

Item No. 14.	Classification: Open	Date: 11 February 2019	Meeting Name: Audit, Governance and Standards Committee
Report title:		Annual report on the work and performance of the audit, governance and standards committee in 2018-19	
Ward(s) or groups affected:		All	
From:		Strategic Director of Finance and Governance	

RECOMMENDATIONS

1. That the audit, governance and standards committee review the draft self-assessment of good practice attached at Appendix 1 and consider whether it would wish to make any amendments to it.
2. That the audit, governance and standards committee forward this report on its work and performance in 2018-19 to all councillors, subject to any amendments it wishes to make.

BACKGROUND INFORMATION

3. The purpose of this report is to review this committee's work and performance in 2018-19.
4. The audit, governance and standards committee's terms of reference include a requirement to report annually to all councillors on its work and performance during the year.
5. The aims of the report are to make councillors aware of the audit, governance and standards committee's work in relation to its audit, financial reporting, treasury management, governance and standards responsibilities, and to provide assurance on areas covered or to identify any concerns.
6. This report also considers the effectiveness of the audit, governance and standards committee which forms a part of the review of internal audit, and which will in turn be reported as part of the review of the system of internal control, as required under the Accounts and Audit Regulations 2015.

KEY ISSUES FOR CONSIDERATION

Role of the committee

7. The purpose of the audit, governance and standards committee is to provide:
 - Independent assurance of the adequacy of the council's governance arrangements, including its standards regime, the risk management framework and the associated control environment.

- Independent scrutiny of the authority's financial and non-financial performance to the extent that it affects the authority's exposure to risk and weakens the control environment.
 - Oversight of the financial reporting process.
 - Scrutiny of the treasury management strategy and policies.
 - Operation of a framework to promote and maintain high standards of conduct by councillors, co-opted members and church and parent governor representatives.
8. In line with the above, the committee's terms of reference are structured by reference to its key functions in terms of governance and standards, audit activity (internal and external), the accounts and treasury management. Since the new standards regime for councillors was introduced in 2012, the frequency and business for the standards committee had reduced, and there was no statutory requirement to have a standards committee. In May 2016 the standards committee was not re-established as a stand-alone committee, and its roles and functions were amalgamated with the audit and governance committee.
9. The audit, governance and standards committee agrees a work programme each year. A summary of the committee's business during 2018-19 in relation to its areas of responsibility is set out below.

Audit activity

Internal audit

10. The committee received and considered regular reports on the performance of internal audit and the outcome from its work during the year, as well as the head of anti-fraud and internal audit's annual report on the work of internal audit and anti-fraud 2017-18. Members had questions for both officers and the engagement manager for the auditors, BDO.
11. This meeting's agenda includes a report on the internal audit plan for 2018-19, and a progress report on the work of internal audit and anti-fraud.

External audit

12. The committee received regular progress reports from the external auditor (Grant Thornton) throughout the year; there is an update report on this meeting's agenda. It also considered Grant Thornton's audit plans for 2017-18 for both the council and the Southwark pension fund, and the audit findings reports and annual audit letter for 2017-18. Their summary of findings from the certification of claims and returns for 2017-18 is on this meeting's agenda.
13. The committee considered the external auditor's annual fee letters for 2018-19 for both the council and the Southwark pension fund in July 2018. Grant Thornton also reported to the committee on their review of the council's arrangements for securing financial resilience and on assurance work undertaken by them as to management processes and the committee's oversight of the risk of fraud, compliance with laws and regulation, and matters in relation to going concern, to inform their audit risk assessment. Their 2018-19 review is on this meeting's agenda, as are the audit plans for the council and the pension fund.

14. Progress on the implementation of recommendations made by external audit was included in a report to the committee in November 2018.

Accounts

15. The committee considered a draft of the 2017-18 statement of accounts at its June 2018 meeting and formally approved them in its July 2018 meeting.

Governance and standards activity

16. As with the statement of accounts, the committee reviewed the annual governance statement for 2017-18 at its June 2018 meeting and approved it at the meeting in July 2018.
17. The committee continued its approach to the consideration of governance matters for 2018-19. Rather than selecting a single governance theme for the whole year, it would identify a number of areas for consideration at future meetings.
18. The theme selected for June 2018 was the council's procurement policy - compliance and implementation. Following on from this, the committee continued their discussion in September 2018. At the meeting in November 2018, the committee discussed the new ICT contract. The lead director of the joint ICT support contract attended to present to the committee. The committee will receive a further update on the ICT contract at their February 2019 meeting. The chair of audit, governance and standards committee has been invited to attend the joint ICT committee meeting on 5 March 2019.
19. In February 2019 the committee received an annual report on the work of the corporate risk and insurance for 2018-19.
20. The committee's annual report on whistle blowing outcomes was considered by the committee at its November 2018 meeting.
21. The committee's work programme for 2019-20 is on this agenda for members' consideration.
22. A report on the council's use of RIPA (Regulatory Investigatory Powers Act) and the OSC (Office of Surveillance Commissioners) inspection of Southwark was received in November 2018.
23. The establishment of the two standards sub-committees (civic awards and misconduct) were approved by the committee in July 2018. The committee agreed that the number of co-opted community members on the civic awards sub-committee stand at four, and that the sub-committee be gender balanced; at least two of the Southwark members and two of the community representatives serving on the sub-committee should be women.
24. The appointment of the co-opted members of the civic awards sub-committee is listed for decision at this meeting.

