

Audit and Standards Committee Annual Report

2016-2017



Contents

Statement from the Chairman of the Audit and Standards Committee	2
Background	3
Membership and Meetings	4
Work Programme	4
➤ Internal Audit Activity	5
➤ Activity relating to Treasury Management.....	6
➤ External Audit Issues	6
➤ Risk Management Activity	7
➤ Corporate Governance	7
➤ Other.....	7
Training	8
Future Work	8
Conclusion	9

Statement from the Chairman of the Audit and Standards Committee

Effective corporate governance is a fundamental feature of any successful public sector organisation. The trend for strengthening governance arrangements has resulted in the joint Chartered Institute of Public Finance and Accountancy (CIPFA) / Society of Local Authorities Chief Executives (SOLACE) good practice publication / guidance '*Delivering Good Governance in Local Government – 2016 Edition*'.

Being well managed and well governed are important attributes in helping the Council to improve performance and to reduce the risk of failing to achieve our objectives and providing good services to our community.

Audit Committees are widely recognised as a core component of effective governance, their key role is to independently oversee and assess the internal control environment, comprising governance, risk management and control and advise the Council on the adequacy and effectiveness of these arrangements.

In response to the above, the Council established an Audit and Standards Committee in September 2009 in line with CIPFA's guidance '*Audit Committees – Practical Guidance for Local Authorities and Police - 2013 Edition*'. The Committee's priorities are to maintain and improve our governance procedures and we are a major source of providing assurance on the Council's arrangements for managing risk, maintaining an effective control environment and reporting on internal and external audit functions and financial and non-financial performance. As Chairman, I also consider training a key priority for members in order for us to undertake our roles effectively.

The Committee undertakes a substantial range of activities and works closely with the Chief Financial Officer (Section 151 Officer) and both internal and external auditors, in achieving our aims and objectives. We have developed and implemented a work plan for the year to enable key tasks to be considered, undertaken and delivered and to summarise, through our work plan we have:

- provided independent assurance on the adequacy of the governance, risk management framework and associated control environment;
- provided independent scrutiny of the Council's financial and non financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment, and
- overseen the statutory financial reporting process.

In conclusion, the Committee has continued to make a positive contribution to the Council's overall governance and control arrangements, including risk management and is satisfied that the Council has maintained an adequate and effective internal control framework through the period covered by this report.

Councillor Nigel Studdert-Kennedy
Chairman of the Audit and Standards Committee

Background

Stroud District Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is responsible for putting in place the proper arrangements for the governance of its affairs.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which the Council takes decisions and leads and controls its functions to achieve stated objectives and priorities. It thereby provides an opportunity to demonstrate the positive elements of the Council's business and to promote public confidence. Audit Committees are widely recognised as a core component of effective governance.

The Audit and Standards Committee is responsible for overseeing the Council's corporate governance, audit and risk management arrangements. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement. The Committee's specific powers and duties are set out in Council's Constitution.

The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively¹. The guidance recommends that audit committees should report annually on how they have discharged their responsibilities. The key benefits to the Council of operating an effective Audit and Standards Committee are:

- Maintaining public confidence in the objectivity and fairness of financial and other reporting;
- Reinforcing the importance and independence of internal and external audit and any other similar review process;
- Providing a focus on financial reporting both during the year and at year end, leading to increased confidence in the objectivity and fairness of the financial governance arrangements operating within the Council;
- Assisting the co-ordination of sources of assurance and, in so doing, making management more accountable;
- Providing additional assurance through a process of independent and objective review, via the Internal Audit function;
- Raising awareness within the Council of the need for governance, including ethical governance, internal control and the implementation of audit recommendations; and
- Providing assurance on the adequacy of the Council's risk management arrangements, including the risk of fraud and irregularity.

¹ CIPFA – Practical Guidance for Local Authorities and Police, 2013

Membership and Meetings

The Committee has enjoyed the benefit of a reasonably settled membership over the last two years. This has helped to build and retain the expertise within the Committee, which has led to the Committee being able to demonstrate that they are operating within a best practice framework.

