

City Council

1 October 2014

Audit Committee - Annual Report 2013/14

Report by: Chair of Audit Committee

Ward Implications: All Wards

For Information		
------------------------	--	--

1. Summary

1.1. It is normal practice for the Audit Committee to submit an annual report to full Council on its activities each municipal year.

The past year has seen further significant challenges for the Council with the continuing challenging economic situation and related budget challenges. With the demise of the Audit Commission the activities of the Audit Committee have taken on an increased significance to ensure the governance and control environments are robust to ensure the Council operates in an effective manner.

2. Recommendation

2.1. City Council is requested to receive this report

3. Background

3.1. There is no statutory obligation to establish an Audit Committee. However in 2005 CIPFA published "*Audit Committees – Practical Guidance for Local Authorities*" with a further recent update in 2013. This advises that Audit Committees can bring many benefits to local authorities e.g. by raising awareness of the need for internal controls to prevent fraud or corruption and to increase public confidence in the objectivity and fairness of financial and other reporting.

3.2. The City Council appointed a Standards and Audit Committee in 1999. In 2006 the Council established a separate Audit Committee to provide independent scrutiny of the Council's financial and non-financial performance with responsibility for overseeing the Council's financial reporting process, risk management framework and the associated control environment.

3.3. It is seen as an important part of the overall governance arrangements of the Council that there is independent scrutiny of its financial and control environments, the independent chair, independent members and members from all parties have worked collaboratively to ensure such arrangements are adequate and any issues addressed. The committee along with the external

auditors 'Deloitte' carry out an important external scrutiny function for the Council. This has taken on an increased relevance bearing in mind the continuing challenging economic situation and related budget challenges.

3.4. This is a report of our activities for the 2013/14 Municipal Year.

4. **Our Role**

4.1. Our terms of reference and membership are set out in Appendix 1.

4.2. In 2006 the CIPFA Better Governance Forum published "*A Toolkit for Local Authority Audit Committees*" and more recently (2013) they published "*Audit Committees – Practical Guidance for Local Authorities and Police*". These set out the duties of an Audit Committee as follows:

1. To consider the effectiveness of the council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
2. To seek assurances that action is being taken on risk related issues identified by auditors and inspectors;
3. To satisfy itself that the council's assurance statements (including the Annual Governance Statement) properly reflect the risk environment and any actions required to improve it;
4. To approve (but not direct) internal audit's strategy and annual plan and monitor performance against that strategy and plan;
5. To review summary internal audit reports and the main issues arising and seek assurance that action has been taken where necessary;
6. To receive the Annual Report of the Head Audit and Strategic Risk;
7. To consider the findings of the review of effectiveness of the systems of internal audit;
8. To consider the reports of external audit and inspection agencies;
9. To ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted; and
10. To review the financial statements, external auditor's opinion and reports to members and monitor management action in response to the issues raised by external audit.

5. **What we have done during 2013/14 Municipal Year**

5.1. The Audit Committee approach and focus is to review key processes and to ensure improvement occurs, plus receive regular reports on key controls. This year we have:

1. Considered the Council's Annual Report and Accounts for 2012/13.
Outcome: Annual Report and Accounts 2012/13 successfully signed off with no material Errors and a clear Value For Money assessment, leading to meeting the statutory requirements of the Council;
2. Jointly with members of Standards Committee, conducted the annual review of the Council's governance and internal control arrangements and

updated the Annual Governance Statement 2013/14.

Outcome: significant weaknesses in governance and internal controls identified and addressed, leading to strengthened and improved corporate governance;

3. Received regular updates on the Economic Climate and budget position from the Chief Executive and Director of Finance and Resources.

Outcome: challenge to Executive management on economic position, financial implications and governance arrangements, leading to better understanding of the risks faced by the Council and the governance measures in place to address the challenges;

4. Discussed the implications and arrangements for the transfer of Public Health Responsibilities to Local Authorities and maximising health gain from investment in Public Health.

Outcome: Assurance that adequate governance and control arrangements are in place to manage resources post transfer, leading to greater understanding of the risk mitigation actions needed to ensure a smooth transfer and adequate resources;

5. Received a number of reports in relation to Workforce Development and in particular strengthening the Councils financial and commercial skills, Budget management and Performance.

Outcome: assurance that the organisation has sufficient commercial and financial skills to ensure informed decision making and the development of a strategy to address any areas of weakness, leading to a better appropriately skilled workforce;

6. Received reports on the review of Scrutiny and progress being made to embed the new scrutiny arrangements into the Council's Corporate Governance structure.

