

<b>Item No.</b> 8.2	<b>Classification:</b> Open	<b>Date:</b> 25 March 2015	<b>Meeting Name:</b> Council Assembly
<b>Report title:</b>		Annual Report on the Work and Performance of the Audit and Governance Committee in 2014/15	
<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 2014/15.

## **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 2014/15. The audit and governance committee considered its annual report on 23 February 2015 and subject to an update to take account of that meeting, which has 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 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. The committee agrees a work programme for each year which is also structured in the same way.

## **Audit Activity**

### **Internal Audit**

8. The committee received and considered regular reports on the performance of internal audit and the outcome from its work during the year and also the head of anti-fraud and internal audit's annual report on the work of internal audit and anti-fraud 2013/14. Members had questions for both officers and the engagement manager for the auditors, Baker Tilly.
9. The committee agreed the internal audit plan for 2015/16 and an updated strategy for internal audit for 2015/16 – 2019/20.

### **External Audit**

10. The committee received regular progress reports from the external auditor (Grant Thornton) throughout the year. It also considered Grant Thornton's audit plans for 2013/14 for both the council and the Southwark pension fund and for 2014/15 in respect of the council, their audit findings reports and annual audit letter for 2013/14 and their findings from the certification of claims and returns for 2013/14.
11. The committee considered the external auditor's annual fee letters for 2014/15 for both the council and the Southwark pension fund. 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.
12. Progress on the implementation of recommendations made by external audit was included in a report to the committee in November 2014.

## **Accounts**

13. The committee considered a draft of the 2013/14 statement of accounts at its July 2014 meeting and formally approved them at its meeting in September 2014.

## **Regulatory framework**

14. As with the statement of accounts, the committee reviewed the annual governance statement for 2013/14 at its July 2014 meeting and approved it at its September 2014 meeting. The committee asked officers to make it aware in advance of any future reviews of the council's directorates that were relevant to the committee's remit.
15. Following the committee's decision four years ago to invite strategic directors, and since 2013/14 other key governance players, to attend meetings to report on

governance arrangements in their departments, during the year the strategic director of finance and corporate services, the chief executive and the leader attended meetings. Members asked questions about particular aspects of their arrangements. For the coming year, the committee agreed that it would like to consider a themed approach to governance to enable it to consider an issue from a range of angles.

16. During the year, the committee received an annual report on the work of the corporate risk and insurance team for 2013/14 and also a report on the council's top risks.
17. The committee received its annual report on whistle blowing outcomes and asked officers to review whether this might be enhanced to help members to provide further assurance in the future as to the operation of the whistle blowing policy.
18. At their request, members of the committee received further information in respect of several matters during the year. These were the total number of outstanding national non domestic rates appeals raised before 1 April 2013, the number of highways-related public liability insurance claims in 2013/14, including common factors and the number of resolved claims, and the governance arrangements in respect of the council's IT contract.

### **Treasury Management**

19. Members received a report on the 2014/15 treasury management strategy which had been approved by council assembly in February 2014 and sought clarification and assurance from officers on a number of points.

### **Effectiveness of the Audit and Governance Committee**

20. 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 audit and governance committee.
21. To complement this, the audit and governance committee assessed itself using a checklist produced by CIPFA. 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 and that it would need to consider the findings of the review alongside the annual governance statement later in the year.
22. 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**

23. Following the council elections in May 2014, a number of new members joined the committee and introductory/refresher sessions on the work and responsibilities of the committee were offered in summer 2014.
24. During the year, information on relevant issues and developments was provided through the 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.

25. A briefing session on the statement of accounts was offered to members of the committee in September 2014 prior to the committee's approval of them.
26. 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**

27. The audit and governance committee has now been in place for eight 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.
28. The year saw the following principal achievements:
  - Coverage of all elements of the committee's work programme, notwithstanding the impact on the schedule of meetings arising from the council election in May 2014 and the forthcoming general election in May 2015
  - Continued assurance of departmental and corporate governance arrangements, which included attendance by the chief executive and the leader of the council
  - Ongoing constructive challenge from members in respect of reports received by them.
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:
  - Implications of the Local Audit and Accountability Act 2014 in respect of future local audit arrangements and their potential impact on the role of the committee
  - Impact of welfare reform and further cuts in government funding from a governance perspective and, in particular, the identification of risk and ongoing risk management
  - Consideration of how the committee might provide further assurance in relation to the council's whistle blowing policy
  - Consideration of thematic governance issues over a period of, say, twelve months, with a view to identifying and sharing best practice
  - Future 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, the regulatory framework, 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, in others, it has resulted in increased focus on the implementation of action plans.
32. The committee kept its work programme under review in 2014/15 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 draft work programme for the committee for 2015/16 was included on the committee's February 2015 agenda and, following discussion of it, will be considered further at the committee's next meeting. It will then 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**

