

# Gloucester City Council

Meeting:	Audit & Governance Committee Council	Date:	26 June 2014 17 July 2014
Subject:	Audit & Governance Committee Annual Report 2013/14		
Report Of:	Chair - Audit & Governance Committee		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
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Appendices:	A: Audit & Governance Committee Annual Report 2013/14 B: Audit & Governance Committee – Revised Terms of Reference		

## FOR GENERAL RELEASE

### 1.0 Purpose of Report

- 1.1 The report introduces the Annual Report of the Audit and Governance Committee. The Annual Report sets out the work and achievements of the Council's Audit and Governance Committee during 2013/14.

### 2.0 Recommendations

- 2.1 Council is asked to **RESOLVE** that:

- (1) The Annual Report of the Audit and Governance Committee 2013/14 be approved.

### 3.0 Background and Key Issues

- 3.1 The preparation of an annual report by the Council's Audit and Governance Committee is recognised as good practice within both the public and private sectors.
- 3.2 This Annual Report, which details the work and achievements of the Audit and Governance Committee during 2013/14 was discussed, and approved, by the Audit & Governance Committee at its meeting held on 26<sup>th</sup> June 2014.
- 3.3 The report, when agreed, will be published and circulated to interested groups.

### 4.0 Alternative Options Considered

- 4.1 Not applicable.

## **5.0 Reasons for Recommendations**

- 5.1 Best practice from both the public and private sectors indicates that the audit committee should report directly to the governing body of the organisation. In the case of a local authority, the full Council. This will assist in giving it independence from the executive and scrutiny functions, and in addition provides status and clarity to the role.

## **6.0 Future Work and Conclusions**

- 6.1 Best practice from both the public and private sectors indicates that the audit committee should report directly to the governing body of the organisation. The Audit & Governance Committee will continue to present an annual report to the full Council.

## **7.0 Financial Implications**

- 7.1 None specific to this report.

(Financial Services have been consulted in the preparation this report.)

## **8.0 Legal Implications**

- 8.1 None specific to this report.

(Legal Services have been consulted in the preparation this report.)

## **9.0 Risk & Opportunity Management Implications**

- 9.1 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. These functions are best delivered by an audit committee, independent from the executive and scrutiny functions.

## **10.0 People Impact Assessment (PIA):**

- 10.1 The PIA Screening Stage was completed and did not identify any potential or actual negative impact, therefore a full PIA was not required.

## **11.0 Other Corporate Implications**

### Community Safety

- 11.1 There are no community safety implications arising out of this report.

### Sustainability

- 11.2 There are no sustainability implications arising out of this report.

### Staffing & Trade Union

- 11.3 There are no staffing and trade union implications arising out of this report.

**Background Documents:** Audit & Governance Committee meeting minutes 2013/14

**Audit & Governance Committee Annual Report 2013/14**

1. Background

- 1.1 The original Audit Committee was established by the Council in May 2006. Whilst there is no statutory obligation to have an Audit Committee, they are widely recognised as a core component of effective governance. In recent years there has been a significant amount of regulation and guidance issued in governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee.
- 1.2 As a result of the Localism Act 2011, which made fundamental changes to the system of regulation of standards of conduct for elected and co-opted Councillors, the Council agreed, in May 2012, to combine the roles of the Standards Committee and the Audit Committee and establish an Audit and Governance Committee. The transfer of responsibility from the Standards Committee to the Audit and Governance Committee necessitated changes to the Terms of Reference for the Audit and Governance Committee.
- 1.3 Good corporate governance requires independent, effective assurance about both the adequacy of corporate, operational and financial management and reporting, and the management of other processes required to achieve the organisation's corporate and service objectives. Effective audit committees help raise the profile of internal control, risk management and financial reporting issues within an organisation, as well as providing a forum for the discussion of issues raised by internal and external auditors.
- 1.4 The Terms of Reference for the Audit & Governance Committee are based on CIPFA guidelines. As a result of the issue by CIPFA of updated guidance i.e. 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)', a review of the Terms of Reference for the Committee was carried out in March 2014. A copy of the revised Terms of Reference, which have been recommended to Council for approval, can be found at Appendix 1 of this report.

2.0 Membership & Attendance

- 2.1 The Committee has enjoyed the benefit of a settled membership over the last couple of years, with only a small number of changes in membership. 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.