Outcome: reviewed and ensured effective scrutiny arrangements existed within the Council as part of the corporate governance arrangements, leading to assurances over effective governance and challenge processes;

7. Received a number of reports on the implementation of a Fit for Purpose Approach to Planning and Delivery. Including receiving independent verification from the Council's external auditors (Deloitte) on progress in establishing a suitable outcome framework and performance outcome indicators.

Outcome: achieved a greater understanding of the Council's revised approach to Planning and Delivery and continued to challenge and gain assurance, including externally, that the new processes were embedded and Fit for Purpose. Leading to a more visible monitoring framework to demonstrate the achievement of outcomes;

8. Received reports on the Governance and Performance Management Arrangements for Major Projects. Reviewing the new governance framework for the capital investment programme and progress on establishing a basket of output measures for major regeneration and investment projects.

Outcome: achieved a greater understanding of the revised approach to

Planning and Delivery and continued to challenge the creation of a basket of metrics to demonstrate the achievement of outcomes and value for money.

9. Considered and approved the Internal Audit Annual Plan for 2014/15 and the Internal Audit Strategic Plan 2014/15 – 2016/17.
Outcome: agreed the Internal Audit Plan and Strategy as meeting the Council's requirements, leading to an effective audit function and audit coverage in line with corporate requirements and risk;
10. Considered and commented on the Annual Audit & Inspection Letter 2012/13.
Outcome: recommended to Constitutional Committee to sign off the 2012/13 accounts, leading to meeting the statutory responsibilities of the Council;
11. Reviewed the Accounting Policies to be used in the preparation of the Annual Report & Accounts for 2013/14.
Outcome: policies agreed and applied to the production of the 2013/14 accounts, leading to the Annual Report & Accounts being produced in line with recognised accounting standards and best practice;
12. Monitored corporate procurement performance within the Council.
Outcome: supported the Head of Efficiency and Procurement to improve the percentage of electronic orders across the Council by challenging non-compliance of individual business areas, leading to improvements in completion rates and the use of the system across the Council;
13. Considered and commented on Strategic & Corporate Risk Monitoring Reports.
Outcome: ensured all risks were suitably identified and addressed, where appropriate areas identified by the committee were further investigated to provide progress assurance. Leading to improved corporate governance and assurance;
14. Monitor Key Financial Systems performance indicators including all debt systems (Council Tax, NNDR, Sundry Debt and Rents), Creditors, Payroll, Main Accounting, Payments Engine etc. To ensure the adequacy of governance and control arrangements and ensure compliance with agreed financial targets and policy.
Outcome: ongoing assurance that there is no slippage in performance due to weaknesses in either governance or control arrangements, leading to a focus on delivering targets and control issues being addressed by management; and
15. Monitored key Organisational Development performance indicators including: agency spend, sickness management and arrangements to prevent organisational creep following organisational restructure and redundancies.
Outcome: ongoing assurance that there is no slippage in performance due to weaknesses in either governance or control arrangements, leading improved corporate governance; and

Some of the above activities and reports are outlined in more detail below.

6. **Consideration of the Annual Report and Accounts 2012/13 (1)**

- 6.1. Audit Committee (which is purely advisory) recommends to Constitutional Committee to approve the Annual Report and Accounts (which includes the Annual Governance Statement) relying on the work done by the Audit Committee and the assurances it has received from management throughout the year. The committee relying on the work done by Audit Committee throughout the year when considering whether to approve the annual accounts.

Following an amendment to the Accounts and Audit Regulations 2011 there is no longer a requirement for the draft accounts to be approved by members by 30 June, only the final audited accounts by 30 September.

For 2012/13, Audit Committee received the accounts in June 2013 for information and then received, reviewed and recommend the final accounts to Constitutional Committee in September 2013.

7. **Annual Governance Statement 2013/14 (2)**

- 7.1. Regulation 4 of the Accounts & Audit (Amendment) (England) Regulations 2006 requires audited bodies to conduct a review at least once a year of the effectiveness of its system of internal control and to publish a statement on internal control each year with the authority's financial statements. These Regulations were amended in 2006 to require the findings of the review to be considered by a committee of the relevant body. To meet these requirements CIPFA recommends that Councils publish an Annual Governance Statement and that this is updated once a year in order to: (i) demonstrate the effectiveness of their internal control and risk management systems; (ii) give assurance on their effectiveness and (iii) produce a management action plan to address any identified weaknesses.

The Annual Governance Statement is updated annually by a joint informal sub group comprising members of both Audit and Standards Committees.

We will be submitting the updated Annual Governance Statement (as part of the Annual Report and Accounts 2013/14) to Constitutional Committee for approval in September 2014.

8. **Budget and Economic Position (3)**

- 8.1. The committee recognises the significant financial challenges facing the Council, at each committee a standing item providing an update on the Economic Climate and progress on achieving the savings was provided by the Chief Executive and Director of Resources.

