

Southend-on-Sea Borough Council

Report of the Deputy Chief Executive and Executive Director (Finance
and Resources)

To

Audit Committee

On

20 July 2022

Report prepared by: Andrew Barnes, Head of Internal Audit

Audit Committee Annual Report 2021/22

A Part 1 Public Agenda Item

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 2021/22 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 for 2021/22. 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 specific aspects 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 internal control, governance and risk management framework. This opinion is considered by the Committee alongside other sources of assurance.

- 4.7 The Annual Governance Statement (AGS) for 2020/21 is included as part of the draft financial statements that were published in July 2021. The AGS identified governance issues requiring further ongoing improvement or monitoring relating to:
- Review of the Council's priorities in the context of the ongoing impact of Covid-19
 - Progressing the next iteration of the Council's transformation programme – Future Ways of Working
 - Undertaking a review of Councillor decision making
 - Completion of the CIPFA Financial Management Code self-assessment action plan.
- 4.8 As the external audit for 2020/21 has not yet been fully completed and opinion issued, the AGS for the year has yet to be finalised and will be reported to the Audit Committee as part of the conclusion of the external audit for 2020/21.
- 4.9 The Council's Local Code of Governance referred to as 'A simple and effective governance framework' remained in place during the year following the review that was undertaken 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.
- 4.10 The Council's Annual Governance Statement for 2021/22 recognises that there is a need to update and strengthen the governance arrangements and processes that underpin how the Council works, as is supported by the Head of Internal Audit's annual opinion. A review of governance arrangements is currently being undertaken by officers and will include updating and refreshing the Local Code of Governance. The results of this review and the action plan arising will be reported to the Audit Committee once it is completed later in the year.

Risk Management and Control Environment

- 4.11 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 current Risk Management Strategy was updated following the bi-annual refresh 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 and the Committee received an update report in January 2022. The Council's Risk Management Strategy will be reviewed and refreshed again later in 2022 as part of the governance review that is being undertaken.

Anti-Fraud and Corruption

- 4.12 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.
- 4.13 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).

- 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 following their refresh, 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. The policies will be reviewed and refreshed again later in 2022 as part of the governance review that is being undertaken.
- 4.15 Based on the work undertaken to date, including the regular reports provided to the Committee by the Counter Fraud and Investigation Team, along with no major incidences of fraud and corruption being highlighted by management, the Counter Fraud and Investigation Team, 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 most meetings. These reports include the Audit Plan, the Housing Benefit Subsidy Certification and other grants report and progress reports. The Final Report to Those Charged With Governance reporting the full results of the external audit has yet to be received as the 2020/21 audit has not yet been completed. This will be presented to the Committee before Deloitte provide their opinion on the financial statements. When reviewing the reports provided the Committee considered the audit risks and the assurance that was being provided by the External Auditors.
- 4.17 In April 2021 the LGA undertook a healthcheck of the Council focussed on the Council's priorities; community engagement; systems and processes; investment in staff and councillors; digital capacity and financial planning. The feedback highlights a range of positive findings, including, the Council's response to the pandemic, the way the Council is progressing its ambitions and the soundness of the Council's finances. The report makes seven recommendations, covering: agreeing fewer priorities and focus; the need for a simpler narrative; building relationships with communities; the need for greater discipline and rigour and progressing councillor training & induction.
- 4.18 In March 2022 OFSTED visited children's services and inspectors looked at case files, met with the practitioners who held those cases as well as meeting with members of the Children in Care Council, a foster carer, managers, Head and Deputy Head of the Virtual School and colleagues from health. The outcome letter published by OFSTED recognised positive changes to the service but says more needs to be done. Improvements already made as recognised in the letter include:
- stronger leadership, including streamlined processes, better case management and increased investment in staff
 - despite limited specialist resources, Ofsted noted there is some good work in the children with disabilities service
 - the council was praised for its response to care for a greater number of unaccompanied asylum-seeking children
 - the Children in Care Council is an inclusive and enthusiastic group of children who are confident that leaders listen to their views.