Treasury management

25. Members received a report on the revised treasury management policy statement, and considered the council's 2018-19 treasury management strategy statement in November 2018.

Effectiveness of the audit and governance committee

26. The Accounts and Audit Regulations require a review of internal audit to be carried out, including consideration of the effectiveness of this committee. An annual opinion is given by the head of anti-fraud and internal audit, and this will be carried out later in the year and the results brought to a future meeting of the committee.
27. To complement this, it is proposed that (as in previous years) this committee assesses itself using a checklist produced by CIPFA. A draft completed checklist has therefore been prepared using this which is attached at Appendix 1. The checklist has had an additional section added to it which is not part of the information provided by CIPFA, but has been included by officers to reflect the standards role of the committee since May 2016.
28. The draft checklist confirms that there are no significant areas of concern in relation to the committee's effectiveness. However, it highlights that training is an area that members may wish to continue to keep under review.
29. Members are asked to consider and agree the assessment at Appendix 1, subject to any amendments they would wish to make. Members will be aware that the findings of the review, the opinion of the head of anti-fraud and internal audit and any recommendations from this report will be considered alongside the annual governance statement.

Training

30. During the year, information on relevant issues and developments have been provided through CIPFA Better Governance Forum's 'Audit Committee Update', which is published three times a year. These focus on key topics and include a round-up of legislation, reports and developments and are circulated to all members of the committee for their information.
31. The self-assessment checklist at Appendix 1 identifies that training will be provided as required and officers will continue to arrange training as opportunities arise.
32. In November 2018, a committee member attended a Development Day for Local Authority Audit Committees

Development opportunities

33. The year saw the following principal achievements:
 - a) Coverage of all elements of the committee's work programme, including the successful inclusion of standards work into the responsibilities of the committee
 - b) Continued assurance of corporate governance arrangements, for example, through the committee's thematic reviews of a number of governance matters, such as the schools building programme, public health impact assessments and pensions

- c) Further assurance as to the operation of the council's whistle blowing policy
 - d) Ongoing constructive challenge from members in respect of reports received by them.
34. For the coming year, the following are areas where the committee has the opportunity to effect further development or to which it may wish to give consideration:
- a) The continuing impact of welfare reform and further cuts in government funding from a governance perspective and, in particular, the identification of risks and ongoing risk management
 - b) Future and ongoing training needs.

Conclusion

35. The committee's work programme aims to ensure that the committee is able to carry out its functions effectively. To this end, the programme is structured to cover the key areas of audit activity (both internal and external), governance and standards activity, financial reporting and scrutiny of the treasury management strategy and policies.
36. The committee continued to ask questions on matters before it in a challenging yet constructive way. In some cases, this has resulted in further information being provided to the committee to provide the assurance sought; in others, it has resulted in increased focus on the implementation of action plans.
37. The committee has kept its work programme under review in 2018-19 and made changes when appropriate.
38. Through its work, the committee is able to confirm that:
- The council's system of risk management is adequate to identify risk and to allow the authority to understand the appropriate management of those risks;
 - There are no areas of significant duplication or omission in the systems of governance in the authority that have come to the committee's attention and not been adequately resolved.
39. The work programme for the committee for 2018-19 is included elsewhere on this agenda for consideration and agreement, and this will be reviewed and amended on an ongoing basis as necessary to help to ensure that the committee can continue to provide assurance of the adequacy of the council's governance arrangements.

Policy implications

40. There are no policy implications in the proposals in this report.

Community impact statement

41. This report is not considered to contain any proposals that would have a significant impact on any particular community or group.

Resource implications

42. There are no direct resource implications in this report.

Conclusion

43. There has been no consultation on this report.

SUPPLEMENTARY ADVICE FROM OTHER OFFICERS

Strategic Director of Finance and Governance (F&G16/010)

44. The strategic director of finance and governance remains committed to the important role of the audit, governance and standards committee and notes that it continues to function in line with its terms of reference. The performance of the committee continues to be strengthened by the attendance of officers with key governance roles and it is expected that the committee will continue to obtain assurance of governance arrangements from this.
45. It is noted that the committee has a themed approach and has invited not only strategic directors but operational directors. This enables a more detailed overview of the issues being addressed.
46. The committee has operated in accordance with its responsibilities in key finance and audit matters, including the statement of accounts, treasury policies, and internal audit work, which are key issues for the s.151 officer (Local Government Act 1972). Looking forward, there will be changes of interest to the committee, not least a new internal audit contractor, shortening timescales for the closing of accounts, and developments in how finance support is provided across the council.

