

Gloucester City Council

Meeting:	Audit and Governance Committee	Date:	20th June 2016
	Council		21st July 2016
Subject:	Audit and Governance Committee Annual Report 2015/16		
Report Of:	Chair - Audit and Governance Committee		
Wards Affected:	N/A		
Key Decision:	No	Budget/Policy Framework:	No
Contact Officer:	Theresa Mortimer, Head of Audit Risk Assurance (Chief Internal Auditor)		
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Appendices:	1: Audit and Governance Committee Annual Report 2015/16		
	2: Audit and Governance Committee – Terms of Reference (Council Constitution 2015/16 extract)		

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 2015/16.

2.0 Recommendations

- 2.1 Audit and Governance Committee is asked to **RECOMMEND** to Council that the Audit and Governance Committee's Annual Report 2015/16 be noted.
- 2.2 Council is asked to **RESOLVE** that the Audit and Governance Committee Annual Report 2015/16 be noted.

3.0 Background and Key Issues

- 3.1 The Council's Constitution defines Council Committee responsibilities for functions and terms of reference. The Audit and Governance Committee's terms of reference includes the accountability arrangement *'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'*. This requirement is met through the Audit and Governance Committee's Annual Report.
- 3.2 The preparation of an annual report by the Council's Audit and Governance Committee is not a statutory requirement, but is recognised as good practice within local government.

- 3.3 This Annual Report details the Audit and Governance Committee's background, work and achievements during 2015/16.

4.0 Asset Based Community Development (ABCD) Considerations

- 4.1 There are no ABCD implications as a result of the recommendations made in this report.

5.0 Alternative Options Considered

- 5.1 Consideration has been given to not producing an Annual Report. This has been discounted, due to best practice from both the public and private sectors indicating that an audit committee should report directly to the governing body of the organisation (i.e. the full Council - in the case of a local authority). Also not producing an Annual Report would be non-compliant with the Audit and Governance Committee's defined terms of reference.

6.0 Reasons for Recommendations

- 6.1 The Audit and Governance Committee's terms of reference includes the accountability arrangement *'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'*. The Audit and Governance Committee's Annual Report approach meets this requirement and assists in Audit and Governance Committee independence from the executive and scrutiny functions, and in addition provides status and clarity to the Committee's role.

7.0 Future Work and Conclusions

- 7.1 In accordance with best practice, the Audit and Governance Committee will continue to present an Annual Report to the full Council.

8.0 Financial Implications

- 8.1 There are no financial implications arising out of this report.

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

9.0 Legal Implications

- 9.1 The legal basis for the operation of the Audit and Governance Committee is set out in **Appendix 1** to the report, specifically section 1 'Background'.

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

10.0 Risk & Opportunity Management Implications

- 10.1 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. The Audit and Governance Committee was

formed to deliver these functions, independent from the Council's executive and scrutiny functions.

11.0 People Impact Assessment (PIA):

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

12.0 Other Corporate Implications

Community Safety

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

Sustainability

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

Staffing & Trade Union

- 12.3 There are no staffing or trade union implications arising out of this report.

Background Documents: Audit and Governance Committee meeting minutes 2015/16

Audit and Governance Committee Annual Report 2015/16

1. Background

- 1.1 The original Audit Committee was established by the Council in May 2006. Whilst there is no statutory obligation in local government 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 for elected and co-opted Councillors standards of conduct, in May 2012 the Council agreed to combine the roles of the Standards Committee and the Audit Committee to establish an Audit and Governance Committee. The transfer of responsibility from the Standards Committee to the Audit and Governance Committee necessitated changes to the Audit and Governance Committee terms of reference.
- 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 the internal and external auditors.
- 1.4 The terms of reference for the Audit and Governance Committee are based on the Chartered Institute of Public Finance (CIPFA) publication 'Audit Committees – Practical Guidance for Local Authorities and Police' (2013 Edition). A copy of the terms of reference can be found at **Appendix B** of this report.

2.0 Membership and 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. 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 Councillors were Members of the Audit and Governance Committee for 2015/16:
 - Councillor (Cllr.) Llewellyn – Chair
 - Cllr. Gravells – Vice Chair
 - Cllr. McLellan
 - Cllr. Hobbs
 - Cllr. Taylor
 - Cllr. Patel
 - Cllr. Hampson

2.3 During the 2015/16 Civic Year, the Audit and Governance Committee met 5 times on the following dates:

- 1st July 2015
- 21st September 2015
- 23rd November 2015
- 18th January 2016
- 14th March 2016

2.4 The above is in line with the Constitution requirement for a minimum of 5 Audit and Governance Committee meetings per annum (see **Appendix B**).

2.5 The Cabinet Member for Performance (Cllr Dave Norman) was a regular attendee, as an observer, at Audit and Governance Committee meetings during 2015/16.

2.6 Council senior officers attended 2015/16 Audit and Governance Committee meetings, with the Head of Finance and the Audit, Risk and Assurance Manager being regular attendees. A representative from KPMG, the Council's External Auditors, also attended every Committee meeting.

2.7 Briefing meetings were undertaken prior to each Audit and Governance Committee meeting. These were attended by the Chair, Vice Chair, Head of Finance and the Audit, Risk & Assurance Manager.

