

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 is currently reviewing its effectiveness against the revised CIPFA guidance 2018. The Committee's priorities are to maintain and if and where necessary, improve our governance procedures. 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 and refresher 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. 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.

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.

This year the Committee included in its work a review of working relationships between Members and Officers. Whilst the regard for high standards of conduct was commonly understood, improvement was found to be needed in some areas. The Member /Officer

Protocol will be subject to some additional work by the Committee in the coming year to address the issues raised.

The Committee has paid particular attention to Procurement Procedures including the Multi Service Contract and Car Parking Review. Those present at the meeting of Council on 18th October 2018 will recall the concern raised by the Audit and Standards Committee.

It is pleasing to note that at the January 2019 meeting of the Committee all these matters had been properly addressed and progress made. The Risk Register and Procurement Procedures will continue to be monitored by the committee. The Risk Register and its upkeep is now in the Committee's programme as a standing agenda item.

I wish to record my thanks the members of the Committee for their work during the year. Due to the untimely passing of Councillor Wride the Committee sadly lost a valued and stalwart member. I also wish to record my thanks to Internal Audit (Audit Risk Assurance) and to Officers of the Council, for their help and support.

It is clear that future years will increase the work of the Audit and Standards Committee because Local Authorities must look to increase their income streams and investments to maintain the levels of service.

Councillor Nigel Studdert-Kennedy
Chairman of the Audit and Standards Committee
February 2019.

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 the 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 relatively 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 Skeena Rathor (Vice-Chair)
- Councillor Rachel Curley
- Councillor Stephen Davies
- Councillor Keith Pearson
- Councillor Simon Pickering
- Councillor Mark Reeves
- Councillor Tom Williams
- Councillor Penny Wride (until November 2018)

During the 2018/2019 Civic Year, the Audit and Standards Committee has met on five occasions, in accordance with its Programme of Work:

- 10th April 2018
- 26th July 2018
- 9th October 2018
- 20th November 2018
- 29th January 2019

The Committee is also supported by council officers, principally the Chief Financial Officer (S151 Officer), Monitoring Officer, Head of Audit Risk Assurance (Chief Internal Auditor) and the council's External Auditors (Deloitte).

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 (Deloitte).

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 2018/2019 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:

- been provided with an evaluation of the effectiveness of Internal Audit and has noted that the service complies with the Public Sector Internal Audit 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;
- contributed towards, received and approved the Internal Audit Plan for 2018/19. 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. the Procurement Action Plan, Multi Services Contract, Capital Programme, Local Government Pension Scheme, Car Parking Review and ICT Business Processes 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 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;
- received updates on the outcomes of special investigations / counter fraud activities undertaken by Internal Audit / Gloucestershire Counter Fraud Unit, along with progress made in the investigation of queries arising as a result of the National Fraud Initiative (NFI) data matching exercise; and
- considered the Internal Audit Annual Report of the Head of Audit Risk Assurance, which provided a satisfactory opinion, with the exception of the matters relating to the ICT service as detailed within the Society for IT Practitioners in the Public Sector (Socitm) review, on the effectiveness of the council's internal control environment, to enable the achievement of the Council's outcomes and objectives.

The summarised Internal Audit activity upon which that opinion was based, provide the Committee with reasonable assurance that there is a generally sound system of internal control in place at the council.

Activity relating to Treasury Management

During the year, the Audit and Standards Committee:

- received and approved the quarterly Treasury Management activity reports which monitor treasury activity against the 2018-2019 strategy and recommended to full council for approval amendments to the 2018-2019 strategy as part of the Treasury Management mid-year update. Also considered and recommended to full council the annual report setting out the Treasury Management Strategy, the Annual Investment Strategy and Minimum Revenue Provision Policy Statement 2019/2020. This report also set the council's prudential indicators for 2019/20. Treasury Management 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. The 2019/20 Investment Strategy recommended by Committee included a number of new investment options as the Council looks to increase its risk appetite.

External Audit Issues

The External Audit service is now provided by Deloitte, who have taken over the work from KPMG. The Committee has monitored the work of the council's external auditors and has:

- considered and approved the External Audit Plan 2018/19 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 2017/18 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 2017/18 of the council and received KPMG's audit opinion. The Acting 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 2017/18. 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 2017/18. This report summarises the results of the work undertaken on the council's 2017/18 grant claims and returns; and
- received and considered regular external audit progress reports.

Risk Management Activity

During the year the Committee has:

- 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 addressed; and
- Included risk management as a standing agenda item for all Audit and Standards Committee meetings.

Corporate Governance

In relation to corporate governance the Committee:

- considered and approved the council's 2017/2018 Annual Governance Statement and Local Code of Corporate Governance 2017/2018 which reflects the principles of good governance as per CIPFA / SOLACE Delivering Good Governance in Local Government 2016 edition. The Committee also reviewed the progress made by management to address the significant issues identified in the 2017/2018 Annual Governance Statement Improvement Plan; and
- with the responsibility in relation to review of standards of conduct applicable to all Councillors, a Task and Finish Group was appointed to review the Council's ethical framework. Meetings of this Committee produced the terms of reference for the review, namely (a) the content of the Member Code of Conduct (in particular the general requirements); and (b) the existing investigations and determinations procedure. Recommendations on changes (if any) to the framework to ensure standards are promoted and upheld by the Council will be reported back to this Committee.

Other

In addition, the Committee:

- continued to monitor and accept the achievements against the Procurement Action Plan and considered the actions required to further improve the council's performance and contract management arrangements.

Training

The following training was made available to Members of the Audit and Standards Committee in 2018/19 to support the Committee in discharging its responsibilities:

- Things Councillors Need to Know – 24th May 2018 open to all members
- Standards Workshop on 27th September 2018
- Homelessness and Notice of Proceedings for Possession (NOPP) Review Panel Refresher Training on 9th October 2018

- Housing Revenue Account (HRA) Finance – open to all members on 11th September 2018
- HRA Finance – open to all members 14th November 2018
- Budgets – 21st November 2018
- Capital Strategy and Treasury Management Information Evening on 4th December 2018
- Risk Based Internal Audit Planning Workshop – 11th December 2018
- Procurement Priorities on 7th April 2019 – all members invited

Future Work

During 2019/2020, the Audit and Standards Committee 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.

The Committee will undertake a review of its effectiveness in line with the new CIPFA guidance '*Audit Committees – Practical Guidance for Local Authorities and Police - 2018 Edition*'. Any improvement actions identified will be addressed during 2019/2020.

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 issues identified in relation to the capital Programme, the multi service contract management arrangements, the ICT strategy and associated business arrangements and any actions arising from the Annual Governance Statement action plan 2018/2019, 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 continue to seek assurance from management that risk management continues to operate effectively within the council 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-and-democracy/meetings/audit-standards-committee>