- 2.2 The following were Members of the Audit and Governance Committee for 2013/14:

Cllr Declan Wilson – Chair  
Cllr Mark Hobbs – Vice Chair  
Cllr Phil McLellan  
Cllr Lise Noakes  
Cllr Jim Porter  
Cllr Debbie Llewellyn  
Cllr Matthew Gilson

2.3 During 2013/14, the Audit & Governance Committee met on the following dates:

24<sup>th</sup> June 2013  
23<sup>rd</sup> September 2013  
25<sup>th</sup> November 2013  
27<sup>th</sup> January 2014 – Special Meeting re update on Peer Review  
17<sup>th</sup> March 2014

2.4 The Cabinet Member for Performance (Cllr Fred Wood) was a regular attendee, as an observer, at Committee meetings during the year.

2.5 Senior Officers from the Council also attended Audit and Governance Committee meetings, with the Director of Resources, the Audit, Risk & Assurance Manager, the Head of Legal & Policy Development, and the Head of Financial Services being regular attendees. A representative from the Council's External Auditors, KPMG, also attended every Committee.

2.6 The Chair and Vice Chair also attended briefing meetings with the Director of Resources, the Audit, Risk & Assurance Manager, the Head of Legal & Policy Development, and the Head of Financial Services, before each Committee meeting.

### 3.0. Programme of Reports 2013/14

3.1 Detailed below is the programme of reports considered by the Audit and Governance Committee during 2013/14, and how they relate to the Committees Terms of Reference.

#### **Governance, risk and control**

- Annual Governance Statement 2012/13
- Annual Governance Statement Action Plan 2013/14
- Review of Whistleblowing Policy
- Risk Management Annual Report 2013
- RIPA - Annual review of Procedural Guidance
- Peer Review
- Service Risk Registers (verbal updates)

#### **Internal Audit**

- Audit, Risk & Assurance Manager Annual Report 2012/13
- Review of Effectiveness of Internal Audit 2012/13
- Public Sector Internal Audit Standards
- Internal Audit Plan 2013/14 - Quarterly Monitoring Reports
- Internal Audit Annual Plan 2014/15
- Response to Internal Audit Recommendations – Streetcare, Markets, Payroll Contract, Response Repairs Contract.

#### **External Audit**

- Annual Audit Letter 2011/12
- Annual Audit Letter 2012/13
- Progress Report – 2012/13 audit
- Certification of Grants and Returns 2012/13
- External Audit Plan 2013/14

- Annual Audit Fee 2013/14

### **Financial Reporting**

- Year End Statement of Accounts 2012/13
- External Auditor Report to Those Charged with Governance (ISA 260) 2012/13
- Financial Services Improvement Plan

### **Treasury Management**

- Treasury Management Strategy 2013/14
- Treasury Management Strategy 2014/15
- Treasury Management Quarterly Performance Monitoring Reports

### **Constitution and Standards**

- Annual Complaints Monitoring
- Review of the Council's Standards Arrangements
- Committee on Standards in Public Life – Annual Report 2012/13
- Standards arrangements under the Localism Act 2011
- Local Government Ombudsman – Annual Review Letter

## **4.0 Annual Report**

- 4.1 The work of internal and external audit provided detailed assurance on the reliability and integrity of the information held in the financial statements as well as on the key control framework in operation across the Council.
- 4.2 The assurances from the Director of Resources and the Head of Financial Services, and, the work of internal and external audit, together support the committee in forming their opinion of the financial statements, enabling them to agree for the Chair of the Committee to sign the Statement of Accounts 2012/13 within the statutory timeframe.
- 4.3 The Committee reviewed and approved the Annual Governance Statement (AGS) at the same time as the approval of the Statement of Accounts.
- 4.4 The Committee considered the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Director of Resources, the view of external audit, and, the quality of reports, actions and follow ups through the quarterly monitoring reports submitted throughout the year to Committee.
- 4.5 In accordance with good practice, the Committee held their annual, private meeting with the Council's External Auditors (KPMG).
- 4.6 The Committee is able to request Managers to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve the existing control environment. During 2013/14, the Committee invited the Head of Neighbourhood Services, the Asset Manager, the Markets Manager, and, the Financial Projects Supervisor to provide an update on the implementation of internal audit recommendations within their respective areas.
- 4.7 During the year, the Committee maintained an Action Plan. This was reviewed at each committee meeting to monitor progress with implementing agreed actions.