3.0. Programme of Reports 2015/16

3.1 Detailed below is the programme of reports considered by the Audit and Governance Committee during 2015/16, split by the Committee's terms of reference defined roles:

Governance, risk and control (including reports also relevant to the Committee's accountability arrangements role):

- Annual Governance Statement 2014/15;
- Risk Management Annual Report 2015;
- Zurich Risk Management Update;
- Strategic Risk Register Update;
- Peer Review Action Plan; and
- Audit and Governance Committee Annual Report 2014/15.

Internal Audit:

- Audit, Risk and Assurance Manager's Annual Report 2014/15;
- Review of the Effectiveness of Internal Audit 2014/15;
- Internal Audit Plan 2015/16 Quarterly Monitoring Reports; and
- Internal Audit Annual Plan 2016/17.

External Audit:

- Annual Audit Letter 2014/15;
- External Audit Technical Update;
- External Audit Plan 2015/16; and
- Annual Report on Grants and Returns Work 2014/15.

Financial Reporting:

- Position Statement on the Statement of Accounts 2014/15;
- Year End Audited Statement of Accounts 2014/15;
- External Auditor Report to Those Charged with Governance (ISA 260) 2014/15;
- Business Rates Pooling Annual Report;
- Treasury Management Strategy 2016/17; and
- Treasury Management Quarterly Performance Monitoring Reports 2015/16.

Constitution and Standards:

- Annual Complaints Report 2014/15;
- Local Government Ombudsman Decisions; and
- Annual Standards Report.

4.0 Programme of Reports – Further Details

- 4.1 The work of internal and external audit provided reasonable 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. This work, together with the assurances from the Head of Finance, supported the Committee in forming their opinion of the financial statements and confirming agreement for the Chair of the Committee to sign the Statement of Accounts 2014/15 within the statutory timeframe.
- 4.2 The Committee reviewed and approved the Annual Governance Statement 2014/15 at the same time as the approval of the Statement of Accounts.
- 4.3 The Committee considered the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Head of Finance, the view of external audit, and the quality of reports, actions and follow ups through the Internal Audit Plan Quarterly Monitoring reports submitted throughout the year to Committee.
- 4.4 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 2015/16, the Committee invited the relevant Manager's to provide an update on the implementation of internal audit recommendations within the following areas:
 - IT Performance;
 - Benefits – Accuracy rate; and
 - Choice Based Lettings.
- 4.5 During the year, the Committee maintained a Work Programme (detailing reports to be presented within the Civic Year) and an Action Plan. The Action Plan confirmed matters raised by Committee for further action, each with a RAG (red amber green) rating, action target date and action owner. The Action Plan was reviewed at each Committee meeting to monitor progress with implementing agreed actions.

5.0 Training

- 5.1 During the year the following training event, relevant to the work of the Audit and Governance Committee, was provided for Members: 01/07/2015 Audit and Governance – open to all Members. The training session focus was the Committee roles and responsibilities and the 2015/16 Work Programme.

6.0 Future Work

- 6.1 During 2016/17, the Audit and Governance Committee will continue with the existing aim of being an important source of assurance regards the organisation's arrangements for good governance, managing risk, maintaining an effective control environment, and reporting on financial and other performance.

Audit and Governance Committee Terms of Reference (Council Constitution 2015/16 extract)

The Committee shall have the functions, powers and responsibilities set out below and in Article 8 of the Constitution.

Membership: 7 (Quorum 3) [Politically Proportional].

Comprising: Non-Executive Members.

Frequency of Meetings: 5 meetings per annum together with such other meetings as the Committee Chair shall consider necessary or appropriate.

Requirement: All Members appointed to the Audit and Governance Committee shall be obliged to receive regular and appropriate training, and frequent updates.

(a) Role:

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.

Accountability arrangements:

29. 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.
30. 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:

31. To consider and review changes to the Council's constitution in respect of Contract Standing Orders, Financial Regulations, and Codes of Conduct and behaviour.
32. To monitor the operation of the Council's codes and protocols (see Part 5 of the Constitution) and the Council's complaints process and to advise the Council on the adoption or revision of such codes.

33. To consider the Council's compliance with its own published standards and controls.
34. To review any issues referred to it by the Head of Paid Service, 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.

- (b) The power and responsibilities of the Committee shall be as follows:
 - (i) The ability to require the Leader and Cabinet Members to attend and be questioned on audit, risk management and corporate governance matters relating to their roles and responsibilities.
 - (ii) The ability to require the Head of Paid Service, and Corporate Directors to attend and be questioned on audit, risk management and corporate governance matters relating to their roles and responsibilities.
 - (iii) The power to call expert witnesses from outside the Council to give advice on matters under review or discussion.
 - (iv) To discharge powers under section 101 of the Local Government Act 1972 acting as a Sub-Committee of the Council for Statement of Auditing Standards (610) purposes.
 - (v) To approve the Statement of Accounts and the Annual Governance Statement.
 - (vi) To approve the Internal Audit Periodic Plan, receive reports on progress and as a consequence approve any material changes to the plan.
- (c) All other matters will be recommended, as appropriate, to the Council, Leader, Cabinet or other Council body for decision.
- (d) Delegation to Officers: Those functions relating to statutory financial, audit and legal functions which have been delegated to officers are set out in the Council's Scheme of Delegation in Part 3 to the Constitution.