

**REPORT TO:** **AUDIT AND STANDARDS COMMITTEE**

**DATE:** **12 JUNE 2019**

**TITLE:** **AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT**

**LEAD OFFICER:** **SARAH MARSH, INTERNAL AUDIT MANAGER  
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**RECOMMENDED that it is recommended to Full Council that:**

The Annual Report for the Audit and Standards Committee for 2018/19 be agreed.

**BACKGROUND**

1. The effective operation of the Audit and Standards Committee forms a key element of the Council's assurance framework. By fulfilling its responsibilities as detailed in this annual report the Committee supports the Council to maintain a high standard of corporate governance.
2. The Annual Report of the Audit and Standards Committee outlines its work and achievements during the year ending 31 March 2019. The Annual Report helps to demonstrate to residents and the Council's other stakeholders the vital role that the Committee fulfils and the contribution that it makes to the Council's overall governance arrangements.
3. The Audit and Standards Committee role is two-fold:
  - a) Audit - To oversee the Council's internal audit and risk functions; receive and approve external audit reports; scrutinises the Annual Statement of Accounts; make reports and recommendations to the Cabinet, Committees and the Council as a whole on the adequacy of its corporate governance and risk management arrangements and the associated control environment.
  - b) Standards - To deal with a range of matters including issues concerning Councillors' conduct, provide advice and guidance to the Council, the Cabinet and individual Councillors and advise on the application and review of the Constitution.
4. Whilst there is no statutory obligation for a local authority to establish an Audit Committee, they are widely recognised internationally across the public and private sectors as a key component of effective governance. Similarly, it is considered good practice for the Committee to report annually to the Council on its work.
5. The key benefits of an effective Audit Committee are to:

- a) increase awareness regarding the effectiveness and continued development of the Council's governance arrangements;
- b) provide additional assurance on the robustness of the Council's governance arrangements through a process of independent and objective review;
- c) reduce the risks of illegal or improper acts;
- d) increase public confidence in the objectivity and fairness of financial and other reporting;
- e) contribute to performance improvements in assurance levels and awareness of the need for strong internal control including the implementation of audit recommendations; and
- f) reinforce the importance and independence of internal and external audit and similar review processes.

### **Assurance Activity 2018/19**

- 6. To help the Committee draw conclusions about the effectiveness of the Council's internal control framework, governance and risk management it gained assurances from the following sources:

#### **Internal Audit**

- 7. The Accounts and Audit (England) Regulations 2015 require the Council to maintain an adequate and effective internal audit function which is discharged by the Head of Finance as Section 151 Officer. Internal Audit is a key source of assurance for both Members and management on the effectiveness of the control framework. The Committee has a responsibility for ensuring that Internal Audit is effective in the provision of this assurance.
- 8. The Committee considered and agreed reports regarding the Internal Audit Strategy, Internal Audit Charter and Annual Plan 2018/19. It has also monitored progress made by management in implementing audit recommendations and received regular progress reports on the work and performance of Internal Audit. These reports have helped in ensuring that reported weaknesses have either been addressed or the identified risks adequately mitigated by management and that there is an effective system of governance, risk management and internal control in place.

#### **Assurance Framework / Annual Governance Statement**

- 9. The Committee's terms of reference include advising on the effectiveness of the Council's assurance framework including the production of the Annual Governance Statement.
- 10. During the year, the Committee has received reports on the control framework and how the annual review and assurance process is undertaken. The Assurance

Framework is compiled from various sources of assurance, for instance Heads of Service and other key officers.

11. The Internal Audit Manager provides an annual report and opinion regarding the Council's control framework. This opinion is considered by the Committee alongside other sources of assurance.
12. The Committee reviewed the Annual Governance Statement (AGS) for 2017/18 which identified governance issues requiring further ongoing improvement relating to:
  - a) Compliance with the General Data Protection Regulations; and
  - b) Business Continuity Planning testing regimes.
13. The assurance framework and the Council's Code of Corporate Governance remained unchanged during 2018/19. The Code was reviewed by the Committee in November 2018 ensuring it remained compliant with the CIPFA/SOLACE framework – Delivering Good Governance in Local Government and no changes were required.
14. The Committee was able to be satisfied that there is a robust assurance framework in place to safeguard the Council's resources through reliance on the annual review of the Council's system of internal control and the Internal Audit Manager's annual opinion.