BACKGROUND DOCUMENTS

Background Papers	Held At	Contact
CIPFA Audit committees – Practical Guidance for Local Authorities and Police 2013 edition	Finance and Governance, Second Floor, Tooley Street	Jo Anson 020 7525 4308

APPENDICES

No.	Title
Appendix 1	Self-assessment of good practice

AUDIT TRAIL

Lead Officer	Duncan Whitfield, Strategic Director of Finance and Governance	
Report Author	Virginia Wynn-Jones, Principal Constitutional Officer	
Version	Final	
Dated	1 February 2019	
Key Decision?	No	
CONSULTATION WITH OTHER OFFICERS / DIRECTORATES / CABINET MEMBER		
Officer Title	Comments sought	Comments included
Director of Law and Democracy	No	No
Strategic Director of Finance and Governance	Yes	Yes
Cabinet Member	No	No
Date final report sent to Constitutional Team		1 February 2019

APPENDIX 1

Self-assessment of Good Practice

Question	Yes	No	Partly	Comments/action	
Audit committee purpose and governance					
1	Does the authority have a dedicated audit committee?	✓			
2	Does the audit committee report directly to full council?	✓			
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	✓			
4	Is the role and purpose of the audit committee understood and accepted across the authority?	✓			
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	✓			
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	✓			
Functions of the committee					
7	Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?				
	- good governance	✓			
	- assurance framework	✓			
	- internal audit	✓			
	- external audit	✓			
	- financial reporting	✓			
	- risk management	✓			
	- value for money or best value	✓			
	- counter-fraud and corruption.	✓			
8	Is an annual evaluation undertaken to assess whether	✓			

Question	Yes	No	Partly	Comments/action
the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?				
9 Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?				
- considering matters at the request of other committees or statutory officers	✓			Included within committee's terms of reference.
- ethical values	✓			Receives annual report on whistleblowing.
- treasury management	✓			Included within committee's terms of reference.
10 Where coverage of core areas has been found to be limited, are plans in place to address this?				N.A.
11 Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its purpose?	✓			
Membership and support				
12 Has an effective audit committee structure and composition of the committee been selected? This should include: - separation from the executive - an appropriate mix of knowledge and skills among the membership - a size of committee that is not unwieldy - where independent members are used, that they have been appointed using an appropriate process.	✓			No more than one member of the cabinet or deputy may be a member of the committee, and no cabinet member may chair the committee. The leader of the council may not be a member of the committee. Members have brought a range of skills and knowledge to bear on the committee's consideration of matters before it. Size of

Question		Yes	No	Partly	Comments/action
					committee strikes balance between being unwieldy and ensuring appropriate mix of knowledge and skills.
13	Does the chair have appropriate knowledge and skills?	✓			
14	Are arrangements in place to support the committee with briefings and training	✓			As noted in the body of the report, introductory training was made available to new members following the changes to membership in May 2016 and ongoing training and briefings are provided as opportunities/needs arise.
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?			✓	Members are asked to provide information on joining the committee and induction and other training/briefings have been provided as opportunities/needs have arisen.
16	Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?	✓			
17	Is adequate secretariat and administrative support to the committee provided?	✓			
Effectiveness of the committee					
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓			.
19	Has the committee evaluated whether and how it is adding value to the organisation?	✓			

Question	Yes	No	Partly	Comments/action	
20	Does the committee have an action plan to improve any areas of weakness?	✓			The committee identifies areas for development each year as part of its annual review of its performance.

Standards

This section is not part of the checklist provided by CIPFA, but has been included by officers in order to assess the standards role of the committee which was constituted into the audit and governance committee in May 2016.

Governance and standards	Yes	No	Partly		
21	Has the committee advised council on the monitoring, adoption or revision of the member code of conduct, member and officer protocol and communications protocol as required?	✓			
22	Has the committee monitored and advised on training for all members, including co-opted and parent governor representatives?	✓			Introductory training was made available to new members following the changes to membership and ongoing training and briefings are provided as opportunities/needs arise.
23	Has the committee dealt with any standards complaints referred to it (as required)?			✓	One complaint has been referred to the committee; this is in progress as of February 2019.
24	Has the committee received reports on unlawful expenditure (as required)?		✓		No reports on unlawful expenditure required consideration by the committee in 2018-19.
25	Has the committee established sub-committees for misconduct and the consideration of civic awards?	✓			
26	Has the committee considered withholding allowances from individual members (elected and co-opted for non-attendance at meetings, elected members only for failure to attend training)? (as required)		✓		The committee has not been required to do so in 2018-19.