

# Southend-on-Sea Borough Council

Agenda  
Item No.

Report of the Executive Director (Finance and  
Resources)

to

**Audit Committee**

on

**12<sup>th</sup> August 2020**

Report prepared by: Andrew Barnes, Head of Internal Audit

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## **Audit Committee Annual Report 2019/20**

### ***A Part 1 Public Agenda Item***

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#### **1. Purpose of Report**

- 1.1 The effective operation of the Audit Committee forms a key element of the Council's corporate governance arrangements, by providing an independent and high-level oversight on audit, assurance and reporting arrangements that underpin good governance and financial standards. By fulfilling its responsibilities, as detailed in this annual report, the Committee supports the Council to maintain a high standard of corporate governance.

#### **2. Recommendation**

- 2.1 The Annual Report for the Audit Committee for 2019/20 be agreed and for the report be referred to the Council for information.**

#### **3. Background**

- 3.1 Although there is no statutory obligation for a local authority to establish an Audit Committee, they are widely recognised internationally across the public and private sectors as a key component of effective governance. Similarly, it is considered good practice for the Committee to report annually to the Council on its work.
- 3.2 The Audit Committee's role is set out in the Terms of Reference and is primarily to:
- provide independent assurance of the adequacy of the governance, risk management framework and internal control environment
  - oversee the financial reporting and annual governance processes
  - oversee internal and external audit, helping to ensure effective relationships exist.

- 3.3 The key benefits of having an effective Audit Committee are to:
- increase awareness regarding the effectiveness and continued development of the Council's governance arrangements
  - provide additional assurance on the robustness of the Council's governance arrangements through a process of independent and objective review
  - reduce the risks of errors, illegal or improper acts
  - increase stakeholder confidence in the objectivity and fairness of financial and other reporting
  - contribute to performance improvements in assurance levels and awareness of the need for strong internal control including the implementation of audit recommendations
  - reinforce the importance and independence of internal and external audit and similar review processes.

#### **4. Delivery of Terms of Reference**

- 4.1 To help the Committee draw conclusions about the effectiveness of the Council's internal control framework, governance and risk management it gained assurances from the following sources:

##### **Internal Audit**

- 4.2 The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective Internal Audit function. Internal Audit is a key source of independent assurance for both Members and management on the effectiveness of the control framework. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.
- 4.3 The Committee considered and agreed reports regarding the Internal Audit Strategy, Internal Audit Charter and Annual Plan 2019/20. It has received regular progress reports on the work and performance of Internal Audit at each meeting and also obtained information from internal audit about the progress made by management in implementing audit recommendations. These reports have helped to ensure that identified weaknesses have either been addressed or the risks adequately mitigated by management to ensure that there is an effective system of governance, risk management and internal control in place.

##### **Assurance statements and Annual Governance Statement**

- 4.4 The Committee's terms of reference include advising on the effectiveness of the Council's internal controls and assurance arrangements, including the production of the Annual Governance Statement.
- 4.5 During the year, the Committee has received reports on the control environment and how the annual review and assurance process is undertaken. Members are provided with progress made on the issues raised in respect of the Annual Governance Statement and of the annual production of it through the Good Governance Group.
- 4.6 The Head of Internal Audit provides an annual report and opinion regarding the Council's control, governance and risk management framework. This opinion is considered by the Committee alongside other sources of assurance.

- 4.7 At the meeting in July 2019 the Committee reviewed the Annual Governance Statement (AGS) for 2018/19 which identified governance issues requiring further ongoing improvement or monitoring relating to:
- Southend 2050 – Transformation: ensure the necessary skills, tools and techniques are in place to support the changes required in the workforce to deliver the desired outcomes of the 2050 Road Map and related strategic and outcome delivery plans
  - Southend 2050 – Outcome based investment: progress the Council’s work to achieve the 2050 Road Map, including moving to an outcome based investment approach to business and budget planning and management for future years
  - Southend 2050 – New governance architecture: develop and embed the Council’s new officer governance architecture (comprising the four new boards) to ensure it is effective, along with other governance bodies, in supporting the 2050 programme and provides the necessary assurance in ensuring good governance.
- 4.8 The Council’s Local Code of Governance was updated during the year and became referred to as ‘A simple and effective governance framework’. This was reviewed by the Committee in October 2019 ensuring it remained compliant with the CIPFA/SOLACE framework – Delivering Good Governance in Local Government and that the proposed updates were appropriate.
- 4.9 The Committee was able to be satisfied that there are appropriate governance and assurance arrangements in place to safeguard the Council’s resources through the annual review of the Council’s Annual Governance Statement, the system of internal control and the Head of Internal Audit’s annual opinion.

### **Risk Management and Control Environment**

- 4.10 The Committee receives and discusses reports relating to risk management and the control environment. Work continued during the year to enhance monitoring and reporting mechanisms to ensure there is adequate scrutiny and challenge of risk across the Council and aligning this with service planning and management. The Council’s Risk Management Strategy was updated during the year and was reviewed by the Committee in October 2019 through the Control Environment Assurance report. The corporate risk register is reported to Cabinet with a rolling review of individual risks contained within it.

