

# Southend-on-Sea City Council

Report of the Executive Director (Finance and Resources)

To

**Audit Committee**

On

**19 July 2023**

Report prepared by: Andrew Barnes, Head of Internal Audit

**Agenda  
Item No.**

---

## **Audit Committee Annual Report 2022/23**

### ***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 2022/23 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 2022/23. 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 2021/22 is included as part of the draft financial statements that were published in July 2022. The AGS identified governance issues requiring further ongoing improvement or monitoring relating to the Council's:
- Governance framework
  - Risk management arrangements
  - Contract management arrangements
  - Project management arrangements.
- 4.8 As the external audit for 2021/22 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 2021/22.
- 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 2022/23 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.

### **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. The Council's Risk Management Strategy will be reviewed and refreshed again during 2023/24 as part of adopting an updated Local Code of Governance.

### **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 during 2023/24 as part of adopting an updated Local Code of Governance.
- 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 and reports of the results of external audit work. The Final Report to Those Charged With Governance reporting the full results of the external audit for 2020/21 were reported to the Committee during the year, but has yet to be received for 2021/22 as that 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 October 2022, the Council invited LGA peers to conduct a Corporate Peer Challenge (CPC), to provide an external assessment of its progress, and an opportunity for improvement lead review of the key challenges faced by the Council. The CPC considered questions from five core components:
- Local priorities and outcomes
  - Organisational and place leadership
  - Governance and Culture
  - Financial planning and management
  - Capacity for improvement.

- 4.18 The peer challenge was not an inspection, but improvement focussed. The CPC was designed to complement and add value to the Council's own performance and improvement plans. The feedback highlighted a range of positive findings: the peers found that the Council was very self-aware, has huge potential and that there are many positive attributes and assets both within the Council and city, including the strong community ethos, ambitious regeneration projects and sound financial management. However, peers found that the approach to leadership, governance and decision making is impacting the council's capacity to progress. As a result, nine recommendations were made, many of which relate to the theme of governance and decision making:
- completing the review of the Council's Constitution
  - develop more effective councillor and officer working relationships
  - consider changing the election cycle
  - re-engage partners
  - align priorities to resources and capacity
  - better communicate difficult decisions
  - modernise operating systems
  - develop a plan to tackle spatial inequalities and disparities across the city
  - continue to engage in regional activity, such as Association of South Essex Local Authorities.
- 4.19 Cabinet accepted the peer's findings and recommendations and in response worked with the Senior Leadership Group to develop an Action Plan which begins to identify activity to enable the Council to take steps towards improving the issues identified. The Action Plan will be overseen by a cross party working party and further developed in collaboration with councillors. Key areas of activity are already in motion, and the LGA has endorsed their progression. These include continuing with the review of the constitution, continuing work to improve behaviours, reviewing the Council's operating model and ability to prioritise, and continuing to engage in region wide discussions. Peers will return to the Council to review progress against the Action Plan and support the Council to further embed its learning.
- 4.20 Ofsted and the Care Quality Commission (CQC) visited the Council area to inspect the local arrangements for children and young people with special educational needs and disabilities (SEND) between 2nd and 10th March 2023.
- 4.21 Southend is the fourth area to be inspected under the new framework, which came into effect earlier this year, its intention is to provide an independent, external evaluation of the effectiveness of the local area partnership's arrangements for children and young people with SEND. There were five inspectors, including the lead inspector in the inspection team.
- 4.22 Under this new inspection framework, the team undertook deep dives into specific cases, meeting with the children and their parent / carers, looked at responses to three separate questionnaires; one for children and young people, one for parent / carers and one for practitioners; and looked at a range of documents and information requested and submitted in advance of the inspection. The findings have not yet been published.

## **Financial Statements**

- 4.23 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.
- 4.24 The external audit for 2020/21 was completed with the Final Report to Those Charged With Governance that reports the results of the external audit reported to the Committee during the year. The external audit for 2021/22 is currently in progress and the Audit Committee will receive the Final Report to Those Charged With Governance for 2021/22 before the completion and certification of the external audit, as required by International Auditing Standards

## **Treasury Management**

- 4.25 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 2022/23, 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. Four 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. As the external audit had 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 2021/22.
- 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, 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.
- 5.6 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 and an updated Local Code of Governance will be introduced during 2023/24.
- 5.7 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 2023/24 year the Committee will seek to address the following priorities:
- the transformation programme that will revise the Council's operating model, structure and focus to deliver a modern and financially sustainable Council
  - 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 Corporate Plan and Southend 2050 Road Map**

The work of the Committee provides assurance and identifies opportunities for improvements that contribute to the delivery of all Corporate Plan priorities and 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 with the Audit Committee Chair for the year, 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 2022/23**

**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

**July 2022**

- Head of Internal Audit Report 2021/22
- Counter Fraud and Investigation Annual Report 2021/22
- Deloitte: External Audit 2020/21 and 2021/22 Progress Report
- Audit Committee Annual Report 2021/22
- Vecteo Update

**November 2022**

- Annual Report on Comments, Complaints and Compliments 2021/22
- Information Governance Update and Senior Information Risk Owner (SIRO) Annual Report 2021/22
- CIPFA Financial Management Code Action Plan Progress Report
- Deloitte: External Audit 2020/21 status update
- Deloitte: Report to the Audit Committee on the audit for the year ended 31 March 2021
- Counter Fraud & Investigation Team Quarterly Performance Report
- Internal Audit Service Quarterly Performance Report

**January 2023**

- External Audit 2020/21 status
- Treasury Management Policy for 2023/24
- Homes England compliance report for 2022/23
- Internal Audit Service Quarterly Performance Report
- Counter Fraud and Investigation Team Quarterly Performance Report

## **April 2023**

- Deloitte: Auditor's Annual Report 2020/21
- Deloitte - Final ISA260 Report on the 2020/21 audit
- Housing Benefit Subsidy Assurance Report 2021/22
- CIPFA's Financial Management Code
- Digital and Cyber Security Report
- Internal Audit Service Quarterly Performance Report
- Counter Fraud and Investigation Team Quarterly Performance Report
- Internal Audit Charter, Strategy and Plan for 2023/24