

Summary Sheet

Council Report:

Audit Committee – 30 July 2019.

Title:

Audit Committee Annual Report 2018/19

Is this a Key Decision and has it been included on the Forward Plan?

No

Strategic Director Approving Submission of the Report:

Judith Badger (Strategic Director of Finance and Customer Services)

Report Author(s):

David Webster (Head of Internal Audit)

Ward(s) Affected:

All wards

Executive Summary:

The purpose of the Annual Report 2018/19 is to bring together in one document a summary of the work undertaken by the Audit Committee. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that Audit Committees operate effectively. The guidance recommends that Audit Committees should report annually on how they have discharged their responsibilities. A copy of the draft annual report of this Audit Committee is attached at Appendix 1. Copies of the Audit Committee's Terms of Reference for 2018/19 and 2019/20 are included in the Appendix for information.

Recommendation:

The Audit Committee is asked to

- a. **Note the production of the Audit Committee Annual Report 2018/19.**
- b. **Consider and approve the draft report prior to its submission to Council.**

Background Papers:

Relevant reports presented to the Audit Committee and minutes of the meetings of the Audit Committee.

Consideration by any other Council Committee, Scrutiny or Advisory Panel:

No

Council Approval Required:

Yes

Exempt from the Press and Public:

No

Title:

Audit Committee Annual Report

1. Recommendations

The Audit Committee is asked to:

- **Note the production of the Audit Committee Annual Report 2018/19.**
- **Consider and approve the draft report prior to its submission to Council.**

2. Background

2.1 The Audit 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 are set out in section 9 of the Constitution under the Terms of Reference of the Audit Committee. Copies of the Terms of Reference for 2018/19 and 2019/20 are attached within the Appendix for information.

2.2 Audit Committees are a key component of corporate governance and provide 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.

2.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively. The guidance recommends that Audit Committees should report annually on how they have discharged their responsibilities.

3. Work undertaken during 2018/19

3.1 The Audit Committee met on six occasions in the year to 31 March 2019, in accordance with its programme of work.

3.2 During this period the Committee 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 and the external auditors. The Committee sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified during the period. The Committee also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.

3.3 The specific work undertaken by the Committee is set out in Appendix 1.

4. Options considered and recommended proposal

4.1 This report is presented to enable the Audit Committee to fulfil its responsibility for reporting on how they have discharged their duties.

5. Consultation

5.1 None.

6. Financial and Procurement Implications

6.1 There are no direct financial or procurement implications arising from this report.

7. Human Resources Implications

7.1 There are no direct implications for HR arising from this report.

8. Implications for Children and Young People and Vulnerable Adults

8.1 There are no direct implications for Children and Young People and Vulnerable Adults arising from this report.

9. Equalities and Human Rights Implications

9.1 There are no direct Equalities or Human Rights implications arising from this report.

10. Accountable Officer(s):

David Webster (Head of Internal Audit).

**ROTHERHAM METROPOLITAN
BOROUGH COUNCIL**

**AUDIT COMMITTEE ANNUAL REPORT
2018/19**

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1. INTRODUCTION

- 1.1 While there is no statutory obligation to have such an arrangement, Audit Committees are widely recognised as a core component of effective governance and therefore reflect good practice. RMBC's Audit Committee is properly constituted and as such is given sufficient authority and resources by the Council. In effect, the Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice the Audit Committee can report its observations and concerns directly to the Council.
- 1.2 A local authority has a duty to ensure that it is fulfilling its responsibilities for adequate and effective internal control, risk management and governance, as well as the economy, efficiency and effectiveness of its activities. The Audit Committee has a key role in overseeing and assessing the internal control, risk management and corporate governance arrangements and advising the Council on the adequacy and effectiveness of those arrangements.
- 1.3 This role is reflected in the Committee's Terms of Reference which are given in paragraphs 4 and 5.
- 1.4 The Audit Committee had six Members during 2018/19:
- Councillor Ken Wyatt – Chair
 - Councillor Bob Walsh – Vice Chair
 - Councillor Allen Cowles
 - Councillor Simon Evans
 - Councillor John Vjestica
 - Bernard Coleman – independent person

2 SUMMARY OF WORK UNDERTAKEN IN 2018/19.

The Audit Committee completed the following during 2018/19

2.1 External Audit

At the start of the year Grant Thornton became the external auditors for the Council, taking over from KPMG. The Audit Committee received reports from both auditors during the year.

From KPMG

Received and considered the detailed results of the external auditor's work in relation to the audit of the 2017/18 financial statements of the Council. The Committee was pleased to note that the auditors had given an unqualified audit opinion with few audit adjustments necessary, none of which affected the financial performance or financial position of the Council. There was an unqualified value for money conclusion stating that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. All of the recommendations from the ISA 260 from the previous year had been implemented.