There are nine Members of the Audit and Standards Committee namely:

- Councillor Nigel Studdert-Kennedy (Chair)
- Councillor Rachel Curley (Vice-Chair)
- Councillor Martin Baxendale
- Councillor Stephen Davies
- Councillor Colin Fryer
- Councillor Keith Pearson
- Councillor Mark Reeves
- Councillor Tom Williams
- Councillor Penny Wride

During the 2016/17 Civic Year, the Audit and Standards Committee has met on five occasions, in accordance with its Programme of Work:

- 5th July 2016
- 22nd September 2016
- 22nd November 2016
- 7th February 2017
- 11th April 2017

The Committee is also supported by Council Officers, principally the Chief Financial Officer (S151 Officer), Monitoring Officer, Head of Audit Risk Assurance and the Council's External Auditors (KPMG).

Work Programme

During this period, the Committee has assessed the adequacy and effectiveness of the Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors (Audit Risk Assurance) and the external auditors (KPMG).

The Committee has sought assurance that action has been taken, or is otherwise planned by management to address any risk related issues that have been identified by the auditors during this period. The Committee has also sought to ensure that effective relationships continue to be maintained between the internal and external auditors and between the auditors and management. The specific work undertaken by the Committee during 2016/2017 is set out below.

Internal Audit Activity

With effect from May 2016, the Internal Audit service is provided by Audit Risk Assurance under a shared service agreement. The Committee has continued to monitor the work of Internal Audit and has:

- overseen the implementation of the new internal audit arrangements for the Council. This has included approving changes to the Internal Audit Charter and Code of Ethics to reflect the revised Public Sector Internal Audit Standards (PSIAS) 2016. These documents set out the role, responsibility, status and authority of internal audit within the Council;
- contributed towards, received and approved the Internal Audit Plan for 2016/17. The plan ensures that internal audit resources are prioritised towards those systems, processes and areas which are considered to be deemed high risk, or which contribute most to the achievement of the Council's corporate objectives;
- monitored the delivery of the annual Internal Audit Plan through regular update reports presented by the Head of Audit Risk Assurance;
- received, considered and monitored the results of internal audits performed and high risk activity identified, in respect of specific areas i.e. Housing Revenue Account (HRA) Balances, the Procurement Action Plan and Review of Council Tax and Business Rates Direct Debit payment issues and monitored the progress made by management, during the period, to address identified control weaknesses;
- considered the Council's overall counter fraud arrangements and response in the light of updated national guidance Fighting Fraud and Corruption Locally – The Local Government Counter Fraud and Corruption Strategy 2016 – 2019 which is supported by CIPFA Counter Fraud Centre and approved the revised Anti Fraud and Corruption Policy Statement and Strategy, Anti Bribery Policy and Anti Money Laundering Policy 2017-2019, which reflects this updated guidance;
- received updates on the outcomes of special investigations undertaken by Internal Audit, along with progress made in the investigation of queries arising as a result of the National Fraud Initiative (NFI) data matching exercise;
- considered the Internal Audit Annual Report of the Head of Audit Risk Assurance, which provided a satisfactory opinion on the effectiveness of the Council's internal control environment. The summary of the internal audit activity upon which the opinion was based provided the Committee with the necessary assurance that there is a generally sound system of internal control in place at the Council; and
- received and approved the Internal Audit Quality Assurance and Improvement Programme (QAIP). The QAIP is a programme of performance activity which helps to ensure internal audit work is conducted in accordance with the established professional standards (PSIAS). The standards require periodic self-assessments and an assessment by an external person every five years. The Chartered Institute of Internal Auditors (CIIA) (the professional body who sets internal audit standards for public bodies) assessment of Audit Risk Assurance concluded that the work of Internal Audit was in compliance with the required professional standards. The Committee therefore takes assurance that the internal audit practices meet the required standards and continued reliance can be placed on the internal audit arrangements operating within the Council.

Activity relating to Treasury Management

During the year, the Audit and Standards Committee:

- approved the quarterly Treasury Management activity reports and received, considered and recommended to full Council for approval the Treasury Management Strategy, the Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2016/2017 and 2017/18. These reports set the Council's prudential indicators for 2016/17 – 2018/19 and the treasury strategy for these periods. This is a key area for the Committee to monitor and they continue to consider and recommend to full Council for approval amendments to the investment strategy in response to constantly changing market conditions.

