

Somerset County Council
Audit Committee 22 November 2018

Emerging Guidance for Audit Committees

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Cabinet Member: Cllr Mandy Chilcott for Resources

Division and Local Member: All

1. Summary/link to the County Plan

- 1.1. Effective governance arrangements are essential for any organisation to deliver its vision and objectives. The key process for this purpose is the review of the system of internal controls that is captured in the Annual Governance Statement. However, it is critical that such arrangements are regularly reviewed and continually improved in the light of local information and national “best practice” guidance.
- 1.2. This report is a collection of emerging audit topics that will need to be considered by the Audit Committee, who will need to be assured that they will be given due regard.

2. Issues for consideration

- 2.1. Members are asked to:-
 - i) Consider the CIPFA Position Statement on Audit Committees (questions in paragraph 3.1 below and Appendix A) and whether they believe that we meet “best practice” and any changes that might be implemented.
 - ii) Consider the National Audit Office’s guidance on Audit Committees and transformation, and SCC’s approach to transformational governance (paragraph 3.2 below and Appendix B).
 - iii) Express a view on the proposed external audit fee structure as set out from the PSAA, so that officers can construct a reply (paragraph 3.3 below). The officer recommendation is to accept the proposed fees.
 - iv) Note the progress on officers’ updating of JCAD (paragraph 3.4 below) in response to risks identified during internal audits and endorse the continued approach of requiring managers to update their agreed action plans.

3. Background Information

- 3.1.** The Chartered Institute of Public Finance and Accountancy (CIPFA) has been considering both the role of the Audit Committee and the Head of Internal Audit in local government. Whilst SWAP's work is governed by Public Sector Internal Audit Standards (PSIAS), CIPFA has developed further guidance about the Audit Committee in particular.

The CIPFA Position Statement on Audit Committees (Appendix A) sets out the key principles that CIPFA recommends for audit committees operating in local government. The Position Statement reflects CIPFA's support for audit committees and recognises the value they can add to good governance and strong public financial management.

Generally, Somerset's Audit Committee's remit aligns very well with the CIPFA Position Statement, particularly around the "core functions" in section 4 of the Statement.

Points that officers would ask that the Audit Committee consider in particular would be:-

CIPFA consider that all Audit Committee should include an independent member, even where this is not required by legislation. The County Council reviews its Constitution annually in May, and the possibility of including independent members on a number of Committees has already been muted.

1. Does the Audit Committee favour the inclusion of an independent member from the next review date?

CIPFA suggest (section 5) that in addition to its "core function", an Audit Committee could consider whether the Treasury Management arrangements meet the necessary CIPFA Code requirements. At Somerset, this report already goes to Cabinet and to Full Council on a regular basis. Therefore, all members (including Audit Committee members) can see how the function is meeting the Code requirements. Officers believe that this level of review is already sufficient and robust, and therefore recommend that this does not need to come to Audit Committee as well.

2. Does the Audit Committee agree that the current arrangements to review the Treasury Management performance at Somerset are suitably robust?

There is a theme running through the CIPFA Statement about how the Audit Committee interacts with other committees such as Scrutiny and Full Council, and with statutory officers.

Members are reminded that there is a requirement for the Audit Committee to report annually to Full Council in May, and that a draft of this report is brought to the Audit Committee for comment and support. In the past, Audit Committee has made recommendations to the Chairs of the respective Scrutiny Committees that they consider matters arising that fall better into scrutiny.

3. Does the Audit Committee believe that links to other Committees are suitable?

- 3.2.** In May 2018, the National Audit Office (NAO) issued a Good Practice Guide for audit committees to consider when looking at transformational programmes within their authorities. Members of the Audit Committee have asked for this item to come to a meeting, so that they can consider the Committee's role in such projects and take assurance that Somerset has the necessary governance in place to run transformational programmes.

The NAO states that understanding and overseeing transformation programmes is harder than for more traditional programmes for three reasons. Firstly, transformation programmes can be very broad, and organisations can be quite vague about intended outcomes. Secondly, they can evolve and change over time. Thirdly, it can be difficult to measure and evidence the real impact and know when a programme has succeeded or when it should close.

The guidance sets out questions, evidence and indicators to look for at three stages:-

Set-up: including vision, strategy, governance, architecture and the evolving nature of transformation.

Delivery: covering change and implementation, and service and performance management.

Live-running and benefits realisation: looking at people, process and technology.