Received and considered the external auditor's annual audit letter in respect of the 2017/18 audit year. The Committee was pleased to note that the external auditors had given an unqualified value for money audit opinion and an unqualified opinion on the financial statements. They also stated that the consolidation pack prepared to support the production of Whole of Government Accounts by HM Treasury was consistent with the audited financial statements and that the Annual Governance Statement was consistent with their understanding and compliant with the CIPFA/SOLACE framework on good governance in local authorities.

Received and considered the external auditor's report on Grant returns and certification work. There was only one grant audited, the Housing Benefit Subsidy claim, and the Committee was pleased to note that an unqualified opinion had been given on the claim.

From Grant Thornton

Received and considered a report on the planned audit fee for 2018/19, to cover work on: the audit of the financial statements; reaching a conclusion on the economy, efficiency and effectiveness of the Council's use of resources; and the work on the Whole of Government Account Return.

Received and considered three progress reports detailing the work undertaken by the external auditor during the year.

Received and considered the external auditor's plan for the audit of the 2018/19 financial statements and the review of the Council's arrangements for securing value for money.

2.2 Internal Audit

Continued to oversee the internal audit arrangements for the Council. This included approving minor updates to the Internal Audit Charter.

Received and approved the Internal Audit Plan for 2018/19. The plan ensures that internal audit resources are prioritised towards those systems and areas which are considered to be the most risky or which contribute most to the achievement of the Council's corporate objectives.

Monitored the delivery of the Annual Internal Audit Plan through regular update reports presented by the Head of Internal Audit. Reviewed variations to the audit plans which were considered necessary to reflect new or changed Council priorities.

Received and considered the results of internal audit work performed in respect of each Directorate.

Monitored the progress made by management during the period to address identified control weaknesses.

Monitored the performance of the Internal Audit team through regular update reports.

Received and considered the Annual Report of the Head of Internal Audit for 2017/18 which provided an overall opinion on the Council's control environment.

The report included a summary of the resources and audit coverage, the work undertaken and the audit opinions and recommendations issued during the year. The Head of Internal Audit confirmed that the Council overall had an adequate and effective framework of governance, risk management and control.

Received and considered the results of the internal assessment against Public Sector Internal Audit Standards which showed General Conformance with the Standards

Received and considered the implementation of the Quality Assurance and Improvement Plan and the revised plan for 2019.

Received and approved the Internal Audit Plan for 2019/20, produced on the same basis as the 2018/19 plan.

2.3 Anti-fraud and Corruption

Received and considered updates to the Anti-Fraud and Corruption Policy and Strategy.

Received and considered updates on completed fraud investigations as part of the Internal Audit Progress Reports.

2.4 Risk Management

Continued to oversee the Council's risk management arrangements and strategy, including reviewing the refreshed risk management policy and guide.

Reviewed the progress made by the Council to identify and address corporate risks. This included consideration of the Strategic Risk Register.

Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the risks and mitigating actions identified in each Directorate's Risk Register. Presentations were received from Strategic Directors and Cabinet Members on their approach to risk management.

2.5 Corporate Governance

Considered changes to the refreshed Code of Corporate Governance prior to approval. The Code reflects the core principles and requirements of the CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework'.

Considered the draft Annual Governance Statement for 2017/18.

Considered and approved the Annual Governance Statement for 2017/18 of the Council. The Statement reflected the continued progress made by the Council during that year.

Received and considered a report on the Committees Terms of Reference, proposing changes to bring them into line with new CIPFA Guidance. The proposals were accepted and were agreed at Council in May 2019, see paragraph 5.

Received and considered a report on the appointment of an independent member to the committee, deciding to appoint the current independent member for one year to allow a recruitment process to take place.

Produced its own Prospectus for 2018/19 detailing the work to be undertaken by the Committee during the year.

Produced its own Annual Report for 2017/18 setting out the work undertaken by the committee.

Received and considered at each meeting its own forward plan for the year ahead, ensuring that all relevant areas are covered during the year.

Received and considered a briefing paper on the preparation and compliance processes which had been carried out prior to the implementation of GDPR.

2.6 Finance

Considered the unaudited draft Statement of Accounts.

Considered and approved the Statement of Accounts for 2017/18 for the Council.

Received and considered a report on the final accounts closedown and accounting policies updates for 2018/19.

Continued to review the Council's Treasury Management arrangements. This included reviewing the Annual Treasury Management Report for 2017/18 which covered the actual Prudential Indicators, and the Mid-Year Monitoring Report which included the actual and proposed treasury management activity.