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

### **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.

### **Resource implications**

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

### **Consultation**

38. There has been no consultation on this report.

## **SUPPLEMENTARY ADVICE FROM OTHER OFFICERS**

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

39. The strategic director of finance and corporate services remains mindful of the important role of the audit and governance committee and pleased that it continues to function in line with its terms of reference. It is noted that the performance of the committee has been strengthened by the attendance of key governance players and it is expected that the committee will continue to obtain assurance of governance arrangements from these interviews.
40. It is noted that the committee requested and received specific reports on relevant matters through the year and it is anticipated that this will continue from time to time. The additional scrutiny of governance that this adds to the organisation is welcomed. The committee is aware of the Local Audit and Accountability Act and the need to consider its implications for the future in due course.
41. In 2015/16 there will be a number of factors which will require special scrutiny across the finance function. Some of these will be of interest to the committee, not least the need to further restructure the professional finance and accounting functions in order to achieve a reduction in costs in line with the budget priorities,

which focus on the protection of front line services. The forthcoming shortening of timescales for the closing of accounts will therefore be in the context of inevitable staffing reductions as well as the impact of ongoing audit fee reductions on the extent and experience of external resources available.

## BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
None		

## APPENDICES

No.	Title
Appendix 1	Self-assessment of Good Practice

## AUDIT TRAIL

<b>Lead Officer</b>	Duncan Whitfield, Strategic Director of Finance and Corporate Services		
<b>Report Author</b>	Jo Anson, Head of Financial and Information Governance		
<b>Version</b>	Final		
<b>Dated</b>	6 March 2015		
<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	No
Strategic Director of Finance and Corporate Services		Yes	Yes
<b>Cabinet Member</b>		<b>No</b>	<b>No</b>
<b>Date final report sent to Constitutional Team</b>			12 March 2015

## Self-assessment of Good Practice

Question		Yes	No	Partly	Comments/action
<b>Audit committee purpose and governance</b>					
1	Does the authority have a dedicated audit committee?	✓			
2	Does the audit committee report directly to full council?	✓			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			
<b>Functions of the committee</b>					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
	- good governance	✓			
	- assurance framework	✓			
	- internal audit	✓			
	- external audit	✓			
	- financial reporting	✓			
	- risk management	✓			
	- value for money or best value	✓			
	- counter-fraud and corruption.	✓			
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	✓			
9	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?				
	- considering matters at the request of other committees or statutory officers	✓			Included within committee's terms of reference.

Question		Yes	No	Partly	Comments/action
	- ethical values	✓			Receives annual report on whistleblowing.
	- treasury management	✓			Included within committee's terms of reference.
10	Where coverage of core areas has been found to be limited, are plans in place to address this?				N.A.
11	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its purpose?	✓			
Membership and support					
12	Has an effective audit committee structure and composition of the committee been selected? This should include: <ul style="list-style-type: none"> <li>- separation from the executive</li> <li>- an appropriate mix of knowledge and skills among the membership</li> <li>- a size of committee that is not unwieldy</li> <li>- where independent members are used, that they have been appointed using an appropriate process.</li> </ul>	✓			No more than 1 member may also be a member of cabinet (and that member cannot chair this audit and governance committee). Members have brought a range of skills and knowledge to bear on the committee's consideration of matters before it. Size of committee strikes balance between being unwieldy and ensuring appropriate mix of knowledge and skills.
13	Does the chair have appropriate knowledge and skills?	✓			
14	Are arrangements in place to support the committee with briefings and training	✓			As noted in the body of the report, introductory training was made available to new members following the election in May 2014 and ongoing training and briefings are provided as opportunities/needs arise.
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	✓			Members were asked to provide information on joining the committee and induction and other training/briefings have been provided as opportunities/needs have arisen.



Question		Yes	No	Partly	Comments/action
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
17	Is adequate secretariat and administrative support to the committee provided?	✓			
<b>Effectiveness of the committee</b>					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?				See paragraph 39-41 of the main report. The committee is to consider how it might obtain further feedback from those interacting with it
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓			
20	Does the committee have an action plan to improve any areas of weakness?	✓			The committee identifies areas for development each year as part of its annual review of its performance.