Given the central role that **data** plays in transformation, the guidance also provides questions audit committees can ask about the role and management of data.

The Audit Committee's role is to seek assurance that transformational activity, (which is clearly key to delivering significant savings and better ways of delivering services), is managed in a robust and programmed manner and where possible risks are mitigated.

To provide some reassurance to the Audit Committee, Appendix B sets out the key points in the NAO guidance, alongside the long-standing governance process in place at Somerset County Council that are used to govern the Core Council Programme, which manages our transformational work and regularly reports to Cabinet and Scrutiny.

- 3.3. Following the demise of the Audit Commission and some interim arrangements, all local and police authorities had to consider how their external auditors would be appointed in the future.

Through a Cabinet recommendation and a Full Council decision (February 2017), Somerset County Council has “opted-in” to the national scheme for external auditor appointments. Public Sector Audit Appointments Limited (PSAA) is responsible for setting the scale of fees for the audit of the accounts of principal local government and police bodies in England that have opted into the appointing person scheme.

External fees for the County Council audit have reduced regularly over previous years’ arrangements. The audit fee for the County Council alone was £133,164 in 2014/2015, as compared to the fee of £99,873 for the 2017/2018 Accounts, as reported in the Annual Audit Letter at September’s Audit Committee.

PSAA is now consulting on the proposed scale of fees for 2019/20 audits. This is the second year of a five-year appointment cycle. For the 2018/2019 Accounts audit, the agreed fee for the County Council is £76,902 (a reduction of 23% on the recent audit). In their consultation, **PSAA are proposing that this fee remain fixed at £76,902 for 2019/2020.**

For the Pension Fund, the fee for 2017/2018 was £23,859 and £18,371 for 2018/2019 (also a reduction of 23%). **PSAA are proposing that this fee remains fixed at £18,371 for 2019/2020.**

PSAA have stated that it hopes to be able to maintain the 23 per cent reduction for the first three years of the appointing period, based on assumptions at that time about inflation and the amount of work auditors are required to undertake. This may need to be increased after 2019/2020 dependent on inflation, the new Code of Audit Practice (applicable from 2020/2021) and any changes in the current reporting requirements.

It should be noted that the fixed fee is for the specific work required to audit the Statement of Accounts, Annual Governance Statement and Value For Money conclusion and related reports as set out in the Local Audit and Accountability Act 2014 and under the Code of Audit Practice published by the National Audit Office.

The fixed fee does not include audit of a small number of grants that fall outside this remit, which Grant Thornton audit on our behalf (2 totalling £7,950 for 2017/2018), and it does not preclude Grant Thornton undertaking any further specialist work for the County Council in an advisory or consultancy capacity (none in 2017/2018). Also, it excludes the costs of any additional work that the external auditor may deem necessary. In the Annual Audit Letter, this was estimated at £11,336 for the additional VFM work under Strategic Financial Planning and reporting to July’s Audit Committee (pending PSAA approval).

Given that there is no inflationary increase proposed, and in light of the previous reductions, officers would recommend a positive response to the consultation.

- 3.4.** At the September Audit Committee meeting, reference was made in the Internal Audit update report about delays being experienced by SWAP in Follow-Ups to Partial audits, and that the relevant managers were not updating their progress against agreed audit actions in JCAD, our dedicated risk management system. This is an important part of our system of control to ensure that managers are addressing the risks raised in the audit reports in a meaningful and timely manner.

Subsequent to the issue being raised, this was discussed at the Senior Leadership Team, and a communication sent out from the Chief Executive to all managers who had missed review dates in JCAD to require them to update all relevant risks and actions. The situation has improved since this escalation, although some actions are still to be completed, and governance officers are continuing to monitor progress. At the Senior Leadership Team meeting on 13th November, it was agreed that this needed to be fully updated by the end of November and that it would continue to be monitored at SLT. Directors will ensure that this occurs through their management team meetings.

This will be updated in more detail as part of the quarterly risk report that will come back to the Audit Committee in January.

4. Consultations undertaken

- 4.1.** Officers are part of the Local Authority Chief Auditors' Network and the County Council Audit Network, and share information, consultations and points of practice requests.

5. Implications

- 5.1.** As above for each issue.

6. Background papers

- 6.1.** CIPFA Position Statement on Audit Committees
NAO Transformation guidance for audit committees
PSAA decision – Cabinet February 2017

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