### **Anti-Fraud and Corruption**

15. Countering fraud and corruption is the responsibility of every Councillor and Officer of the Council. The Committee's role in this area has been to monitor and support the actions taken by officers to counter fraud including the work of the Corporate Fraud Group.
16. The Committee receives reports and presentations on such work undertaken in the Council and proactive fraud work, for example participation in the National Fraud Initiative (NFI) and the work of the Housing Fraud Officer.
17. The Council continues to send out a strong message that fraud will not be tolerated and that where fraud is proven the strongest possible actions of redress will be taken.
18. Based on the work to date, coupled with no major incidences of fraud and corruption being highlighted by management or Internal Audit, the Committee concludes that there is a sound anti-fraud framework in place. The Council's Anti-Fraud and Corruption Strategy was reviewed and approved by the Committee in November 2018.

## **Risk Management**

19. The Committee receives and discusses reports relating to risk management. Work continues to enhance monitoring and reporting mechanisms to ensure there is adequate scrutiny and challenge of risk across the Council and aligning this with the service planning process. Committee members are presented with the corporate strategic risk register with a rolling review of individual risks contained within it.
20. At its March 2019 meeting the Committee reviewed and agreed the Council's risk appetite and for a risk maturity assessment to be undertaken in 2019/20. This will allow benchmarking of risk management within the Council against best practice and establish how well risk management as a discipline is embedded and integrated.

## **Statement of Accounts and External Auditors**

21. Following recommendations made by the Constitution Panel, Council at its February 2018 meeting approved that authority was delegated to the Audit and Standards Committee to approve the Annual Governance Statement and the Annual Statement of Accounts for 2017/18. In addition, approval was given to amend the Constitution so that the Chair of the Audit and Standards Committee, rather than the Leader of the Council, was given authority to sign both of these key documents off. This was undertaken to achieve the much shorter timescales for signing off the Statement of Accounts (moving from the end of September to the end of July) as required by Government in the Accounts and Audit Regulations 2015.
22. At its September 2018 meeting the Committee reviewed and approved the Council's Statement of Accounts for 2018/19.
23. During the year the Committee received a number of reports from the External Auditors Ernst & Young LLP (EY) who attended most meetings. These reports include the Audit Results Report 2017/18, Annual Audit Letter 2017/18 and Certification of Claims and Returns annual report 2017/18.
24. In March 2019 the Committee met with the Council's new external audit provider, BDO, and noted their planned audit work to be undertaken relating to the 2018/19 Annual Statement of Accounts.
25. When reviewing the reports the Committee considered audit risks highlighted by the External Auditors.

## **Committee Working Arrangements**

26. The Committee has a rolling and flexible programme of work for its main areas of activity which is proactively reviewed and amended throughout the year to reflect changes in policies, priorities and risks. The Committee considered items which are presented annually, such as audit results, the statement of accounts, the annual governance statement, and audit plans; as well as a number of other

items including a review of the Audit and Standards Committee's terms of reference.

27. Training sessions have been held before most Committee meetings and the agreed work programme enables the Committee to provide an independent assurance to the Council as to the adequacy of the risk management framework and the associated control environment. Training provided in 2018/19, open to all Councillors, included assurance frameworks, information governance, financial statements and the role of Internal Audit.
28. In November 2018 the Committee undertook its own effectiveness review and reviewed its Terms of Reference, the results of which concluded its Terms of Reference were still fit for purpose and the Council was able to demonstrate compliance with recommended best practice for an effective Audit Committee. Some minor areas for improvement were identified being:
  - a) Review of Audit Committee membership as 2018 CIPFA guidance asks local Councils to consider the inclusion of at least one independent member;
  - b) Repeat the skills and knowledge analysis as this was last undertaken by the Committee in September 2017; and
  - c) Considers whether the Committee could be more effective in supporting accountability if there is greater engagement with Officers.
29. Members of the Committee have a wide range of both experience and professional knowledge. The Committee has the benefit of being well supported by Council Officers. This included the Head of Finance, who is also the Section 151 Officer, the Council's Monitoring Officer, and the Internal Audit Manager as well as the Council's external auditors.
30. No major breakdowns in internal control, governance and risk management that have led to a significant loss in one form or another, have been recorded or reported. Nor has any major weakness in the governance systems that has exposed, or continues to expose, the Council to an unacceptable level of risk.
31. The purpose, strategy and work programme of the Committee mitigates against any major failure by the Council to obtain independent assurance in relation to the governance processes underpinning:
  - a) An effective risk management framework and internal control environment including audit;
  - b) The effectiveness of financial and non-financial performance (to the extent that it affects exposure to risk and poor internal control); and
  - c) The compilation and consideration of the Annual Governance Statement.

