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CORPORATE AUDIT COMMITTEE

ANNUAL REPORT TO COUNCIL 2013/14

1. INTRODUCTION

This is the ninth annual report of the Committee since it was established by the Council on 12 May 2005. It covers the work done during the year September 2013 to June 2014.

2. REVIEW OF WORK DONE IN 2013/14

a. Financial Governance – Annual Accounts

- i. The Committee approved on behalf of the Council an unqualified set of accounts for the year ended 31 March 2013 within the statutory deadline. This included the accounts for the Pension Fund.
- ii. The Committee then considered the formal governance reports for the Council and Pension Fund submitted by the external auditors (Grant Thornton) on their audit of the accounts.
- iii. The Council report highlighted some presentational and technical changes to the accounts and recommendations to improve the quality of the reconciliation process between the Property and Asset registers for accounting purposes. However there were no proposed changes to the General Fund Balances and Reserves. The auditors also noted that the accounts were presented promptly and that they were supported by good quality working papers.
- iv. The report on the Pension Fund Accounts highlighted that the financial statements were produced to a good standard, supported by good quality working papers and there were no material adjustments to the accounts.
- v. Both Governance reports were therefore noted and the audit of the accounts formally completed.

b. Financial Governance – Treasury Management

- i. The Committee considered the Treasury Management Outturn for 2012/13 which concluded that all prudential indicators were in line with projections and that the average rate of investment return was 0.83% above the benchmark rate.
- ii. In addition the committee received an update report six months into the 2013/14 year which showed an average rate of investment return 0.49% above the benchmark rate and all actions on target in line with the strategy. The restructuring of the Council's Public Works Loan Board debt portfolio had been implemented during the year saving up to a £1M on debt costs.

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- iii. Finally the Committee reviewed the Treasury Management and Annual Investment Strategy for 2014/15. This set out the treasury limits in force, treasury management indicators, current position, borrowing requirement, prospects for interest rates and the borrowing and investment strategies.
- iv. The committee agreed that current performance is good despite this being a very difficult and challenging arena due to the uncertainties within the global financial economy and therefore scrutiny will continue to be important to ensure Council resources are invested wisely

c. External Audit -

- i. This was the first full year for the Council's new external auditor – Grant Thornton – who had been successful in winning a new five year contract as a result of the governments changes to the public audit regime.
- ii. The draft local Audit Bill was scrutinised before parliament during the year and finally enacted and as it provides for options on a differing approach to the future appointment and monitoring of external auditors its implications will remain an area of high priority for the Audit Committee.
- iii. Alongside the audit of the accounts for 2012/13 the external auditor also conducted work in relation to concluding a satisfactory VFM opinion for the Council following assessments of our financial resilience, economy, efficiency and effectiveness and a broadly satisfactory review of our four main grant returns.
- iv. The external auditor also presented their new audit fees for the Council and Pension Fund as well as their audit plans for 2013/14. No significant variances were proposed from the previous audit approach and update reports on their work continued to be presented to the Committee alongside references to key national reports and reviews which could impact on the governance framework.

d. Corporate Governance –

- i. The Accounts and Audit Regulations require the Council to carry out an annual review of its governance arrangements, and to produce an annual statement detailing the results of that review. In addition there was a review of progress against actions identified in the 2012/13 statement.
- ii. In relation to the 2013/14 review, two reports were received to both introduce the Committee to their role and also debate a long list of potentially significant issues in relation to the 2013/14 statement.
- iii. All of these views were fed back to senior management and it was pleasing to note that no significant issues were identified for 2013/14 which is a positive sign of an effective internal control environment. The formal statement was then signed by the Leader of Council and Chief Executive prior to the statutory deadline.

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- iv. During the year the Committee also received a report on the Councils risk management arrangements and future risk management strategy. A review of the Councils Corporate Risk Register also took place and included detailed discussion on risks around the Financial Challenge, New Housing Targets, Flooding and Fracking.

e. Internal Audit –

- i. The Committee considered the Service's work plan and monitored its progress during the year. The Committee was satisfied with the balance of the plan between planned projects, unplanned commissions and follow-up of previous reports.
- ii. Whilst benchmarking results were broadly solid with costs below average and quality assurance indicators high, the Committee did express concern that only 86% of the plan had been completed – up from 80% in the year before – however the positive actions to address resource gaps and improved performance on almost all areas including the implementation of audit recommendations was positively received.
- iii. The committee noted the annual opinion on the internal control framework and that with increased pressure on budgets, choices on the degree of internal control had to be made and there was therefore an imperceptible rise in the level of the risk being accepted.
- iv. The Committee had previously received a report which recommended internal audit should prepare for a potential shared service and in light of current performance and the challenges ahead in terms of skills, resilience and resources this was again discussed and recommended. This resulted in two significant further developments in that the previous Divisional Director for Risk & Assurance was now to move into a shared role with North Somerset Council as Head of Audit & Assurance for both Councils. This role was also to include Information Governance and was a precursor to wider sharing opportunities with North Somerset. Additionally the audit service then contracted with the South West Audit Partnership to work in tandem in a number of areas. Both of these moves enabled further savings to be delivered without any loss of productivity and the Committee welcomed these significant and very positive steps to improving the audit service.
- v. Finally a biennial review of the Councils counter fraud arrangements took place reviewing all of the Councils arrangements as well as its risk to fraud based on national benchmarking exercises such as the National Fraud Initiative. The Committee was very pleased to see that risks were being successfully mitigated but were also keen to emphasise a message to all of Council that we take the risk of Fraud seriously and continue to support the drive to a zero tolerance approach to fraud, waste and misuse of resources during the current era of austerity.

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f. Review of Terms of Reference

- i. As part of good practice the Committee reviewed itself against CIPFA's best practice model for Audit Committees. Areas previously highlighted included independent support and training and development.
- ii. In relation to independent support the committee has already tackled this through the adoption of a co-opted independent member and the level of independence to the committee will be kept under review.
- iii. Updates and briefings were presented to committee where appropriate as part of presenting papers and have been received on the following areas –
 - Annual Accounts
 - External Audit
 - Treasury Management
 - Risk Management
 - Fraud & Corruption
 - Internal Audit
- iv. This approach continues to be welcomed and has resulted in constructive and valuable debate of individual topic areas.

3. WORK PLAN FOR 2014/15

- i. Whilst the Committee's work in 2014/15 will be broadly similar to the year recently ended it will keep under close review a number of key issues –
 - a) The future development of the Internal Audit service as it moves to implementing a formal partnership and the impact of these new arrangements;
 - b) The on-going development of the new public audit regime;
 - c) Financial resilience of the organisation through its Accounting and Treasury Management arrangements.

4. MEMBERSHIP AND SUPPORT

- i. The Committee's membership changed during the year. For three of the four meetings carried out, Councillor Barry Macrae was a member of the committee but following Council in May 2014 Councillor Macrae was replaced by Councillor Brian Webber
- ii. Four meetings were held during 2013/14 of which three required at least one substitute. Councillor Andrew Furse temporarily replaced Councillor Will Sandry as chair of the committee for three meetings due to ill health.
- iii. The Committee's lead officer is the Head of Audit & Assurance. Other officers attend, notably the Divisional Director (Finance) who leads on financial issues through his S151 role, Corporate Finance Manager and Group Manager for Audit & Risk.

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- v. The external auditors are currently represented by an Engagement Lead and Audit Manager from Grant Thornton.