- 4.19 However further work needs to be done on:
- the challenges around finding suitable long-term homes and while there are action plans in place, the changes need to happen quicker
 - there needs to be improved management, paperwork and priority given to direct work with children
 - the matching and long-term placement of children also needs to be improved and too many live too far away from Southend
 - there needs to be improved consistency for health provision and regular dental checks for children in care.
- 4.20 OFSTED / CQC followed up the initial independent formal area SEND (Special Educational Needs and Disability) inspection from October 2018 through a Southend Area SEND on-site, blended revisit in May 2021. The visit included scrutiny of all documentation supplied, interviews with relevant stakeholders, including pupils and parents, and a parental survey. The area received the final outcome letter for the revisit in June, identifying that of the four previous aspects of weakness, the Council had made sufficient progress against three of them - the Local Offer; the quality of Education Health and Care Plans and the quality of education provision received by learners with SEND. In the fourth aspect, Leadership and Joint Commissioning, whilst regulators noted more recent progress, they considered that this was yet to fully impact upon children and families, and determined that sufficient progress had not been made in this aspect.
- 4.21 OFSTED / CQC will play no further part in monitoring the actions, but the Department for Education will support progress in the remaining aspect. As an area progress will be reported on this and other aspects of SEND provision through our governance boards and to the Health and Wellbeing Board.

Financial Statements

- 4.22 The Audit Committee has delegated authority to 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.
- 4.23 The external audit for 2020/21 has yet to be fully completed and therefore the Final Report to Those Charged With Governance that reports the results of the external audit has yet to be received. The Audit Committee will receive this report before the completion and certification of the external audit, as required by International Auditing Standards

Treasury Management

- 4.24 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.

Special Meetings

- 4.25 During the year the Committee held two special meetings to consider the findings of specific work that had been requested of internal audit in respect of the Better Queensway redevelopment project (September 2021) and the Vecteo SEND home to school transport provision (March 2022).
- 4.26 The Committee received the reports of internal audit into these issues and made requests of the Council to improve the overall arrangements in respect of the issues themselves and the wider operations of the Council.

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 2021/22, it consisted of nine members with one co-opted independent 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 independent 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. Five meetings were held within the last financial year, with the meetings timed to consider the Council's assurance statements, financial statements and any issues raised by the external auditor, to meet the statutory publication deadline. As the external audit has not been completed in accordance with the statutory publication deadline the Council was unable to publish audited financial statements, however did meet the requirements of the statutory duty by publishing unaudited financial statements, along with a Notice of Delay to Conclusion of Audit of Accounts 2020/21.
- 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 Deputy Chief Executive and Executive Director (Finance and Resources), Internal Audit, External Audit and Counter Fraud 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 consider 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 data protection, risk management and CIPFA's Financial Management Code.
- 5.7 Some weaknesses in internal control, governance and risk management have been identified during the year, as reflected in the Annual Governance Statement and the Head of Internal Audit Annual Report, although these have not led to significant loss. Improvements to governance and risk management arrangements are being sought through the governance review currently being undertaken to better manage the Council's exposure to risk.

- 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.

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 in respect of oversight of the Council's joint ventures and companies, risk management, anti-fraud and corruption and the assurances sought that key risks are being managed and appropriately 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.
- 6.5 Over the course of the 2022/23 year the Committee will seek to address the following priorities:
- recovery from the impact of Covid-19, inflation and the cost of living
 - Audit Committee training
 - supporting internal audit with resourcing.

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
- CIPFA Position Statement: Audit Committees in Local Authorities and Police 2022.

Matters considered by the Audit Committee during 2021/22

April 2021

- Deloitte: Housing Benefit Subsidy Certification and grants report 2019/20
- Deloitte: Audit Plan to the Audit Committee 2020/21
- CIPFA Financial Management Code
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Service Quarterly Performance Report
- Internal Audit Planning for 2021/22 timetable

September 2021 (Special meeting)

- Internal Audit Report: Better Queensway Highways Scheme

October 2021 (took place in December 2021)

- Internal Audit Charter, Head of Internal Audit Annual Report 2020/21
- External Audit Status update 2020/21
- Counter Fraud and Investigation Annual Report 2020/21
- Cyber Security
- CIPFA Financial Management Code Action Plan Progress Report
- Internal Audit Charter Strategy and Plan 2021/22
- Appointment of External Auditor

January 2022

- Treasury Management Policy for 2022/23
- Internal Audit Service Quarterly Performance Report
- Counter Fraud and Investigation Team Quarterly Performance Report
- Risk Management Update

March 2022 (Special meeting)

- Vecteo update

April 2022

- Grant Thornton: Housing Benefit Subsidy Assurance Report 2020/21
- Homes England Compliance Audit Report 2021/22
- Deloitte: External Audit update report 2020/21
- CIPFA Financial Management Code
- Internal Audit Service Quarterly Performance Report
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Charter, Strategy and Plan 2022/23