2.7 Other

Received and considered two update reports on progress made to implement recommendations arising from external inspections.

Received and considered reports on the Council's use of surveillance and acquisition of communication data powers under the Regulation of Investigatory Powers Act 2000 (RIPA). There had been no usage of these powers by the Council during 2017/18 or in the remainder of 2018.

Received a report on proposed revisions to the Regulation of Investigatory Powers Act policy after the Home Office issued revised Codes of Practice.

Received a report on the Liquid Logic case management system outlining the continued development taking place to enable the clearance of outstanding audit recommendations.

3 TRAINING

- 3.1** The Committee receives training or a briefing before each meeting. During 2017/18 these included the Statement of Accounts, Treasury Management, CIPFA Guidance for Audit Committees, the Code of Corporate Governance and Risk Management.

4. TERMS OF REFERENCE 2018/19

- 4.1** The Council has established an Audit Committee comprising five non-executive members of the Council. The Committee will be attended by a representative of the Council's external auditors as well as senior officers of the Council. The Committee's remit is:–
- to consider all issues relating to audit matters, both internal and external;

- to monitor and review the effectiveness of risk management systems, including systems of internal control;
- to consider the preparation and monitoring of the internal audit plan;
- to consider summary reports of each internal audit and value for money study undertaken;
- to consider the external audit plan;
- to consider reports from the external auditor, including value for money, systems and final accounts audits;
- to review and monitor the performance of internal audit;
- to review and monitor the anti-fraud strategy and initiatives;
- to ensure the receipt of 'Best Value' from all audit resources;
- to review and monitor corporate governance matters in accordance with audit guidelines.

The Audit Committee will consider the external auditor's annual report on the Council's statement of accounts income and expenditure and will also consider the SAS 610 report from the external auditor. However, the external auditor's management letter will be presented to the full Council.

5. TERMS OF REFERENCE 2019/20

Committee Size

To comprise:-

- Five Councillors, none of which are members of the Cabinet.
- One person who is not a councillor or officer of the Council (independent member).

Statement of purpose

- 1 The Audit Committee is a key component of RMBC's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of the audit committee is to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of RMBC's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider RMBC's code of governance.
- 4 To review the Annual Governance Statement (AGS) 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.
- 5 To approve the final AGS for publication.
- 6 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

- 8 To monitor the effective development and operation of risk management in the council.
- 9 To monitor progress in addressing risk-related issues reported to the committee.
- 10 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 11 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 12 To monitor the counter-fraud strategy, actions and resources.
- 13 To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal audit

- 14 To approve the Internal Audit Charter.
- 15 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.
- 16 To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
- 17 To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
- 19 To approve the internal or external assessments of Internal Audit against Public Sector Internal Audit Standards. This will include:-
 - regular reports on the results of the Quality Assurance and Improvement Programme (QAIP).
 - reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is so severe that it must be included in the AGS
- 20 To consider reports from the Head of Internal Audit on Internal Audit's performance during the year. These will include updates on the work of Internal Audit including:-
 - progress against the plan
 - key findings and issues of concern
 - action in hand as a result of internal audit work
 - performance indicators
- 21 To approve the Head of Internal Audit's annual report:-
 - The statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement.
 - The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion.
- 22 To consider summaries of specific Internal Audit reports.
- 23 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.

- 24 To contribute to the QAIP and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
- 25 To provide free and unfettered access to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for him/her to meet privately with the committee.

External audit

- 26 To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by Public Sector Audit Appointments (PSAA).
- 27 To approve the external auditor's annual plan
- 28 To approve any revisions to the external auditor's plan
- 29 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 30 To consider specific reports as agreed with the external auditor.
- 31 To comment on the scope and depth of external audit work and to ensure it gives value for money.
- 32 To commission work from internal and external audit.
- 33 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial reporting

- 34 To receive the draft annual statement of accounts following approval by the s151 Officer. Specifically, to consider whether appropriate accounting policies have been followed.
- 35 To approve the final audited annual statement of accounts for publication. Specifically to consider whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 36 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 37 To deal with any matters referred to the Committee by the Strategic Director Finance and Customer services in relation to his/her responsibilities under section 151 of the Local Government Act 1972.

Treasury Management

- 38 To review treasury management policy, strategy and procedures and to be satisfied that controls are satisfactory
- 39 To receive annual reports on treasury management, specifically the outturn report and the mid-year report
- 40 To review the treasury risk profile and adequacy of treasury risk management processes
- 41 To review assurances on treasury management, for example an internal audit report, external audit report or other review.

Accountability arrangements

- 42 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.

- 43 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.
- 44 To submit a report on the work of the committee to the Council on an annual basis.