

STROUD DISTRICT COUNCIL

AUDIT AND STANDARDS COMMITTEE

Report Title	AUDIT AND STANDARDS COMMITTEE ANNUAL REPORT 2019/20			
Purpose of Report	<p>The Annual Report summarises the activities of the Audit and Standards Committee during 2019/20 and sets out its plans for the next twelve months.</p> <p>This report provides Council with an independent assurance that the Council has in place adequate and effective governance, risk management and internal control frameworks; internal and external audit functions and financial reporting arrangements that can be relied upon and which contribute to the high corporate governance standards that this Council expects and maintains.</p>			
Decision(s)	<p>That the Audit and Standards Committee:</p> <p style="padding-left: 40px;">a) Note the Audit and Standards Committee Annual Report 2019/20.</p>			
Consultation and Feedback	All Members of the Audit and Standards Committee have been consulted on the report content.			
Report Author	<p>Theresa Mortimer, Head of Audit Risk Assurance Tel: 01453 754111 Email: theresa.mortimer@stroud.gov.uk</p>			
Options	Consideration has been given to not producing an Annual Report however this has been discounted because recommended practice from both the public and private sectors indicates that an audit committee should report directly to the governing body of the organisation. In the case of a local authority, the full Council.			
Background Papers	<p>Relevant public reports presented to the Audit and Standards Committee during 2019/2020 and minutes of those meetings can be found at https://www.stroud.gov.uk/council/meetings/audit-standards-committee.</p>			
Appendices	Appendix A – Audit and Standards Committee Annual Report 2019/2020.			
Implications (details at the end of the report)	Financial	Legal	Equality	Environmental
	No	No	No	No

1.0 INTRODUCTION/BACKGROUND

- 1.1 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.
- 1.2 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.
- 1.3 Audit Committees are widely recognised as a core component of effective governance. Their key role is independently overseeing and assessing the internal control environment, comprising governance, risk management and control and advising the Council on the adequacy and effectiveness of these arrangements.
- 1.4 In response to the above, the Audit and Standards Committee was established in September 2009 in line with guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). This guidance recommends that audit committees should prepare an annual report to the full Council, which sets out the Committee's work on how they have discharged their responsibilities.

2.0 MAIN POINTS

- 2.1 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 the Council's aims and objectives. The Committee has developed and implemented a work plan for the year to enable key tasks to be considered, undertaken and delivered. To summarise, through the work plan the Committee has:
 - 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.

3.0 CONCLUSION

- 3.1 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.
- 3.2 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.

4.0 IMPLICATIONS

4.1 Financial Implications

There are no financial implications arising directly from this report.

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Risk Assessment:

Failure to deliver effective governance will negatively impact on the achievement of the Council's objectives and priorities.

4.2 Legal Implications

There are no specific legal implications arising from this report.

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4.3 Equality Implications

There are not any specific changes to service delivery proposed within this decision.

4.4 Environmental Implications

There are no significant implications within this category.

Audit and Standards Committee Annual Report 2019-2020



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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 - 2018 Edition*'. The Committee has reviewed its effectiveness against the revised CIPFA guidance during 2019/20. An action plan was developed and is currently being implemented, which included a revision and update to the Committee's Terms of Reference and the agreement to the appointment of an Independent Member to the Committee.

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.

The Risk Register and Procurement Procedures 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 to the members of the Committee for their work during the year. I also wish to record my thanks to Internal Audit (Audit Risk Assurance) and to Officers of the Council, for their help and support.

At the time of writing, government restrictions due to Coronavirus (Covid-19) have led to the cancellation of all Committee meetings. It is expected that future meetings will take place remotely but this will require a change in the law (i.e. currently physical presence is required). Consequently any change is unlikely to be immediate. The concession that has been made is that the approval of the Statement of Accounts has been postponed to 30th September 2020 as has the Annual Governance Statement.

The present problems have and will put extra pressure on Council resources. It is expected that the workload for Audit and Standards Committee will be increased when normal service is resumed.

