

South Essex Homes Limited

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

to

The Audit Committee

on

13 May 2015

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Agenda
Item No.

4

Audit Committee Annual Report 2014/15

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 the accuracy of the Annual Governance Statement
 - successfully discharged its role as set out in its Terms of Reference for 2014/15.

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 2014/15.**

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 2014/15, they reflected the requirements of the relevant CIPFA Guidance and were supported by an annual work programme.

3.3 Membership is reviewed annually. In 2014/15, it consisted of five Board Members including one that had 'recent relevant financial experience' although not someone who is a qualified accountant.

3.4 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.

3.5 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.

Attendance at meeting was such as to demonstrate:

- 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 had a **high level of compliance** with the good practice guidance which covers its operating arrangements. However it received very little assurance during 2014/15 regarding the company's risk management arrangements or their operation. This will be rectified in 2015/16.

Going forward, the proposal is that the Audit Committee include the following additional areas (as outlined in good practice guidance) within its Terms of Reference:

- working with others to support ethical values and reviewing the arrangements to achieve those values

- providing oversight of other public reports, such as the annual report.

It is not felt to be necessary for the Audit Committee's Terms of Reference to be extended to include considering governance, risk or control matters at the request of other committees. Such matters would usually be referred to the Board.

The Board appraisal documentation will be reviewed this year to take account of the core knowledge and skills framework requirements for Audit Committee members.

Training and development programmes will then be produced to support individual needs.

- 3.8 It was 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 except risk management.

The proposal is that the Board will retain the role of ensuring:

- governance and assurance arrangements are in place over major projects and programmes of work
- performance management arrangements are effective.

However Audit Committee members will also challenge the adequacy and effectiveness of these arrangements when such papers come to the Board and not just focus on delivery.

The Audit Committee will be provided with reports in due course that assess whether:

- appropriate arrangements are in place to deliver value for money
- ethical governance arrangements for staff and members are effective.

The company's working arrangement with the Southend-on-Sea Borough Council and Thurrock Council regarding the delivery of counter fraud and investigation services is being clarified for 2015/16. Its arrangements in this area will be refreshed once the expected national guidance becomes available during 2015.

At some point, the Audit Committee will need determine what assurance it will require from Atilius regarding its risk management, control and governance framework.

- 3.9 This overall assessment demonstrates that the Audit Committee has delivered its Terms of Reference in 2014/15 with the exception of risk management. Some opportunities have been identified to enhance its effectiveness which will be addressed in 2015/16.

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

Annual Governance Statement

- 3.11 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.

- 3.12 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.

3.13 **Appendix 2a** summarises the:

- reports received by the Audit Committee relating to the 2014/15 financial year linked to the five areas covered by the Audit Committees Terms of Reference
- level of assurance provided by each report.

This includes evidence provided by the annual Manager Assurance Statements.

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 3** is the company's AGS for 2014/15. This reflects the evidence outlined above, including the Head of Internal Audit's Opinion, the external auditor's opinion and other appropriate independent assurances.

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 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

9 Appendices

- 9.1 • Appendix 2a: Summary of Assurance available to the Audit Committee 2014/15
- 9.2 • Appendix 3: Annual Governance Statement 2014/15