



Leicester
City Council

WARDS AFFECTED:
ALL

FORWARD TIMETABLE OF CONSULTATION AND MEETINGS:

**Audit and Risk Committee
Council**

**12 September 2018
4 October 2018**

**Annual Report of the Audit and Risk Committee to Council
covering the municipal year 2017-18**

Report of the Director of Finance

1 PURPOSE OF REPORT

- 1.1 To present to the Council the annual report of the Audit and Risk Committee setting out the Committee's achievements over the municipal year 2017-18 (May 2017 to April 2018).
- 1.2 This report was presented to the Committee for approval at its meeting on 12 September 2018.

2 RECOMMENDATIONS

- 2.1 Audit and Risk Committee is recommended to approve this report for submission to the Council.
- 2.2 Council is recommended to receive this report.

3 SUMMARY

- 3.1 The Committee's terms of reference approved by Council require the submission of an annual report on its activities, conduct, business and effectiveness. Moreover, the CIPFA* guidance on Audit Committees states that the audit committee should be held to account on a regular basis by Council, and that the preparation of an annual report can be helpful in this regard. (* CIPFA – the Chartered Institute of Public Finance and Accountancy)
- 3.2 The Audit and Risk Committee considered a wide range of business in fulfilment of its central role as part of the Council's system of corporate governance, risk

management and internal control. It conducted its business in an appropriate manner through a programme of meetings and fulfilled the expectations placed upon it.

4 REPORT

- 4.1 The Committee's terms of reference are regularly reviewed. They formally confer upon it the role of 'the board' for the purposes of the *Public Sector Internal Audit Standards*, (the mandatory elements of the Institute of Internal Auditors' International Professional Practices Framework, interpreted and adopted for local government by CIPFA) as the recognised professional standards for local authority internal audit.
- 4.2 During the municipal year 2017/18, the Committee met on four occasions. All meetings were properly constituted and quorate. The Committee's terms of reference require it to meet at least three times a year. The Head of Finance and latterly Leicestershire County Council's Head of Internal Audit and Assurance Service attended meetings of the Committee. In addition, and in the interests of providing the full range of legal, constitutional and financial advice and expertise, the Committee was supported by the Director of Finance and the City Barrister & Head of Standards or their representatives.
- 4.3 In its publication *Audit Committees – Practical Guidance for Local Authorities*, CIPFA provides a self-assessment checklist to assist councils in reviewing the effectiveness of their Audit Committees.
- 4.4 The Committee reviews its arrangements against this checklist from time to time, and considers that it continued to meet the requirements for an effective Audit Committee. In summary:
- The Committee meets regularly and its chair and membership are sufficiently independent of other functions in the Council. Meetings are conducted constructively and are free and open and are not subject to political influences;
 - The Committee's terms of reference, which are regularly reviewed, revised and approved, provide a sufficient spread of responsibilities covering internal and external audit, risk management and governance. They will be reviewed again in the light of more recent national guidance;
 - The Committee plays an important role in the oversight of the Council's internal audit arrangements, including approval of the internal audit plan, review of performance and conformance to standards, together with the outcomes of audit work (leading to the Head of Internal Audit annual report) and management's response to that; and
 - The Committee received reports from KPMG as the Council's external auditor and maintained an overview of the external audit process, including the fees charged.
- 4.5 However, it is acknowledged that Committee members need suitable training. Arrangements continued to be made to provide training on a relevant topic

immediately before meetings of the Committee. The Committee is subject, of course, to some turnover of membership each municipal year, an inevitable consequence of the political environment in a local authority. Should this happen, training for new members is offered.

4.6 The Committee is well established and has continued to make an important contribution to the effectiveness of the City Council's internal control and corporate governance frameworks, of which it is a central component. The key outcomes from the Committee's work included:

4.6.1. Internal Audit

- The Committee considered the Internal Audit annual and quarterly plans and monitored their delivery and outcomes during the year. The Committee also received the Head of Internal Audit annual report and opinion on the overall adequacy and effectiveness of the Council's control environment (its framework of governance, risk management and control).
- The Committee reserves the right to summon relevant officers to attend its meetings to discuss in more depth specific issues raised by Internal Audit reports. This has helped maintain the profile of the Committee and its role in promoting adherence to procedures and improved internal control.
- The Committee received and approved the annual review of the effectiveness of the Council's system of internal audit, including the degree of conformance with *Public Sector Internal Audit Standards* (PSIAS) and results of the *Quality Assurance Improvement Programme* (QAIP).
- The Committee oversaw the move from an in-house internal audit service to the formal delegation of the service to Leicestershire County Council, in November 2017. The Committee contributes to the governance aspects of these new arrangements.
- The Committee received and approved a revised Internal Audit Charter at its March 2018 meeting.