### **Anti-Fraud and Corruption**

- 4.11 Countering fraud and corruption is the responsibility of every Member and officer of the Council. The Committee’s role in this area is to ensure that the exposure to the risks of fraud and corruption are managed. It has done this by monitoring and supporting the actions taken by officers to counter fraud, including the work of the Counter Fraud and Investigation Team.
- 4.12 The shared counter fraud service agreement with Thurrock Council (the Counter Fraud & Investigation Directorate) ended on 4 October 2019 and the Committee received a report at the January meeting to outline the arrangements for the new team, with a development plan and a new workplan that were being introduced as a result.

- 4.13 The Committee receives reports and presentations on such work undertaken at the Council and proactive fraud work, for example participation in the National Fraud Initiative (NFI) and the work of the Counter Fraud and Investigation Team.
- 4.14 The Council's Counter Fraud, Bribery and Corruption Policy and Strategy, Counter Money Laundering Policy and Strategy and Whistleblowing Policy were reviewed and approved by the Committee as part of the Control Environment Assurance report in October 2019. As a result the Council continues to send out a strong message that fraud will not be tolerated and that where fraud is proven the strongest possible actions of redress will be taken.
- 4.15 Based on the work undertaken to date, along with no major incidences of fraud and corruption being highlighted by management or Internal Audit, the Committee is able to conclude that there is an appropriate anti-fraud framework in place.

### **External Audit and Inspections**

- 4.16 During the year the Committee received a number of reports from the External Auditors, Deloitte, who attend all meetings. These reports include the Audit Plan, the Final Report to Those Charged With Governance, the Annual Audit Letter and the Housing Benefit Subsidy Certification report. When reviewing the reports the Committee considered the audit risks and the assurance that was being provided by the External Auditors.
- 4.17 During the year Ofsted undertook a full inspection of the Council's Children's Services. The inspection considered all areas of statutory children's social work services and early help services delivered by the Council. It did not inspect the work of partners. The inspectors stated that services for children in Southend require improvement to be good across all areas, as was the case at the last inspection in 2016.
- 4.18 While the 2016 inspection found the service required improvement in 12 areas, the 2019 inspection found a need for required improvement in four. A revised Strategic Children's Services Improvement Plan has been put in place and is being overseen and implemented by the Children's Services Improvement Board, a Cabinet / councillor working group, the service and safeguarding partners. The Improvement Board is chaired by the Leader and attended by senior Officers, Lead Member, opposition Children's lead and the chair of safeguarding Partnership along with an independent external expert.

### **Financial Statements**

- 4.19 The Audit Committee has delegated authority to the review and recommend the Annual Governance Statement for signing by the Leader and Chief Executive and to adopt and approve for publication the Statement of Accounts for each year.
- 4.20 At its July 2019 meeting the Committee reviewed and recommended the Council's Annual Governance Statement for signing by the Leader and Chief Executive, subject to any further views expressed by external audit. The Committee considered the draft Statement of Accounts for 2018/19 and agreed to adopt them and approve them for publication.

## **Treasury Management**

- 4.21 The Committee receives and discusses reports relating to treasury management. The Committee's role in this area is to effectively scrutinise and monitor delivery of the treasury management policy statements, the strategy and the annual treasury management investment strategy, setting out how the Council will operate and manage this area of activity.

## **5. Committee Working Arrangements**

- 5.1 The Audit Committee is well established, with the Committee's Terms of Reference reviewed periodically as part of refreshing the Constitution. Membership is reviewed annually. In 2019/20, it consisted of nine members with one co-opted member, who has relevant specific financial and audit experience in local government. The Terms of Reference require that at least one member should have financial expertise and the co-opted member is a retired local government external auditor.
- 5.2 The Terms of Reference specify that the committee will meet four times per year, although further meetings can be arranged on an ad hoc basis as the Audit Committee deems appropriate. Four meetings were held within the last financial year, with the Summer meeting timed to consider the Council's assurance statements, financial statements and any issues raised by the external auditor, to meet the statutory publication deadline.
- 5.3 Members of the Committee have a wide range of both experience and professional knowledge. The Committee has the benefit of being well supported by Council Officers. The Executive Director (Finance and Resources), Internal Audit and External Audit regularly attend at the Committee's request. Other officers attend as necessary to present specific reports.
- 5.4 The Chair and the Vice Chair have regular pre Meetings with lead Officers and External Auditors to review and discuss meeting content to ensure the Committee's Terms of Reference are adhered to.
- 5.5 The Committee has a rolling and flexible programme of work for its main areas of activity which is reviewed and amended throughout the year to reflect changes in policies, priorities and risks. The Committee considered items which are presented annually, such as internal and external audit plans, internal and external audit results, the statement of accounts, the annual governance statement as well as a number of other items including a review of the Control Environment Assurance arrangements.
- 5.6 The Audit Committee completed an annual self-assessment during the year. This demonstrated that the Audit Committee has operated in line with recommended good practice guidance, although there were opportunities for improvement the majority of which would be addressed by the production of this Audit Committee Annual report.
- 5.7 No major breakdowns in internal control, governance and risk management that have led to a significant loss in one form or another have been recorded or reported. Nor have major weakness in the governance arrangements that exposes the Council to an unacceptable level of risk. This includes the period to the end of March 2020 after the government announced on the 23 March 2020 a full scale lock down of the country due to Covid-19.