External Audit Issues

The External Audit service is provided by KPMG. The Committee has monitored the work of the Council's external auditors and has:

- considered and approved the External Audit Plan 2015/16 which sets out external audit's work to be undertaken on the accounting statements and to provide a value for money opinion. It reported on risks they have identified which would receive attention during the audit, the results of interim work, which did not reveal any material weaknesses, and the dates for the completion of the audit.
- considered the External Audit Report 2015/2016 i.e. 'Report to those charged with Governance' in accordance with the requirements of International Standard on Auditing 260 (ISA) which summarises the key findings arising from their audit work in relation to the Council's financial statements and work to support the Council's arrangements to secure economy, efficiency and effectiveness in its use of resources (Value for Money (VFM) conclusion). The audit concluded with an unqualified opinion on the financial statements and VFM conclusion;
- considered and approved the Statement of Accounts for 2015/16 of the Council and received KPMG's audit opinion. The Deputy S151 Officer together with the Chairman of the Committee signed a letter of representation on behalf of the Committee and Council to KPMG, to enable the 'unqualified' opinion to be issued;
- considered and accepted the Annual Audit Letter 2015/16. This letter summarises the outcome from audit work at the Council during this period.
- received and considered the Annual Report on grant claims and returns 2015/16. This report summarises the results of the work undertaken on the Council's 2015/2016 grant claims and returns; and
- received and considered regular external audit progress reports.

Risk Management Activity

During the year the Committee has:

- considered the self assessment of risk management arrangements operating within the Council against ISO31000 Risk Management – Principles and Guidelines, to provide independent assurance on the adequacy of the Council's risk management framework and is currently monitoring the progress of the actions identified to further enhance these arrangements, which includes a refresh and reaffirmation of the Strategy; and
- received regular risk management update reports (including the review of the corporate risk register) and being presented with the actions taken by the Council to identify and address corporate risks. The Committee recognised that the corporate risk register required further review and enhancement, which has been now been included as an action within the risk management improvement plan.

Corporate Governance

In relation to corporate governance the Committee:

- considered and approved the Council's 2015/2016 Annual Governance Statement. The Committee also reviewed the progress made by management to address the significant issues identified in the 2015/16 Annual Governance Statement Improvement Plan;
- has been briefed on the revised Annual Governance Statement assurance framework which was implemented during the latter part of 2016/2017, the outcomes will inform the Annual Governance Statement 2016/2017;
- has been briefed on the revised Council's Code of Corporate Governance which reflects the new principles of good governance as per CIPFA/ SOLACE Delivering Good Governance in Local Government 2016 Edition; and
- considered the standards issues during 2015/2016 relating to the Code of Conduct and reviewed the current Investigations Procedure.

Other

In addition, the Committee:

- continued to monitor and accept the achievements against the Procurement Action Plan and consider the actions required to further improve the Council's performance and contract management arrangements; and
- Considered the options for the future appointment of the Council's external auditors. The Council is required to appoint new external auditors by 31 December 2017 in time for the audit of the 2018/19 accounts. The options include the local appointment of auditors with the process overseen by an independent auditor panel, a joint appointment with one or more other councils or appointment via a sector led body set up by the Local Government Association (LGA) for this purpose. The Committee expressed clear support for option of using the sector led body as there would be economies of scale and improved transparency.

Training

The following training was made available to Members of the Audit and Standards Committee in 2016/17 to support the Committee in discharging its responsibilities:

- Treasury Management (provided by Council's treasury advisors – all Councillors invited) - two sessions: July 2016 and January 2017;
- Audit Committee Effectiveness: Knowing the Ropes (provided by Grant Thornton) - July 2016;
- Statement of Accounts - September 2016;
- Risk Based Internal Audit Planning Workshop - October 2016;
- Housing Revenue Account (HRA) – (open to all Councillors) - December 2016; and
- Finance (open to all Councillors) - December 2016.

Future Work

During 2017/18, the Audit and Standards Committee will continue with the existing aim of being an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance.

In particular, they will continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations, continue to monitor the implementation of the Procurement Action Plan and the effectiveness of the procurement arrangements operating across the Council, the HRA and Direct Debit issues and any actions arising from the Annual Governance Statement action plan 2016/2017, to ensure the Council continues to adopt the latest good practice.

In addition, with risk management being a key contributor to good governance the Committee will be seeking assurance that the risk management improvement plan is implemented and they will look to Internal Audit to provide the independent assurance that risk continues to be embedded into the Council's key business activities.

Conclusion

The Audit and Standards Committee has had a successful year in providing the Council with assurances on the strength of its governance and stewardship arrangements and in challenging those arrangements.

The Committee's work programme is a dynamic programme and will continue to be reviewed to ensure the Committee maximises its contribution to the governance and control framework at the same time managing agendas to ensure that all meetings are focused on the key issues.

Details of all reports as noted within this report can be found at <https://www.stroud.gov.uk/council/meetings/audit-standards-committee>.