

Agenda Item No: 8
Report To: Audit Committee
Date: 22 June 2017
Report Title: Audit Committee Annual Report 2016/17
Report Author: Alison Blake – Audit Manager



Summary: The 2016/17 annual report of the Audit Committee in discharging the responsibilities set out in the Councils constitution.

Key Decision: NO

Affected Wards: All

Recommendations:

1. That the Committee **agree** the Audit Committee Annual Report for 2016/17 (Appendix A).
2. That the Chairman of the Committee provides the report to a meeting of full Council to demonstrate how the Committee has discharged its duties.
3. That the Committee, subject to any comment or amendment, **agrees** the briefing sessions proposed in Appendix A.
4. That the Committee considers whether their Terms of Reference need to be updated, or whether further assurance needs to be sought by the Committee.

Policy Overview: N/A

Finance: N/A

Risk Assessment N/A

EIA N/A

Other Matters: N/A

Exemption Clauses: N/A

Background Papers: Audit Committee Annual Report 2016/17

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Report Title: Good Governance Framework Overview Final Report

Purpose of the Report

1. The report outlines how the Audit Committee has effectively discharged its duties during 2016/17. It provides assurance to the Council that important internal control, governance and risk management issues are being monitored and addressed by the Committee. Furthermore, it provides additional assurance to support the Annual Governance Statement.
2. This report also proposes a timetable of Member briefings that will, over the course of the next year, complement the Committee as it seeks to fulfil its responsibilities through 2016/17.
3. An assessment against the Committees Terms of Reference has been made within the report to facilitate Member discussion as to whether the Terms need to be updated.

Background

4. The Audit Committee is required to monitor audit activity (internal and external), review and comment on the effectiveness of the Council's regulatory framework and review and approve the Council's annual statements of accounts and scrutinise associated strategy and policy.
5. In line with best practice the Audit Committee has produced an annual report (Appendix A). This report sets out how the Committee has discharged its duties under its terms of reference during 16/17.

Risk Assessment

6. N/A

Equalities Impact Assessment

7. N/A

Other Options Considered

8. The production of an annual report is considered by CIPFA to represent best practice. The Committee has produced a report of this nature for a number of years.
9. No other options have been considered.

Consultation

10. A draft version of the report has been shared with the 2016/17 Audit Committee Chairman for comment.
11. The content of the report follows the conventions established in previous years.

Implications Assessment

12. N/A

Handling

13. N/A

Conclusion

14. The conclusion as set out in the report (appendix A) is that the Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2016/17.

Portfolio Holder's Views

15. N/A

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Audit Committee

Annual Report 2016/17



Introduction by Chairman of Audit Committee

The municipal year 2016/17 has been a year of change and development for the Audit Committee, not least for me in my first year as Chairman after previously supporting Councillor Link as Vice Chairman. I am pleased to report the continued good work of the Committee in providing an independent review of the Council's governance.

During the year, I have aimed to broaden the range of contributions in the Committee, including working with officers to look at new ways to present information to Members. For example, at our last meeting, a report delivered by presentation and an innovative cover report to help point Members towards the key considerations.

As a Committee, we have continued to offer robust but encouraging challenge to officers, including continued engagement on specific areas such as data protection and safeguarding. We also noted, among the highlights, further unqualified opinions from our external auditors on our financial statements, value for money conclusion and benefits certification. Also, we received a positive conclusion from our internal auditors on the Council's internal control, governance and risk management.

Looking ahead to 2017/18 I am keen to continue development of the Committee; seeking to focus our range of skills and experiences towards providing an ever more effective review of the Council's governance. This means both challenging where there need to be improvements and offering our support to officers seeking to develop new approaches in making us fit for the challenges set out in our Five-Year Corporate Plan.

I also wish to express my thanks, supported by the Committee, to all the officers who contribute to and help us carry out our work.



Christopher Waters

*Councillor Waters
Audit Committee Chairman (2016/17)*

Introduction

Ashford Borough Council supports and understands the value and benefits of having an independent Audit Committee.

The Audit Committee is an essential check on the corporate governance framework; providing an independent and high-level overview of the internal control, governance and risk management for the Council.