- 5.8 The purpose and operation of the Committee mitigates against failure by the Council to obtain independent assurance in relation to the governance processes underpinning:
- An effective risk management framework and internal control environment, including audit
  - The compilation and consideration of the Annual Governance Statement.
- 5.9 During 2020/21 the Committee will complete the work that it has begun on the skills stocktake and this will be used to shape training for Committee Members and their substitutes that will be provided, but has been delayed because of the covid-19 pandemic.

## 6. Conclusion

- 6.1 Through its work, the Committee provides the Council with additional assurance about the robustness of the Council's arrangements regarding governance, risk management and internal controls.
- 6.2 The Committee has added value through its activity and in particular:
- it has continued to increase the importance placed upon governance issues, particularly risk management, anti-fraud and corruption and the assurances sought that key risks are being mitigated
  - it has continued to raise the profile of internal control issues across the Council and to seek to ensure that audit recommendations are implemented.
- 6.3 The Committee's remit is achieved firstly through it being appropriately constituted, and secondly by the Committee being effective in ensuring internal accountability and the delivery of audit to contribute to a robust assurance framework. The Committee has received and challenged reports from management and both internal and external audit.
- 6.4 The Committee has continued to have a real and positive contribution to the governance, risk management and internal control arrangements of the Council.

## 7. Reasons for Recommendations

- 7.1 **Enabling the Audit Committee to effectively discharge its responsibilities, as per the Terms of Reference, in the most effective way to achieve best practice, assists the Audit Committee with obtaining the necessary assurances and being able to provide assurance to Full Council, including that the Annual Governance Statement appropriately reflects the conditions at the Council.**

## 8. Corporate Implications

- 8.1 Contribution to the Southend 2050 Road Map
- The work of the Committee provides assurance and identifies opportunities for improvements that contribute to the delivery of all Southend 2050 outcomes.
- 8.2 Financial Implications
- Any financial implications arising from identifying and managing risk and obtaining assurance will be considered through the normal financial management processes.

### 8.3 Legal Implications

There is no legal requirement for the Council to have an Audit Committee, however it is recognised as good practice and provides benefits to the Council, including those arising in this report.

### 8.4 People Implications

People issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

### 8.5 Property implications

Property issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

### 8.6 Consultation

The Audit Committee Annual Report has been discussed and agreed with the Audit Committee Chair before being reported to the Audit Committee and then Council.

### 8.7 Equalities and Diversity Implications

Equality and diversity issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

### 8.8 Risk Assessment

Failure to operate a robust Audit Committee (which incorporates the audit functions) increases the risk that there are inadequacies in the internal control framework that may impact of the Council's ability to deliver its ambition and outcomes.

### 8.9 Value for Money

Value for money issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

### 8.10 Community Safety Implications

Community safety issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

### 8.11 Environmental Impact

Environmental issues that are relevant to the Audit Committee will be raised as and when they occur. There is nothing to raise at this time.

## 9. Background Papers

- The Accounts and Audit Regulations 2015
- CIPFA: Audit Committees – Practical Guidance for Local Authorities and Police 2018

**Matters considered by the Audit Committee during 2019/20**

**March 2019**

- BDO: Grant Claims and Returns Certification report for the year ending 31st March 2019
- Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31st March 2019
- Counter Fraud and Investigation Directorate: Quarterly Performance Report
- Internal Audit Service, Quarterly Performance Report
- Internal Audit Charter, Strategy and Audit Plan for 2019/20

**July 2019**

- Teachers' Pension Return 2017/18 - Progress report
- Internal Audit Service, Quarterly Performance Report
- Head of Internal Audit Annual Report 2018/19
- Counter Fraud & Investigation Directorate, Annual Report for 2018/19
- Deloitte: Final Report to Those Charged With Governance 2018/19
- Adoption of the Annual Governance Statement 2018/19 and Statement of Accounts 2018/19
- Counter Fraud & Investigation Directorate, Counter Fraud Plan and Strategy for 2019/20
- Audit Committee Self-Assessment

**October 2019**

- Deloitte: Annual Audit Letter, Audit for the year ended 31 March 2019
- Control Environment Assurance
- Local Code of Governance: A Simple and Effective Governance Framework
- Internal Audit Service Quarterly Performance Report

**January 2020**

- Treasury Management Policy for 2020/21
- Risk Management Update
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Service Quarterly Performance Report
- Audit Committee Assessment and Development

## **April 2020**

- Deloitte: Housing Benefit Subsidy Certification report for the year ending 31 March 2019
- Deloitte: Audit Plan to the Audit Committee, Audit for the year ending 31 March 2020
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Service Quarterly Performance Report
- Internal Audit Charter, Strategy and Audit Plan for 2020/21
- Audit Committee Assessment and Development