Draft Annual Report of the Audit Committee 2017/18

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1.   Summary

1.1.   The Audit Committee is required by the Constitution to make an annual report to Full Council.

1.2.   The Audit Committee forms a part of the County Council's corporate governance arrangements. Its purpose is to "provide independent assurance of risk management and the control environment", "independent scrutiny of the authority's financial and non-financial performance" and "oversee the financial reporting process" (CIPFA).

1.3.   This report is to inform members of the work of the Audit Committee in the previous financial year, and to note the Committee's opinion on the standard of governance, risk management and internal audit in place within the County Council.

2.   Background

2.1.   The Audit Committee has met a total of 6 times since it last reported to County Council.

2.2.   The Audit Committee acts as "those charged with governance", and its role to ensure that the correct systems and processes are in place in order for the County Council to achieve its aims, to meet statutory requirements and to mitigate risks and prevent losses. In accordance with best practice, the Audit Committee's role is not to consider policy decisions.

2.3.   Technical support to the Audit Committee comes from a number of sources, including:-

- Grant Thornton as External Auditor for the Statement of Accounts and Value for Money conclusion.
- South West Audit Partnership (SWAP) as Internal Auditor to deliver our Internal Audit Plan
- The Director of Finance, Legal and Governance in the capacity of the s151 officer.
- Strategic Manager – Financial Governance, acting as the Chief Internal Auditor and also Lead Officer for the Committee.
- Chief Accountant providing training to members and presenting the Statement of Accounts.
- Governance Manager and Principal Officer – Risk Management to update members on the key corporate risks affecting the County Council.

The Audit Committee wishes to place on record its gratitude for the continued quality of the support that it receives.

3.   Work Programme

3.1. The Audit Committee's work programme over the last year has been varied, but key responsibilities and themes have not changed. These include:

- formal approval of the Annual Statement of Accounts and Value For Money Conclusion (annually, at the July meeting);
- continued review of the management of risks across the County Council, with particular emphasis on the corporate risks (quarterly)
- review of the corporate governance arrangements across the County Council to ensure that they remain sound and fit for the changing authority, e.g. the Annual Governance Statement and system of internal control (annually in June); anti-fraud and corruption measures (annually in January); and the Internal Audit plan (annually in March or April);
- review of Internal and External Audit reports looking at the Audit Plan delivery and findings, and ensuring that individual managers follow-up audit recommendations (at each meeting);
- review of the debtor management processes and its performance in collecting money due to the County Council (at least quarterly).

3.2. The Audit Committee can report that the majority of governance functions and processes remain well-controlled and delivered.

For the second year successive year, the Statement of Accounts (for 2016/2017) were successfully prepared, published and approved 2 months ahead of the statutory deadlines. Draft accounts were published by the end of May 2017, and these were finalised post-audit at the 27th July 2017 meeting. Officers have been testing systems and processes, to ensure that they are fully embedded for the accounting period 2017/2018, when the statutory deadlines will indeed move forward to May and July.

Audit Committee can report that not only was the Statement of Accounts prepared early, but that they resulted in an unqualified opinion for both the County Council and the Pensions Fund. This is the most positive conclusion that is possible from external audit, and the auditor was most complimentary in his report to Audit Committee in July 2017, and commented favourably on the quality of the working papers supplied and the "positive engagement from officers and timely responses to our audit queries".

Our statutory Annual Governance Statement, which accompanies the Statement of Accounts and has to demonstrate compliance with a nationally set list of documentary requirements , were "consistent with the audited financial statements" and "meets the requirements set out in the [new] CIPFA/SOLACE guidance"

The Value For Money Statement again received a highly positive external audit at the July 2017 meeting, with only the widely-reported OFSTED issue outstanding at that time. "Except for" OFSTED, the external auditor concluded that the County Council has "proper arrangements" in place to achieve Value For Money.

The South West Audit Partnership (SWAP) Annual Opinion also gave a positive picture, and was again able to offer "reasonable assurance" overall about the Council's internal controls, commenting that "I believe that overall the Senior Management of Somerset County Council have worked hard to cooperate with the audit process".

3.3.   The Audit Committee has reviewed the County Council's risk management arrangements quarterly. Effective risk management can have a major impact on the successful achievement of the objectives, policies and strategies of the authority. In particular, the Audit Committee concentrates on the Strategic Risk Register and those key risks (such as sustainable budgets, safeguarding of children, business continuity, Health and Safety, and IT) that need to be mitigated in order to lessen the likelihood or impact on SCC. Whilst most of these risks are regularly reviewed and appropriate measures put in place, the Audit Committee would still call in officers if they felt insufficient actions were being taken.

3.4.   The Audit Committee has continued the practice of scheduling all SWAP audits that only achieved "Partial" assurance audits to report back to the Committee at a future public meeting, and for the relevant SCC managers to attend and report on the progress against the agreed Action Plan from those audits. This is an important control, and helps provide the necessary assurance to the Audit Committee that audit findings are addressed properly and any risks are mitigated. The Audit Committee has therefore received a number of updates from managers during the previous financial year on such topics as Section 106 agreements, information governance and the forthcoming EU data protection requirements, Adult Safeguarding alerts, the Adults AIS IT system, financial management of care systems, children's independent placements, and the planned use of schools balances. We continue to monitor progress against Partial audits through the use of our JCAD Risk Management system.

3.5.   The Audit Committee has a regular update on debt management – the collection of money owed to the County Council and our performance in ensuring that we receive fees and charges we are due. Whilst we continually collect approximately 99% of the debt that we raise, it has become clear that there were a number of ways that we could improve our processes to ensure that debt is collected more quickly and efficiently. As a result, officers have produced an update Income Code of Practice that was discussed and endorsed by the Audit Committee in November 2017. The aim is to promote payment in advance of services, or at the point of delivery, and to accelerate our debt collection processes if this is not possible.

3.6.   The annual Anti-Fraud and Corruption Review report came to the January 2018 Audit Committee. This set out the current national trends in frauds against local authorities, and the specific anti-fraud and corruption measures undertaken locally to combat them. A significant Anti-Fraud and Corruption effort continues to be undertaken in conjunction with the National Fraud Initiative, and with specialist officers from SWAP and the Police as necessary. Generally, the analysis shows that the County Council has suitable defences in place, but a confidential report to Audit Committee members brought details of a number of potential fraud cases against the County Council that have been or are still being investigated. Although many have now been closed without fraud involved, some cases are still under investigation. This should serve as a reminder to all to be vigilant in relation to

fraudulent activities. The Audit Committee fully re-endorsed the "zero tolerance" policy in operation in the County Council.

4.   Training

4.1. Members received a half-day introduction to the role of the Audit Committee before the first formal public meeting. A session was run by the Chief Accountant in order for members to better understand the Statement of Accounts before they were asked to approve this suite of documents. Further training sessions will be arranged as members request or assurance topics emerge.

5.   Conclusions

5.1. The Audit Committee feels that a strong governance framework remains in place, an opinion backed by independent assessments, and the recent Corporate Peer Review.

However, there have been some individual audit findings reported during the previous year that have revealed local weaknesses that still need to be addressed. The Audit Committee will continue to review progress in these areas, and call in the relevant officers to provide the necessary assurance.

5.2. The Audit Committee remains committed to ensuring that high governance standards are maintained.

6.   Background papers

6.1. Audit Committee papers can be found at:

http://www1.somerset.gov.uk/council/boards.asp?boardnum=9

Note: For sight of individual background papers please contact the report author