4.6.2 Counter-Fraud

- The Committee maintained an effective overview of the Council's measures to combat fraud and financial irregularity. Specifically, the Committee:
 - Reviewed and approved the Council's updated Anti-Fraud, Bribery and Corruption Policy and Strategy.
 - Considered the annual counter-fraud report, which brought together the various strands of counter-fraud work with data on the various types of work carried out by the teams involved.
 - Reviewed and supported the Council's participation in the National Fraud Initiative.
 - Reviewed the Council's activity and performance under the Regulation of Investigatory Powers Act 2000 and the Disclosure Policy and Whistleblowing Policy.

4.6.3 External Audit

- The Committee considered the external auditor's plans and progress and the outcomes of this work, with particular reference to the annual audit of the Council's statutory financial statements.
- The Committee received a report on the appointment of new external auditors commencing from the 2018/19 audit year.

4.6.4 Risk Management

- The Committee confirmed the Risk Management Strategy and Policy and Corporate Business Continuity Management Strategy. The Committee maintained a regular overview of the risk management arrangements including the Council's strategic and operational risk registers and 'horizon-scanning' for potential emerging risks to the Council and its services.

4.6.5 Corporate Governance

- The Committee fulfilled the responsibilities of 'the board' for the purposes of conformance to the *Public Sector Internal Audit Standards* in terms of overseeing the Council's arrangements for ensuring the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and governance processes. The Committee maintained its oversight of the Council's corporate governance arrangements. The Council's updated assurance framework, which maps out the process for collating the various sources of assurance and preparing the Council's statutory Annual Governance Statement, was reviewed and approved by the Committee.
- The Committee approved the draft Annual Governance Statement for 2016/17 at its September 2017 meeting.
- This annual report to Council is part of the governance arrangements, through giving a summary of the Committee's work and contribution to the good governance of the City Council and demonstrating the associated accountability.

4.6.6 Financial reporting

- The Committee received and approved the Council's statutory Statement of Accounts for 2016/17 and associated external audit reports. It approved the Council's letter of representation, by means of which the City Council gives assurance to the external auditor; there were no significant items that were not reflected in the Council's accounting statements.
- The external auditor's Annual Governance Report was issued to the Committee as 'those charged with governance', and considered accordingly. In this report, the auditor confirmed that his audit opinion on the Council's 2016/17 financial statements would be 'unqualified'.

- The Committee requested reports and briefings on specific issues of interest, for example adult social care and invoice payment performance.

5. Conclusions

- 5.1 The Committee fulfilled all of the requirements of its terms of reference and the good practice guidance issued by CIPFA.
- 5.2 It is the view of the Director of Finance that the Audit & Risk Committee made a significant contribution to the good governance of the City Council. Through its work, it has reinforced the Council's systems of internal control and has given valuable support to the arrangements for corporate governance, legal compliance and the management of risk.
- 5.3 Each year, following any changes in membership, there is a need to support members with relevant training and briefings on technically complex subjects, particularly in the context of the governance of a large local authority and especially during a period of continued financial stringency and change. The effectiveness of the Committee is enhanced by having members who have sufficient expertise and experience, attributes which benefit from some continuity of membership.

6. FINANCIAL, LEGAL AND OTHER IMPLICATIONS

6.1 Financial Implications

An adequate and effective Audit & Risk Committee is a central component in the governance and assurance processes intended to help ensure that the Council operates efficiently, cost effectively and with integrity. Its support for the processes of audit and internal control will help the Council as it faces the financially challenging times ahead.

Colin Sharpe, Head of Finance, ext. 37 4081

6.2 Legal Implications

The Audit & Risk Committee aids the fulfilment by the Council of its statutory responsibilities under the Accounts and Audit Regulations 2015 by considering the findings of a review of the effectiveness of the Council's system of internal control. It is an important part of the way the duties of the Director of Finance are met as the responsible financial officer under s151 of the Local Government Act 1972.

Kamal Adatia, City Barrister & Head of Standards, x37 1401

7. Other Implications

OTHER IMPLICATIONS	YES/NO	Paragraph references within supporting information
Equal Opportunities	No	
Policy	No	
Sustainable and Environmental	No	
Climate Change	No	
Crime and Disorder	Yes	4.6.2 – references to fraud and corruption
Human Rights Act	No	
Elderly/People on Low Income	No	
Corporate Parenting	No	
Health Inequalities	No	
Risk Management	Yes	The whole report concerns the audit, risk management and governance process, a main purpose of which is to give assurance to Directors and this Committee that risks are being properly identified and managed appropriately by the business.

8. BACKGROUND PAPERS – LOCAL GOVERNMENT ACT 1972

Agendas and Minutes of the Audit & Risk Committee meetings

REPORT AUTHOR

Colin Sharpe, Head of Finance, ext. 37 4081