Councillor Nigel Studdert-Kennedy
Chairman of the Audit and Standards Committee
March 2020.

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 have recently been updated and are set out within their Terms of Reference 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, 2018

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 Tom Williams (Vice Chair)
- Councillor Dorcas Binns
- Councillor Rachel Curley
- Councillor Stephen Davies
- Councillor Keith Pearson
- Councillor Miranda Clifton
- Councillor Mark Reeves
- Councillor Karen McKeown

During the 2019/20 financial year, the Audit and Standards Committee has met on five occasions, in accordance with its Programme of Work:

- 7th May 2019
- 25th July 2019
- 08 October 2019
- 19th November 2019
- 28th January 2020

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 2019/20 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:

- Considered the effectiveness of the Audit Risk Assurance Shared Service;
- Contributed towards, received and approved the Internal Audit Plan for 2019/20. 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 strategic objectives;
- Participated in the 2020/21 Internal Audit Risk Based Planning workshop to contribute towards the internal audit plan and audit resource allocation to support assurance needs;
- 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 where a limited opinion on the control environment has been provided, e.g. Gloucestershire Building Control Partnership and the Littlecombe Scheme, 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, with the principles reflected in the Council's Anti Fraud and Corruption Strategy 2017-2019;
- 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 and approved the report of the Head of Internal Audit and Risk Management on the service's purpose, authority, role and function; and
- 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 and summarised the internal audit activity upon which that opinion was based. The Committee can therefore take 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 2019/20 strategy and recommended to full council for approval the 2019/20 Half Year Treasury Management Activity Report.

- 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 2020/21. This report also set the Council's prudential indicators for 2020/21.
- 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 increased its risk appetite, and the Committee is monitoring the £10m of longer term investments in property funds and multi-asset funds arising from that change.

External Audit Issues

Deloitte has been appointed as the Council's external auditors for the financial years 2018/19 and 2019/20. The Committee has monitored the work of the Council's external auditors and has:

- Considered and approved the External Audit Plan 2019/20 which sets out external audit's work to be undertaken on the accounting statements and to provide a value for money opinion;
- 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 2018/19 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 unmodified opinion on the financial statements and VFM conclusion;
- Considered and approved the Statement of Accounts for 2018/19 of the Council and received Deloitte's audit opinion. The S151 Officer together with the Chair of the Committee signed a letter of representation on behalf of the Committee and Council to Deloitte, to enable the 'unmodified' opinion to be issued;
- considered and accepted the Annual Audit Letter 2018/19. This letter summarises the outcome from audit work at the Council during this period;
- Considered the Internal Audit / External Audit joint working arrangements; 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:

- Led the review of the effectiveness of the Audit and Standards Committee and identified improvement actions i.e. the key proposed actions relating to the appointment of an independent member to the Committee and refresh of the Committee's terms of reference to reflect the revised CIPFA guidance; and
- Considered and approved the Council's 2018/19 Annual Governance Statement and Local Code of Corporate Governance. The Committee also reviewed the progress made by management to address the significant issues identified in the 2018/19 Annual Governance Statement Improvement Plan;

Training

The following training was made available to Members of the Audit and Standards Committee in 2019/20 to support the Committee in discharging its responsibilities:

- Chair Training – 30 September 2019 – Open to all Members
- MAIDeN training – 30 September 2019 – Open to all Members
- Code of Conduct Training – 10 October OR 22 October 2019 – Open to all Members
- Good Decision Making – 20 November 2019 – Open to all Members
- Risk Based Internal Audit Planning workshop – 2 December 2019 – Open to Audit and Standards Committee
- CIPFA Effectiveness of the Audit Committee external training 16th / 17th March 2020.

Future Work

During 2020/21, 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 and continue to monitor any actions arising from the Annual Governance Statement action plan 2019/20, to ensure the Council's governance arrangements are effective.

In addition, with risk management being a key contributor to good governance the Committee will be seeking independent assurance from internal audit that risk management continues to be embedded within the Council's key business processes.

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>