

**Title of Report: Annual Report to Cabinet and Council: 2016/17**

**Report of: Darren Collins, Strategic Director, Corporate Resources**

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### **Purpose of the Report**

1. The Committee's terms of reference require it to submit an annual report to the Cabinet and Council, and further reports and recommendations as it sees fit. The Committee is asked to consider the issues discussed during 2016/17 for inclusion in a report to Cabinet and Council.

### **Background**

2. The Annual Report to Cabinet and Council 2016/17 allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:
  - Risk management;
  - Maintaining effective internal control; and
  - Reporting on financial and other performance.

### **Contents of the Report**

3. Appendix 1 includes the details of activity which the Committee has covered over the last year for consideration for inclusion in the report to Cabinet and Council.
4. The Audit and Standards Committee has received reports in the following areas:
  - Internal Audit planning, performance and activity;
  - Annual Internal Audit benchmarking results;
  - Internal Audit recommendations;
  - Review of Internal Audit Charter and compliance with Public Sector Internal Audit Standards;
  - External Audit planning, performance and activity;
  - Corporate Risk Management and Resilience activity;
  - The Annual Governance Statement and supporting evidence;
  - Audit Completion Report and Council Statement of Accounts;

- External Auditor appointments beyond 1 April 2018;
- Treasury Management Policy and mid-year update; and
- Local Code of Governance update.

5 Based on the evidence presented during the year and at the meeting of the Committee on 19 June 2017 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2016/17, which accompanies the Statement of Accounts.

**Recommendation**

6 The Committee is asked to agree the draft report to Cabinet and Council at Appendix 1.

### **1. Contents of the Report to Cabinet and Council – 2016/17**

1.1 The areas of activity considered by the Audit and Standards Committee during 2016/17 are set out below.

### **2. Internal Audit planning, performance and activity**

2.1 As at 31 March 2017 92% of the Internal Audit Plan was completed, which resulted in 60 audit reports. Of these reports 55 (92%) found systems to be operating well or satisfactory, with 5 (8%) reporting systems having significant weaknesses, of which one was in relation to schools.

2.2 All recommendations are followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.

2.3 Based on this evidence arising from Internal Audit activity during 2016/17, the Council's internal control systems and governance and risk management arrangements are considered to be effective.

2.4 The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2016/17, with quarterly updates to Audit and Standards Committee.

2.5 Other reports received during 2016/17 relating to Internal Audit included the CIPFA Benchmarking Results for 2015/16. The Audit and Standards Committee also approved the Audit Strategy and Plan.

2.6 The Audit and Standards Committee will continue to monitor Internal Audit's progress on a quarterly basis against the 2017/18 Audit Plan.

### **3. External Audit planning, performance and activity**

3.1 The following external audit reports have been reviewed over the year:

- Annual audit fee levels for 2016/17;
- Certification of grant claims and returns; and
- Audit Strategy for 2016/17.

3.2 The Committee was also asked to consider how it exercises oversight of certain key management processes in relation to some specific areas of governance with a potential to impact upon the financial statements during 2016/17. This was a requirement to satisfy the external auditors that such oversight was in place in order to comply with International Auditing

Standards. The Committee agreed that an effective level of oversight was in place.

#### **4. Corporate Risk Management and Resilience activity**

- 4.1 The Committee receives quarterly reports on the assurance derived from risk management. These reports make Councillors aware of the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

#### **5. The Annual Governance Statement and supporting evidence**

- 5.1 The Annual Governance Statement for 2016/17 concluded that the Council's system of internal control, risk management and governance framework is effective.
- 5.2 The Audit and Standards Committee approved the Annual Governance Statement for 2016/17 at its meeting on 19 June 2017, following a review of the evidence detailed below in Sections 6 - 14, and evidence seen by the Committee during the year.

#### **6. Cabinet Members**

- 6.1 Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

#### **7. Senior Managers**

- 7.1 Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These areas will be examined as part of the 2017/18 Audit Plan and the outcomes reported to the Audit and Standards Committee in July 2017.

#### **8. Internal Audit**

- 8.1 The Internal Audit Service has undertaken audit work throughout the year based on the risk based audit plan. In addition the Council has a framework of assurance available to satisfy it that risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service. These other audit systems have been assessed, as part of the Audit Plan.
- 8.2 Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2016/17 was that internal control systems and risk management and governance arrangements are effective.

- 8.3 The Internal Audit Charter was revised to include the Mission of Internal Audit and Core Principles for the Professional Practice on Internal Auditing to reflect their incorporation into the revised PSIAS with effect 1 April 2016. The revised Internal Audit Charter was reported to Audit and Standards Committee 3 October 2016 who approved the revisions to comply with Public Sector Internal Audit Standards.
- 8.4 A review of the effectiveness of Internal Audit has also been undertaken for 2016/17 in line with the Accounts and Audit Regulations 2015. This review focused upon compliance with the Public Sector Internal Audit Standards and the CIPFA Statement on the Role of the Head of Internal Audit, reliance placed by the external auditor on Internal Audit's work, an assessment of the effectiveness of the Audit and Standards Committee and relevant local performance information. Based on the review the Council's system of Internal Audit was considered to be operating effectively.

## **9. Risk Management**

- 9.1 Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk.
- 9.2 The Strategic Director, Corporate Resources reported that risk management arrangements during the year were effective.

## **10. Performance Management and Data Quality**

- 10.1 The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.
- 10.2 In addition performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
- 10.3 Based on evidence arising from the performance management process for 2016/17 effective controls are in place.

## **11. Views of the External Auditor and other External Inspectors**

- 11.1 Mazars, the Council's external auditor, issued an Annual Audit Letter covering the financial year 2015/16. This comprised of two elements: the audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in its use of resources. An unqualified opinion was given in both of these areas for 2015/16.

11.2 The outcome and findings of the audit of the Council's Statement of Accounts 2015/16 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 25 July 2016. Mazars issued an unqualified opinion on the Statement of Accounts, and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Committee noted the contents of the report and resolved that the Accounts Committee be advised that they had no issues to raise on the outcomes and findings of the Council's Statement of Accounts 2015/16 by Mazars.

11.3 Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

## **12. The Legal and Regulatory Framework**

12.1 Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body.

## **13. Financial Controls**

13.1 Assurance has been obtained from the Strategic Director, Corporate Resources, who is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972, that financial controls are effective. Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit.

## **14 Partnerships**

14.1 Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.

14.2 Based on evidence arising from partnerships for 2016/17 effective controls are in place.

## **15. Other Reports**

### **15.1 Treasury Management Policy & Strategy & Six Monthly Update**

In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

### **15.2 Local Code of Governance Update**

The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly and the Audit and Standards Committee were asked to consider an updated version on 6 March 2017 and a proposed approach to development of the new CIPFA Framework, which they agreed. A fundamental review and redraft of the Council's Local Code of Governance to get the best value from the CIPFA guidance issued in April 2016, Delivering Good Governance in Local Governance: Framework is a planned action in the Annual Governance Statement.

### **15.3 External auditor appointments beyond 1 April 2018**

The Committee received a report informing of the optional arrangements for the appointment of external auditors for the financial year beginning 1 April 2018. The Committee reviewed the options and commented that the Option to opt in to a sector led body that will negotiate contracts and make an appointment on behalf of councils (thus removing the need to set up an Independent Auditor Panel) was the preferred option. This was then reported to Cabinet and Council recommending to approve the proposed arrangement, following which the formal notice of acceptance of the invitation to opt in was submitted to Public Sector Auditor Appointments (PSAA).