

South Essex Homes Limited

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

to

The Audit Committee

on

21 May 2014

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Agenda
Item No.

7

Audit Committee Annual Report 2013/14

A Part 1 Public Agenda Item

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 how accurately the Annual Governance Statement reflects the company's governance arrangements throughout the year
 - can report to the Board that it has successfully discharged its role as set out in its Terms of Reference for 2013/14.

2 Recommendations

2.1 **The Audit Committee:**

- **accepts the performance and effectiveness assessments outlined in the report and the recommendations made for further action**
- **recommends that the Board approves the Annual Governance Statement**
- **reports to the Board that it has successfully delivered the requirements of its Terms of Reference in 2013/14.**

3 Background

The Audit Committee's Role

3.1 For 2013/14, the purpose of the Audit Committee was to:

- provide independent assurance of the adequacy of the risk management framework and the associated control environment
- provide independent scrutiny of the company's financial and non-financial performance to the extent that it affects its exposure to risk and weakens the control environment
- oversee the financial reporting process.

Source: CIPFA: Audit Committee Practical Guidance for Local Authorities and A Toolkit for Local Authority Audit Committees

- 3.2 CIPFA issued updated Audit Committee guidance in December 2013. Therefore this year's annual performance review has been undertaken against this new guidance. Any changes required to the manner in which the Audit Committee operates will be implemented in 2014/15, once agreed by the Board.

Operating Arrangements and Effectiveness of the Audit Committee

- 3.3 The Audit Committee operates under Terms of Reference that are reviewed regularly and approved by the Board.
They were compliant with good practice guidance during 2013/14.
They have been updated for 2014/15 to reflect the requirements of the new CIPFA Guidance, Audit Committees, Practical Guidance for Local Authorities and Police issued December 2013 and are supported by an annual work programme.
- 3.4 Membership is reviewed annually. In 2013/14, consisted of four Board members including at one that had 'recent relevant financial experience' although not someone who is a qualified accountant.
- 3.5 Members receive training when a specific need is identified.
Future training needs are discussed as part of the annual performance assessment process and during the twice yearly meeting the auditors have with members.
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.
- 3.6 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 during the year.
- The Audit Committee reports to the Board following each meeting by the submission and adoption of its minutes.
- 3.7 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 was produced which 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.

3.8 The Audit Committee **has a high level of compliance** with the new good practice guidance, issued by CIPFA, which covers its operating arrangements.

A decision needs to be made during 2014/15, whether:

- the Audit Committee's Terms of Reference should be extended to include any of the wider areas outlined in the guidance
- the core knowledge and skills of the Audit Committee's membership should be assessed against framework in the guidance.

These are new requirements.

3.9 For the first time, the Audit Committee also undertook an initial assessment of its effectiveness. This type of evaluation has not formed part of the CIPFA good practice guidance before.

It is possible to conclude that the Audit Committee **has been effective in supporting improvement and added value to the company** in areas covered by its work programme.

However, some thought now needs to be given as to how the Audit Committee can discharge this role in relation to:

- new areas, not explicitly defined before, such as:
 - major projects and programmes of work
 - value for money
 - ethical governance
 - advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively.
- the operation of performance management, now the Performance Committee has been disbanded
- the governance arrangements of the new company, Atilius.

3.10 This overall assessment demonstrates that the Audit Committee has delivered its Terms of Reference in 2013/14. Whilst some development areas have been identified, there were no significant areas of non compliance.

3.11 A report will be presented to the Audit Committee in October 2014 outlining progress made in implementing the action points arising from this review.

Annual Governance Statement / Statement of Internal Control

3.12 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.

3.13 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 governance, risk management and control framework has operated throughout the year.

3.14 **Appendix 2A** summarises the work done and the assurance it provides round the five areas covered by the Audit Committees Terms of Reference. This includes evidence provided by the annual Manager Assurance Statements.

3.15 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 governance, risk or control issue has been satisfactorily addressed.

3.16 **Appendix 3** of this report is the company's AGS for 2013/14. This reflects the evidence outlined above, including the Head of Internal Audit's Opinion, the external auditor's opinion and other appropriate independent assurances. Accordingly the Audit Committee supported the Board's approval of the AGS on the 6 June 2014, subject to any amendments that may arise as part of the external audit of the company's statement of accounts.

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 ongoing assurance as to the robustness of its governance, risk management and control 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 Papers

- 8.1
- CIPFA: Audit Committees, Practical Guidance for Local Authorities and Police 2013
 - CIPFA: The Role of the Head of Internal Audit in Public Service Organisations 2010

9 Appendices

- 9.1
- Appendix 2A: Summary of Assurance available to the Audit Committee 2013/14