The Committee monitors internal and external audit activity, reviews and comments on the effectiveness of the Council's regulatory framework and reviews and approves the Council's annual statements of accounts.

The Committee is independent from the Council's Executive and Scrutiny functions and has clear reporting lines and rights of access to discharge its responsibilities in line with its Terms of Reference (Appendix I). This includes direct access to the Council's Appointed Auditor and Head of Audit Partnership without the presence of other officers where appropriate.

The Committee is not a substitute for the Executive function in the management of internal or external audit, risk management, governance, or any other review or assurance function. It is the Committee's role to examine these functions, and to offer views and recommendations on the way the management of these functions is conducted.

Statement of Purpose

The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process.

Audit Committee Terms of Reference

Meetings & Attendance

The Audit Committee met six times in 2016/17:

16 June 2016	29 September 2016
30 June 2016	6 December 2016
28 July 2016	21 March 2017

On all occasions the Committee was quorate and able to fulfil its duties.

The Audit Committee is comprised of 8 Members whose attendance throughout 2016/17 was as follows:

Members	16 June	30 June	28 July	29 Sept	6 Dec	21 Mar
Cllr Waters (chair)	◆	◆	◆	◆	◆	◆
Cllr Buchanan (vice chair)	◆	◆		◆	◆	◆
Cllr Link	◆	◆	◆	◆	◆	◆
Cllr Shorter	◆	◆	◆	◆	◆	◆
Cllr Smith	◆	◆*	◆	◆	◆	◆
Cllr White	◆				◆	◆
Cllr Farrell **		◆	◆		n/a	n/a
Cllr Powell				◆	◆	
Cllr Krause **	n/a	n/a	n/a	n/a		◆

* Cllr Ovenden acting as substitute

** Membership changed October 2016 with Cllr Farrell leaving and Cllr Krause being added

The Audit Committee is supported by senior officers of the Council who regularly attended meetings, including:

- Head of Finance (Section 151)
- Head/Deputy of Audit Partnership
- Policy and Performance Manager

Further support was provided to the Committee, as required, from the other officers within the Council.

In addition, the Council's External Auditors (Grant Thornton) regularly attended meetings of the Audit Committee during 2016/17.

All of the Audit Committee agenda papers and minutes are available on the Council's [website](#).

Business

During the year the Audit Committee has commented on, examined and reviewed the following:

Audit Activity
• Internal Audit Annual Report and Opinion
• Internal Audit Interim Report
• Internal Audit Plan
• Safeguarding – Follow up of Internal Audit Findings
• Data Protection – Follow Up of Internal Audit Findings
• Governance Report
External Audit (Grant Thornton)
• External Audit Fee
• Annual Audit Letter
• External Audit Findings Report
• Certification of Grant Claims
• External Audit Progress Reports
Finance
• Financial Statements
• Statement of Accounts
• Fraud Investigations and Debt Recovery Annual Report
• Procurement and Appointment of External Auditors
Governance
• Annual Governance Statement
• Local Code of Corporate Governance
• Annual Governance Statement – Progress of Remedying Exceptions
• Strategic Risk Management
• Annual Staff Appraisal Process
• Audit Committee Report Tracker and Future Meetings

The work of the Committee during 2016/17 has resulted in recommendations which have enhanced the operation of the Committee and wider Council functions. In particular:

- Challenge and oversight on the implementation of recommendations arising from the 2015/16 Safeguarding and Data Protection internal audit reviews
- Risk owners to attend future Committee meetings on a rotation basis to provide an update on their risk area
- Endorsement to officers to continue to improve Risk Management processes
- Assurance over the Councils senior management arrangements

Terms of Reference

The business outlined above has been fulfilled in accordance with the Committees agreed Terms of Reference (detailed in Appendix I). The following table summarises those Terms and whether the Committee has fulfilled the functions outlined. The Terms were last reviewed in May 2011.

The Committee is asked to consider whether the Terms of Reference need to be updated, or whether further assurances need to be sought during 2017/18.

