been strengthened by the attendance of the chief executive and strategic directors, especially during a period of significant management change within the organisation. It is expected that a future work programme will continue to gain benefit from these interviews.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
Financial Governance files	Finance and Corporate Services, Second Floor, 160 Tooley Street, London SE1 2QH	Jo Anson 020 7525 4308

## APPENDICES

No.	Title
Appendix 1	Measuring the Effectiveness of the Audit Committee – Self-Assessment Checklist

## AUDIT TRAIL

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Corporate Services	
<b>Report Author</b>	Jo Anson, Head of Financial Governance	
<b>Version</b>	Final	
<b>Dated</b>	14 March 2013	
<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>
	Director of Legal Services	No
	Strategic Director of Finance and Corporate Services	Yes
	<b>Cabinet Member</b>	<b>No</b>
	<b>Date final report sent to Constitutional Team</b>	14 March 2013