- 4.8 As stated above, as a result of the issue by CIPFA of updated guidance i.e. 'Audit Committees – Practical Guidance for Local Authorities and Police (2013 Edition)', a review of the Terms of Reference for the Committee was carried out in March 2014. A copy of the revised Terms of Reference, which have been recommended to Council for approval, can be found at Appendix 1 of this report.
- 4.9 Due to current workload of the Committee, a review was also undertaken of the frequency of Committee meetings. This resulted in a recommendation being made to Council to increase the frequency of meeting from 4 to 5 per civic year.

## 5.0 Future Work

- 5.1 During 2014/15, the Audit & Governance 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.

**Audit & Governance Committee – Revised Terms of Reference (Subject to approval by Council)**

**Governance, risk and control**

1. To review the Council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.
2. To review the Annual Governance Statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.
3. To consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
4. To consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the Council.
5. To monitor the effective development and operation of risk management in the Council.
6. To monitor progress in addressing risk-related issues reported to the Committee.
7. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
8. To review the assessment of fraud risks and potential harm to the Council from fraud and corruption.
9. To monitor the counter-fraud strategy, actions and resources.

**Internal Audit**

10. To approve the internal audit charter.
11. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
12. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
13. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
14. To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
15. To consider reports from the Head of Internal Audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - a. Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work.
  - b. Regular reports on the results of the Quality Assurance and Improvement Programme.
  - c. Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the Annual Governance Statement.

16. To consider the Head of Internal Audit's annual report:
  - a. The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the Quality Assurance and Improvement Programme that supports the statement.
  - b. The opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control together with a summary of the work supporting the opinion.
17. To consider summaries of specific internal audit reports as requested.
18. To receive reports outlining the action taken where the Head of Internal Audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.
19. To contribute to the Quality and Improvement Programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
20. To consider a report on the effectiveness of internal audit to support the Annual Governance Statement, where required to do so by the Accounts and Audit Regulations.
21. To support the development of effective communication with the Head of Internal Audit.

### **External Audit**

22. To consider the external auditor's annual letter, relevant reports, and the report of those charged with governance.
23. To consider specific reports as agreed with the external auditor.
24. To comment on the scope and depth of external audit work and to ensure it gives value for money.
25. To commission work from internal and external audit.
26. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **Financial reporting**

27. To review the statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
28. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Treasury Management**

29. To review and monitor treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.

### **Accountability arrangements**

30. To report to those charged with governance on the Committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks; financial reporting arrangements, and internal and external audit functions.
31. To report to full Council on a regular basis on the Committee's performance in relation to the terms of reference and the effectiveness of the Committee in meeting its purpose.



## **Constitution and Standards**

32. To consider and review changes to the Council's constitution in respect of Contract Standing Orders, Financial Regulations, and Codes of Conduct and behaviour.
33. To monitor the operation of the Council's codes and protocols (see Part 5 of this Constitution) and the Council's complaints process and to advise the Council on the adoption or revision of such codes.
34. To consider the Council's compliance with its own published standards and controls.
  35. To review any issues referred to it by the Chief Executive or a Corporate Director or any Council body.
35. To receive allegations and any accompanying report from the Monitoring Officer and to refer the allegation to the Monitoring Officer for formal investigation or informal resolution.
36. To set up, where necessary, a Hearings Panel to consider any alleged breach of the Members' Code of Conduct.
37. To promote and maintain high standards of conduct by Councillors and co-opted Members.
38. To assist Councillors and co-opted Members to observe the Members' Code of Conduct.
39. To advise the Council on the adoption, revision of, or publicity on the Members' Code of Conduct.
40. To advise, train or arrange to train Councillors and co-opted Members on matters relating to the Members' Code of Conduct.
41. To grant dispensations to Councillors and co-opted Members from the requirements relating to interests set out in the Members' Code of Conduct or other Council codes and protocols where:
  - (a) without the dispensation, the representation of different political groups on the body transacting the business would be so upset as to alter the outcome of any vote on the matter;
  - (b) the Committee considers that the dispensation is in the interests of persons living in the Council's area; or
  - (c) the Committee considers that it is otherwise appropriate to grant a dispensation.
42. To consider appeals against decisions made by the Monitoring Officer in exercise of their dispensation powers.
43. To set up, where necessary, a Sub-Committee to shortlist and interview candidates for the role of Independent Person and to make recommendations to Council regarding the appointment of Independent Persons.
44. To provide such advice and assistance as appropriate regarding the appointment of the Independent Person as required under Part 7 of the Localism Act 2011.
45. To set the allowances and expenses payable to the Independent Person and Reserve Independent Persons.