Audit Activity	Fulfilled by Committee?
1. Head of Internal Audit Annual Report and Opinion	✓
2. Internal Audit reports summary	✓
3. Management and performance of Audit Partnership Agreement	✓
4. Reports on agreed Internal Audit recommendations	✓
5/6. External Auditor's Annual Management Letter	✓
7. External Auditor reports	✓
8. Scope and depth of external audit work	✓
9. Appointment of the Council's External Auditor	✓
10. Commissioning of work from internal and external audit	✓
Regulatory Framework / Risk Management	Fulfilled by Committee?
1. Overview of Contract Procedure Rules and Financial Regulation	✓
2. Development and operation of elements of corporate governance within the remit of the Audit Committee	✓
3. Council policies on "raising concerns at work"	Policy approved 2015/16 Intention to enhance reporting in 2017/18
4. Annual Governance Statement	✓
5. Financial standards and controls	✓
6. External Auditor's report from Audit of the Accounts	✓
7. Ability to refer matters to the Overview and Scrutiny Committee	No referrals were made but the ability remains

Sources of Assurance

In drawing a conclusion for the year, the Audit Committee gained assurance from the following sources:

The work of Internal Audit

The Head of Audit Partnership issued an unqualified Head of Audit Opinion for 2015/16 which concluded that the Council was operating an effective sound system of internal control, governance and risk management. Throughout the year the Committee has been kept up to date with delivery of the Internal Audit plan, implementation of audit recommendations, and has been kept aware of emerging risks.

The Internal Audit plan for 17/18 included a breakdown of internal audit assurance for the coming year, and the Committee were given the opportunity to comment on the work of internal audit prior to endorsing the plan for delivery.

On request the Committee have been provided with regular progress updates on the implementation of audit recommendations from adverse audit opinions. Specifically the Committee has considered the responses to the Safeguarding and Data Protection audits issued in 15/16. No adverse audit opinions were issued during the 2016/17 meeting cycle, but processes remain in place to report these to Members.

The Committee has continued to show its support to the Internal Audit team throughout the year, and has recognised the role, responsibility and authority of the service within the Audit Charter, agreed by the Committee in March 2016.

The work of External Audit (Grant Thornton)

The external auditors report back to the Audit Committee providing regular updates on their programme of work. During the year, the External Auditors presented an unqualified value for money conclusion and an unqualified opinion on the financial statements.

The Audit Committee has provided effective challenge to the External Auditors as appropriate and gained assurance from the reports and updates provided during the year.

Finance & Governance Reports

The Committee provided challenge prior to approving the statements of accounts and financial statements in July 2016.

The Committee specifically gains assurance from the Annual Governance Statement which is a statutory document that explains the processes and procedures in place to enable the Council to carry out its functions effectively.

The statement is produced following a review of the Council's governance arrangements and includes actions address any significant governance issues identified. The Committee reviewed and approved the 2015/16 Annual Governance Statement.

The Committee has received regular updates on the Council's strategic risk management arrangements, and provided challenge to the action for mitigating the risks.

While the Committee received a report on fraud investigations it received no updates on "raising concerns at work" (i.e. whistle-blowing) in the context of the Anti-Fraud and Anti-Corruption Strategy and the council's complaints process.

Member Development

As part of reviewing the Councils Draft Statement of Accounts, in June 2016, Members of the Committee received training on how to interpret the accounts.

All Council Members have access to a training programme but, with the exception of the training outlined above, the Committee has not undertaken further training specific to its' function in 2016/17. The table below sets out a proposal for a programme of updates and briefings that could be delivered 2017/18, in part reviving a practice of the Committee in previous years.

The programme themes are derived from areas recommended to be of interest to Audit Committees by CIPFA's Better Governance Forum, as adapted to the specific terms of reference at Ashford. Other areas, including those of more specific local interest, could be added or adapted on demand.

