

Annual Report of the Audit Committee

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1. Summary

- 1.1.** The Audit Committee is required through 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 9 times since it last reported to Full Council.
- 2.2.** Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high-level resource to support good governance and strong public financial management.

The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

In accordance with best practice, the Audit Committee's role is not to consider policy decisions.

3. Work Programme

- 3.1.** The Audit Committee's work programme is built around its responsibilities for corporate governance, internal audit, external audit, risk management, fraud & corruption, Treasury Management and the consideration and approval of the

annual Statement of Accounts for the County Council and the Pension Fund.

- 3.2.** The work of the council has been impacted by the Covid-19 pandemic and this particularly impacted upon production and auditing of the Statement of Accounts. The national timetable was changed to allow more time for this.

3.3. Statement of Accounts

The Statement of Accounts for 2019/20 received an unqualified audit opinion from Grant Thornton, the independent external auditors, for both the County Council and the Pensions Fund. The production, publication and approval of the Statement of Accounts was completed by the September 2020 deadline however there was considerable delay on the external auditing of them. There has been learning from this delay which was caused by issues with property valuations. There remains some concern about the external auditors capacity to sign off the 2020/21 Statement of Accounts within the timescales set by Government.

3.4. Value for Money

The Audit Committee has been receiving regular reports and updates on the work on Value for Money. As part of their work on the Statement of Accounts, Grant Thornton, have issued an unqualified vfm opinion which is a welcomed improvement on previous years and demonstrates the continued improvements in financial management and governance within the council.

3.5. Annual Governance Statement

The Councils statutory Annual Governance Statement, which accompanies the Statement of Accounts must demonstrate compliance with a nationally set list of documentary requirements. The conclusion was that these were "consistent with the audited financial statements" and "meets the requirements set out in the CIPFA/SOLACE guidance".

3.6. Internal Audit

The internal audit service is provided by SWAP Internal Audit Services. The Committee received the Internal Audit Plan and Charter for 2021/22 at its March 2021 meeting. SWAP provide an update on internal audit activity at each committee including highlighting any "Limited" assurance audits, follow up audits and progress against the audit plan. It is important that the internal audit plan is dynamic and reflective of emerging issues and risks. The report from SWAP therefore also highlights any changes to the Internal Audit Plan during the year. SWAP provided a 'Reasonable Assurance' opinion for the 2019/20 financial year.

3.7. Risk Management

The Audit Committee has reviewed the County Council's risk management arrangements during the year. 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 of the risk occurring. Whilst most of these risks are regularly reviewed and appropriate measures put in place, the Audit Committee can call in officers if they assess insufficient actions are being taken.

3.8. Fraud & Corruption

The annual Anti-Fraud and Corruption Review report was presented to the January 2020 Audit Committee. This report provided information following the annual review of all the measures being undertaken across the Council aimed at prevention, detection, and reporting of fraud. 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.

3.9. Debt Management

The Audit Committee receives regular updates 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. Officers produced an updated Income Code of Practice that was discussed and endorsed by the Audit Committee in November 2017 to ensure debt is collected more quickly and efficiently. It promotes payment in advance of services, or at the point of delivery, and accelerates our debt collection processes if this is not possible.

The debt management process was amended for part of 2020/21 to ensure we supported individuals and businesses through the Covid-19 pandemic. As lockdown eased the process reverted to normal although the Council continues to encourage those that are impacted by the pandemic to contact SCC to discuss any payment issues as soon as possible.

3.10. Redmond Review

Sir Tony Redmond was commissioned in July 2019, under the former Communities Secretary, James Brokenshire to undertake a review into local authority financial reporting and external audit. The review was completed on 8th September 2021 and the Audit Committee considered the issues raised at its meeting on 24 September 2021.

Redmond found that there is a lack of coherence in local audit arrangements and in the approach to procuring audits. The review found that the cost of audit is 25% less than it should be and as a result the quality of auditors has fallen. Redmond noted that 40% of audits missed the deadline in 2018-19 and suggests that the deadline for audited accounts to be published be extended until 30th September.

The report also questions the effectiveness of Audit Committees and whether they have enough independent members. Redmond also considers the relationship between the Audit Committee and inspectors, and between the Audit Committee and Full Council.

Recommendations include the creation of a new local government audit body ("*small and focused*" rather than a recreation of the Audit Commission) and ministers changing the way they judge the financial sustainability of councils. He also recommends that there is at least 1 independent member required on each Audit Committee, and that Audit Committee members and new S.151 officers need improved training on audit and final accounts. It is also recommended that 3 statutory officers meet External Audit annually and that the External Auditor presents an annual report to the first council meeting after the 30th September.

The review concludes that the current reporting arrangements do not allow the public to understand the accounts and more should be done to improve transparency. He recommends the introduction of a standardised Statement of Services and Costs to enable a comparison between budget setting and outturn. CIPFA will consult on this between September and December with a view to trialing the statement in 2020-21 year-end.

The recommendation from the Redmond review have been accepted by the Government with the exception of the creation of a new local government audit body. The recommendation to have an independent member on the Audit Committee was supported by the Audit Committee and has been approved by Council. The appointment to this role has been delayed by Covid-19 but arrangements are now in place to take this forward.

3.11. Treasury Management

As part of the MTFP process the Audit Committee reviewed the Treasury Management Strategy 2021/22; Capital Strategy 2021/22 – 2023/24; Minimum Revenue Position 2020/21 at its January meeting prior to these papers going to Cabinet and Council in February 2021 for approval.

4. Training

- 4.1.** The Committee received training in July 2020 on the Statement of Accounts from the Chief Accountant to help provide some insight and understanding before they were asked to approve this suite of documents. There was also training from the Director of Finance and SWAP Ltd on the governance framework, work programme and recent audit developments in February 2021.

Further training sessions will be arranged as members request or assurance topics emerge.

- 4.2.** Various articles and briefings on national governance issues were shared with the Audit Committee by the Director of Finance during the year.

5. Conclusions

- 5.1.** The Audit Committee can report that the majority of governance functions and processes remain well-controlled and delivered. This is based upon the improvement in the value for money rating from the external auditors, the

unqualified opinion on the Statement of Accounts, the internal audit opinion and the Annual Governance Statement.

- 5.2.** 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.
- 5.3.** 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://democracy.somerset.gov.uk/ieListMeetings.aspx?CIId=160&Year=0>