9. **Transfer of Public Health Responsibilities to Local Authorities (4)**

- 9.1. The committee considered a series of reports previously on the issues and risks relating to the transfer of responsibility for Public Health funding to Local Authorities by 2013. The reports covered the governance arrangements, updates on progress in relation to the transfer of responsibilities and the key risks relating to the transfer. In addition consideration was provided on how health gain could be maximised through investment in public health services and whether such services represent good value for money, drawing from

experience from current practice and published evidence. In June 2013 a report was presented providing assurance that the transfer arrangements were in place and an update on the gain from investment in Public Health.

10. **Scrutiny Review (6)**

- 10.1. The committee received updates on progress to embed the revised Scrutiny arrangements following the review in 2012. This included the work necessary to embed the new scrutiny arrangements into the Council's Corporate Governance structure, including discussions in the work programme selection process and member/officer development.

11. **Implementing a Fit for Purpose Approach to Planning and Delivery (7)**

- 11.1. We continued to seek assurance that action was being taken to establish a corporate approach which was Fit for Purpose to demonstrate Value for Money and performance against key indicators which is easily accessible and clear. This followed reports to Audit Committee during 2012/13 and progress of the Cabinet led Task and Finish Groups review of the Council's approach to planning and delivery. It established how the Council would 'hardwire' accountability for effective and efficient planning and delivery as well as Value for Money assessments into all levels of the organisation. The Committee also received independent verification from the Council's external auditors (Deloitte) on progress in establishing a suitable outcome framework and performance outcome indicators.

It is recognised that significant progress had been achieved, we will continue to monitor the issue of governance and adequacy of metrics.

12. **Governance and Performance Management Arrangements for Major Projects (8)**

- 12.1. Reviewed progress in developing and embedding the new governance framework for the capital investment programme. Establishing progress in developing a basket of output measures for major regeneration and investment projects capable of being directly linked to Council Plan ambitions and Council dashboard outcome indicators. This also linked into the work of the Task and Finish Group of Overview and Scrutiny Committee which was reviewing Major Projects, a member who sits on both committees provided updates to the committee to assist the review and ensure there was no duplication of effort.

13. **Review of Accounting Policies (11)**

- 13.1. It is a requirement of the Local Government Act 2003 and the Accounts & Audit Regulations 2011 for the Council's Statement of Accounts to be produced in accordance with proper accounting practices. An annual review is carried out for any changes in accounting policy.

For 2013/14 within the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 there were only minor changes which required the Accounting Policies to be reviewed. The committee reviewed the amendments and recommended the use of the revised policies in advance of the preparation of the 2013/14 Accounts.

14. **Risk Management (13)**

- 14.1. The Committee receives and comments on the quarterly Corporate Risk Monitoring Reports and the same update reports on performance and risk management that are submitted to Cabinet. They provide an update on significant risks identified in the Council's Strategic Risk Register.

15. **Key Organisational Development Indicators (15)**

- 15.1. Receive Quarterly Performance Monitor Reports on key OD indicators from the Assistant Director Human Resources, including: recruitment, sickness absence, performance, resource utilisation and controls designed to prevent organisational management creep following the implementation of Corporate Transformation and subsequent organisational changes.

We were pleased to note the positive trends, specifically the reductions in sickness absence and the increase in the number of completed appraisals.

We will continue to monitor all aspects of this area.

16. **External Events**

- 16.1. The Chair attends other events for Chairs of Audit Committees across the country to assess the extent to which the Council is facing similar issues and addressing the problems appropriately.

17. **Our Future Work**

- 17.1. The role of the Committee is increasingly concerned with corporate governance as confidence in controls has been achieved. We will continue to monitor the improvement of key processes and to respond as required to control and governance issues as they are brought to the attention of the committee. In particular looking at the relationship between performance and cost reduction to ensure the Council continues to perform.

An independent review of the activities of the Audit Committee has been undertaken by the Council's External Auditors (Deloitte). In addition to this review the Committee is to undertake a 'self-assessment' as outlined within the Cipfa 2013 'Audit Committees – Practical Guidance for Local Authorities and Police'. The Committee will implement appropriate recommendations from both the external review and the results of the self-assessment, in order to ensure it is focused and providing maximum benefit to the Council.

The main tasks identified within the forward plan of the Committee for the coming year include:

1. Maintain a watching brief on the impact of the Economic Downturn and Government Funding reductions and the Councils response as it relates to Value for Money, Corporate Governance and the adequacy of controls;
2. Monitor compliance with the Local Code of Corporate Governance;
3. Monitor the operation of the Council's Budget setting and monitoring arrangements as well as the Risk Management Strategy to assess the
4. organisations ability to achieve the required level of savings;
5. Monitor the operation of the Council's Anti-Fraud & Corruption Policy;

6. Approve the internal audit strategy and annual plan and monitor performance against that strategy and plan;
7. Review the Annual Report and Accounts 2013/14, receiving the External Auditors Annual audit Letter and agreeing the Accounting Policies used to prepare the accounts;
8. Jointly with members of Standards Committee update the 2013/14 Annual Governance Statement; and
9. Undertake an annual review of External Audit.