Briefing theme & potential specific topics	Suggested timing
Reviewing an audit plan <ul style="list-style-type: none"> ○ Member roles in relation to internal audit ○ Ensuring effective internal audit ○ Performance measures in audit 	Possible March 2018 to align with plan approval
Role of internal and external audit <ul style="list-style-type: none"> ○ Differences in internal/external audit role ○ Assuring effective external audit ○ External auditor appointment 	To be determined, but not a priority in 2017/18. Potentially examine if the Council has new auditors appointed by PSAA later in 2017.
Internal Audit Standards <ul style="list-style-type: none"> ○ How standards are set and monitored ○ Specific work on IA conformance 	Not a priority in 2017/18. Potentially examine in lead up to next External Quality Assessment (due before 2020).
Assurance on value for money <ul style="list-style-type: none"> ○ How external audit assess VfM conclusion ○ Measuring value for money in local government ○ Data quality and performance measurement 	Not a priority in 2017/18. Potentially examine in 2018/19 if there are changes to National Audit Office Approach.
Risk Management <ul style="list-style-type: none"> ○ Risk appetite ○ Specific strategic and operational risks ○ Risk management strategy ○ Local government risk outlook 	Possibly September 2017 to align with work to refresh Framework and agree Appetite Statement
Reviewing the Annual Governance Statement <ul style="list-style-type: none"> ○ The AGS within the Council's governance ○ Specific topics within the AGS ○ Comparative review of AGS across local government 	Possibly June 2017 to align with AGS approval

Briefing theme & potential specific topics	Suggested timing
Countering Fraud <ul style="list-style-type: none"> ○ Whistleblowing ○ Investigative practice ○ Fraud risks and the Councils response ○ Governance polices 	Possibly March 2018 depending on service developments and CIPFA Local Government Counter Fraud Standards
Understanding local authority accounts <ul style="list-style-type: none"> ○ General understanding of accounts ○ Specific update/annual issues ○ Comparative review of LG accounts 	Possibly June 2017 to align with accounts approval or early 2018 to focus on changes to Standards.
Treasury Management <ul style="list-style-type: none"> ○ Investment and borrowing options for local authorities ○ Prudential Code ○ Financial outlook for local authorities 	Delivered every 4 years by Arlingclose (last delivered September 2015)

Members are asked to consider what training would be beneficial to them in 2017/18

Conclusion

The Audit Committee, in partnership with the Council's Internal and External Auditors, and with the support of Officers has provided robust and effective independent assurance to the Council on a wide range of risk, governance and internal control issues.

The Audit Committee can demonstrate that it has appropriately and effectively fulfilled its duties during 2016/17.

Terms of Reference & Responsibilities

The purpose of an Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent scrutiny of the Authority's financial and non-financial performance to the extent that it affects the Authority's exposure to risk and weakens the control environment, and to oversee the financial reporting process (Minute No. 408/12/06 refers).

To consider/monitor or advise the council as appropriate upon:-

Audit Activity

1. The Head of Internal Audit's Annual Report and Opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over the council's Corporate Governance arrangements.
2. The summary of internal audit reports issued in the previous period.
3. Reports on the management and performance of the Audit Partnership Agreement.
4. Reports from the Head of Internal Audit on agreed recommendations not implemented within a reasonable timescale.
5. The External Auditor's Annual Management Letter and relevant reports.
6. Any detailed responses to the External Auditor's Annual Letter.
7. Specific reports as agreed with the External Auditor.
8. The scope and depth of external audit work and to ensure it gives value for money.
9. Liaison with the Audit Commission on the appointment of the Council's External Auditor.
10. The commissioning of work from internal and external audit.

Regulatory Framework / Risk Management

1. An overview of the council's Constitution in respect of Contract Procedure Rules and Financial Regulations.
2. The effective development and operation of financial management, risk management and those elements of corporate governance within the remit of the Audit Committee.
3. Council policies on "raising concerns at work" i.e. whistle-blowing in the context of the Anti-Fraud and Anti-Corruption Strategy and the council's complaints process.
4. To recommend the Authority's Annual Governance Statement for approval to the Executive. (Minute No. 531/5/10).
5. The council's compliance with its own and other published financial standards and controls.
6. The External Auditor's report on issues arising from the Audit of the Accounts.
7. The ability to refer matters to the Overview and Scrutiny Committee for their consideration (Minute No. 62/6/09).

Note: The Overview and Scrutiny Committee has a similar provision to refer matters to the Audit Committee.

Delegations

To exercise the powers and duties of the council relative to:-

1. The approval of the Annual Statement of Accounts in line with the statutory requirements including those relating to the publishing deadlines. 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.