## **Outcomes and Achievements**

32. Through its work, the Committee's main outcome is in the additional assurance provided of the robustness of the Council's arrangements regarding corporate governance, risk management and internal controls.
33. The Committee has added value through its activity and in particular:
- a) It has continued to increase the importance placed upon governance issues, particularly risk management, anti-fraud and corruption and the assurances sought that key risks are being mitigated; and
  - b) It has continued to raise the profile of internal control issues across the Council and to seek to ensure that audit recommendations are implemented.

## **Conclusions**

34. The Committee's remit is achieved firstly through it being appropriately constituted, and secondly by the Committee being effective in ensuring internal accountability and the delivery of Audit and a robust assurance framework. The Committee has received and challenged reports from management and both internal and external audit.
35. The Committee has continued to have a real and positive contribution to the governance arrangements of the Council. The Committee's key achievement is in the additional assurance provided of the robustness of the Council's arrangements regarding corporate governance, risk management and the control environment.

## **Looking Forward**

36. The Committee has continued to work well and has considered a wide range of different topics relating to the Council's governance framework. It has continued to establish and develop its role, particularly in respect of ensuring that there are good risk assessment/management arrangements and good governance procedures in place.
37. Stricter internal control and the establishment of a Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, the Committee will continue to raise awareness of the need for internal control and the implementation of audit recommendations as well as to maintain a watching brief on the areas highlighted in the Annual Governance Statement. In addition, through a process of independent and objective reviews, the Committee is best placed to provide an additional assurance as the adequacy of the Council's overall governance arrangements.
38. The Committee has performed its duties as required under its terms of reference, contributing to an effective control framework. In order to build upon its achievements to date and to raise awareness of the work of the Committee during the coming year the Committee will focus on the following:

- a) Continue to review governance arrangements to ensure that the Council adopts best practice;
- b) Continue to support the work of audit (external and internal) and ensure that appropriate responses are provided to their recommendations;
- c) Continue to help the Council manage the risk of fraud and corruption;
- d) Provide effective challenge, particularly to officers, raising awareness of the importance of sound internal control arrangements and giving the appropriate assurances to the Council;
- e) Consider the effectiveness of the Council's risk management arrangements.
- f) Provide existing and new members to the Committee with relevant training, briefings etc. to help in discharging their responsibilities.

## **IMPLICATIONS**

### **Place (Includes Sustainability)**

None specific.

**Author: Jane Greer, Head of Community Wellbeing on behalf of Graeme Bloomer, Head of Place**

### **Finance (Includes ICT)**

There are no financial implications and no direct risk management implications arising from the recommendations.

**Author: Simon Freeman, Head of Finance and Deputy to the Managing Director**

### **Housing**

None specific.

**Author: Andrew Murray, Head of Housing**

### **Community Wellbeing (Includes Equalities and Social Inclusion)**

None specific.

**Author: Jane Greer, Head of Community Wellbeing**

### **Governance (Includes HR)**

There is no legal or constitutional requirement for the Committee to report to the Council on its work, however, it is considered good practice to do so.

The effective operation of the Audit and Standards Committee forms a key element of the Council's assurance framework. By fulfilling its responsibilities as detailed in its annual report the Audit Committee helps the Council to maintain a high standard of corporate governance.

Audit Committees in local authorities are necessary to satisfy the wider requirements for sound financial management, internal controls and risk as set out in the Accounts and Audit (England) Regulations 2015.

**Author: Simon Hill, Head of Governance**

### **Appendices**

None.

### **Background Papers**

None.

### **Glossary/abbreviations used**

AGS – Annual Governance Statement

CIPFA – Chartered Institute of Public Finance and Accountancy

SOLACE – The Society of Local Authority Chief Executives