18. **Conclusion**

- 18.1 The Audit Committee is concerned with 'corporate governance', in other words the structures and rules that organisations put in place to prevent those responsible for running organisations from doing the wrong thing e.g. to prevent them from borrowing in a reckless manner, defrauding the organisation or investing unwisely.
- 18.2 In any large organisation however decisions are commonly made after balancing the risks against the benefits and assessing whether certain risks are worth taking. Thus, whilst effective corporate governance can help to minimise the risk, it cannot eliminate it completely.
- 18.3 The role of the Audit Committee is to provide independent assurance that the Council has in place adequate controls to mitigate key risks and that those controls are operating effectively in practice. It does this by regular monitoring and by reviewing them every year to assess their effectiveness. The financial risks the Council is facing have never been greater. The Audit Committee is one of the most critical forms of assurance available to the Council and from time to time will be challenging.

19. **Background Papers and Contact Officer Details**

- 19.1 List of Background Papers:- held by Director of Resources

1. Reports and agendas to Audit Committee – 2013/14

Contact Officer:- Kevin Laing, Service Manager – Financial Accounting, ext. 26529

Appendix 1

Audit Committee – 2013/14

Membership:

City Councillors

Councillors: Kemp (Vice Chair), Pearson, Beecham, Woodwark, D Slesenger

Independent Members

Mr Moore (Chair), Mr Scrimshaw, Mr Lumsden, Mr Miller

Terms of Reference:

AUDIT COMMITTEE TERMS OF REFERENCE Agreed by City Council 24 May 2006

1. To act as the principal advisory committee to the Council and the Executive in relation to audit and governance issues, including the effectiveness of the Authority's internal control environment.
2. In particular, to undertake the following functions in relation to audit and governance issues and to advise the Council and/or the Executive and their respective Committees and their officers upon such matters as and when it considers it necessary.

3. Governance arrangements

- a) To consider and promote the Council's arrangements for corporate governance and agreeing necessary actions to ensure compliance with best practice;
- b) to maintain an overview of the effective operation of the Council's Constitution in respect of contract procedure rules and financial regulations;
- c) to review any issue referred to it by the Chief Executive or any chief officer, or any Council body;
- d) to consider the effectiveness, and monitor and promote the effective development and operation of, risk management in the Council;
- e) to monitor Council policies on "Raising Concerns at work" and the Council's anti-fraud and anti-corruption arrangements and its Complaints process;
- f) to oversee the production of the Council's Statement of Internal Control and to recommend its adoption;
- g) to consider the Council's compliance with its own and other appropriate published standards and controls and to make recommendations in relation thereto.

4. Internal Audit Activity

- a) To approve the strategic audit approach and the annual internal audit plan and consider a summary of internal audit activity (actual and proposed);
- b) to consider the Chief Internal Auditor's annual Audit Report and Opinion and the level of assurance it can give over the Council's corporate governance arrangements and to promote appropriate actions by those charged with governance;
- c) to consider summaries of specific internal audit reports as requested;

- d) to consider reports dealing with the management and performance of the providers of internal audit services;
- e) to consider any report from Internal Audit on agreed recommendations not implemented within a reasonable timescale;
- f) to make any appropriate recommendations and promote any appropriate actions arising from the foregoing.

5. External Audit Activity

- a) To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance;
- b) to consider specific reports as agreed with the external auditor;
- c) to comment on the scope, focus and depth of the external audit plan of work and to ensure it gives value for money;
- d) to liaise with the Audit Commission over the appointment of the Council's external auditor;
- e) to commission work from internal or external audit;
- f) to make any appropriate recommendations and promote any appropriate actions arising from the foregoing.

6. Accounts

- a) To review the annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council;
 - b) to consider the external auditor's report to those charged with governance on issues arising from the audit of the Accounts.
7. To liaise with other Committees and/or officers of the Council and the Council's external auditors and/or inspectors as is necessary to achieve the above objectives.

ANNUAL GOVERNANCE STATEMENT JOINT INFORMAL SUB-GROUP (WITH STANDARDS COMMITTEE) TERMS OF REFERENCE

- 8. To receive and review the sources of assurance which support the production of the Council's annual Statement of Internal Control;
- 9. To review the Statement of Internal Control document, considering it separately to the Accounts;
- 10. To recommend the approval of the Statement of Internal Control to the Audit Committee.