

# South Essex Homes Limited

Report of the Head of Internal Audit and  
the Director of Finance

to

**The Audit Committee**

on

**17 May 2017**

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## **Audit Committee Annual Report 2016/17**

*A Part 1 Public Agenda Item*

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### **1 Purpose of Report**

1.1 To provide the Audit Committee with an assessment of:

- its compliance with relevant good practice guidance on the operation and effectiveness of Audit Committees
- whether it has:
  - seen sufficient evidence during the year to be able to give a view on the accuracy of the Annual Governance Statement
  - successfully discharged its role as set out in its Terms of Reference for 2016/17.

### **2 Recommendations**

2.1 **The Audit Committee:**

- **accepts the performance and effectiveness assessments outlined in the report and the recommendations made for further action**
- **reports to the Board that it has successfully delivered the requirements of its Terms of Reference in 2016/17**
- **recommends that the Board approves the Annual Governance Statement.**

### **3 Background**

#### ***The Audit Committee's Role***

3.1 The purpose of an audit committee is to provide to those charged with governance, independent assurance on the:

- adequacy of the risk management framework and internal control environment
- integrity of the financial reporting and annual governance processes.

*Source: CIPFA: Audit Committees, Practical Guidance for Local Authorities and Police 2013*

### ***Operating Arrangements and Effectiveness of the Audit Committee***

3.2 The Audit Committee operates under Terms of Reference that are reviewed regularly and approved by the Board. In 2016/17, they reflected the requirements of the relevant CIPFA Guidance and were supported by an annual work programme.

3.3 Membership is reviewed annually. In 2016/17, it consisted of five Board Members including two that had 'recent relevant financial experience' as the Chair and one other are both qualified accountants.

3.4 Members receive training when a specific need is identified.

Future training needs are discussed with Members as part of the annual performance assessment process, during committee meetings or directly with auditors as issues arise.

The Audit Committee has also been provided with briefings or information papers on relevant current issues as they have arisen during the year e.g. CIPFA Better Governance Forum newsletters.

3.5 Good practice recommends that the Audit Committee:

- meets at least four times a year, which it did, with meetings being timed to enable it to deal with specific elements of its remit
- is able to meet privately and separately with the external auditor and the Head of Internal Audit, which it also has done during the year.

The Audit Committee reports to the Board following each meeting by the submission and adoption of its minutes.

3.6 In order for the Audit Committee to operate effectively it requests:

- attendance of key officers, both internal and external to the company
- that reports be presented to it by officers and auditors regarding the activities that fall within its remit.

The schedule of attendance demonstrates:

- full compliance with the quorate requirements
- key officers regularly attended meetings as requested
- other officers attended as necessary to present specific reports
- relevant senior officers also attended to respond to any questions arising from Internal Audit reports presented to the Audit Committee.

3.7 The Audit Committee assessed itself as having **a high level of compliance** with the good practice guidance which covers its operating arrangements.

The Audit Committee's Terms of Reference was amended in February 2017 to include an additional responsibility for "*working with others to support ethical values and reviewing the arrangements to achieve those values*".

3.8 The Audit Committee can also demonstrate that it **has been effective in supporting improvement and added value to the company** in areas covered by its work programme.

Given the change in membership during 2015/16, a session was organised in November 2016 covering the Role of the Audit Committee. This included its remit in relation to approving the Annual Governance Statement.

Work planned to further strengthen the company's governance arrangements includes:

- determining what assurance the company expects to get from South Essex Property Services about the adequacy and effectiveness of its governance arrangements and, in particular, its Audit Committee, should it establish one
- introducing a simple process to provide the Audit Committee with assurance that actions agreed have been implemented, properly where the Internal Audit opinion was high or satisfactory
- updating the audit planning risk assessment / company assurance map for 2017/18
- developing an approach to assessing the effectiveness of the company's ethical governance arrangements, which is underway.

3.9 Therefore, it is possible to conclude that the Audit Committee has complied with recognised good practice guidance on the operation and effectiveness of Audit Committees, throughout the year.

Progress made in implementing improvement opportunities identified is reported to the Audit Committee at its October or January meeting each year.

### **Annual Governance Statement**

3.10 On an annual basis, the Audit Committee is required to consider the Annual Governance Statement (AGS) and decide whether to recommend its adoption to the Board.

It is then provided to Southend-on-Sea Borough Council (the Council) for inclusion in its AGS.

3.11 In order for the Audit Committee to be able to give a view on the AGS, it needs to satisfy itself that:

- it has received sufficient evidence during the year covering all areas of its responsibility
- the AGS reflects its understanding of how the company's risk management, control and governance framework has operated throughout the year.

3.12 **Appendix 2a** summarises the reports presented to the Audit Committee during 2016/17 compared to its key areas of responsibility as outlined in its Terms of Reference. This demonstrates that it has received relevant information in all these areas, setting out both expectations and actual performance in delivering them.

3.13 The Audit Committee also considered the results from the annual Manager Assurance Statements. Service managers are required to assess the level of compliance with key governance criteria in their service area, throughout the year. These assessments are then challenged by the Group Manager Resources & Business Development.

This shows that services are generally applying the key governance arrangements as required by the company.

- 3.14 On this basis it is possible to conclude that the Audit Committee has received sufficient assurance during the year to enable it to discharge the role delegated to it by the Board.

The minutes demonstrate that the Audit Committee has challenged the assurance presented to it and sought additional information or evidence until it is satisfied that the risk, control or governance issue has been satisfactorily addressed.

- 3.15 **Appendix 2b** is the company's Annual Governance Statement for 2016/17. This reflects the evidence outlined above, including the Head of Internal Audit's Opinion, the external auditor's opinion and other appropriate independent assurances.

- 3.16 **Appendices 2c and 2d** reflect the:

- actions to be taken to further strengthen the company's governance arrangements with regard to the 2016/17 Annual Governance Statement
- progress made in addressing the actions identified in the 2015/16 Annual Governance Statement.

## 4 Diversity and Equal Opportunities

- 4.1 None

## 5 Risk

- 5.1 Without an effective Audit Committee, the company is at risk of not obtaining on-going assurance as to the robustness of its risk management, control and governance arrangements.

An ineffective system of internal control potentially puts the delivery of company services and objectives at risk.

## 6 Financial Implications

- 6.1 None

## 7 Resident Consultation

- 7.1 None

## 8 Background Paper

- 8.1
- CIPFA: Audit Committees, Practical Guidance for Local Authorities and Police 2013
  - Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authority Chief Executives and Senior Managers (SOLACE) publication: Delivering Good Governance in Local Government - Framework.

## 9 Appendices

- Appendix 2a: Delivering the Audit Committee's Terms of Reference
- Appendix 2b: South Essex Homes Annual Governance Statement 2016/17
- Appendix 2c: Governance Action Plan 2016-17
- Appendix 2d: Governance Action Plan 2017/18