

# Governance and Audit Committee

ANNUAL REPORT 2016/17

## **Foreword by Councillor John Buckley, Chairman of the Governance and Audit Committee**

This report provides an overview of the Governance and Audit Committee's activity during the municipal year 2016/17.

I am pleased to report that the Committee continues to make progress in terms of discharging its responsibilities to provide independent assurance on the adequacy of the council's risk management framework and the associated control environment, and in providing robust scrutiny and challenge of the Authority's financial performance.

As outlined in the body of this report, the Committee has been actively engaged with both internal and external audit, and I would like to thank all the Members who served on the Committee during 2016/17. My thanks also go to the Council officers who have supported the work of the Committee and more specifically to me in my role as Chairman.

In looking forward to 2017/18 and beyond, and given the continued financial pressures facing the Council, the importance of an effective Governance and Audit Committee remains critical.

### **1.0 Introduction and Background**

- 1.1 The Council established a Governance and Audit Committee in March 2006. Whilst there is no statutory obligation 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 issues in governance arrangements for private and public sector bodies, the common feature of governance arrangements being the existence of an Audit Committee.
- 1.2 The purpose of the Council's Governance and Audit Committee is to provide independent assurance of the adequacy of the risk management framework and the associated control environment, independent review 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.
- 1.3 There are many benefits to be gained from an effective Audit Committee. In fulfilling its role the Committee will:
  - reduce the risks of illegal or improper acts;
  - reinforce the importance and independence of internal and external Audit;
  - increase confidence in the objectivity and fairness of financial reporting.
- 1.4 Stricter internal control and the establishment of a Governance and Audit Committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, it will:
  - give additional assurance through a process of independent and objective review; and
  - raise awareness of the need for internal control and the implementation of audit recommendations.

## 2.0 Membership

- 2.1 For the majority of the 2016/17 year, the Governance and Audit Committee comprised of 15 Members (14 Members between 14 July 2016 and 13 October 2016), and met on five occasions. Committee agenda papers and minutes are available on the council's website ([www.thanet.gov.uk](http://www.thanet.gov.uk)).

	Members	22/06/16	11/08/16	20/09/16	07/12/16	08/03/17
Committee Members	Cllr Ashbee (up to 14/7/16)	✓				
	Cllr Buckley (Chairman)	✓	A	✓	✓	
	Cllr Braidwood	✓	✓	✓	✓	
	Cllr Campbell	✓	✓	✓	✓	
	Cllr Connor	✓	✓	A	✓	
	Cllr Day	A	✓	A	✓	
	Cllr Dexter	✓	✓	A	✓	
	Cllr Dixon	✓	✓	✓	A	
	Cllr Edwards	✓	✓	✓	✓	
	Cllr Game	A	✓	✓	A	
	Cllr I Gregory	✓	✓	✓	✓	
	Cllr Hayton (Vice Chairman)	✓	✓	✓	✓	
	Cllr Jaye-Jones	✓	✓	✓	A	
	Cllr Larkins	✓	A	✓	Ab	
	Cllr L Piper (from 13/10/16)				✓	
	Cllr Taylor-Smith	✓	✓	✓	✓	
Reserve Committee Members	Cllr Elenor(R)					
	Cllr Evans (R)					
	Cllr Fenner (R)					
	Cllr Grove (R)					
	Cllr Howes (R)					
	Cllr Partington (R)	S		S		
	Cllr R Potts (R from 14/7/16)					
	Cllr Savage (R)			S		
	Cllr Taylor (R)			IA		
	Cllr Crow-Brown	IA	IA	IA		
	Cllr Townend			IA	IA	

### Key

C	Chairman	VC	Vice Chairman	S	Present as Substitute
A	Apologies	IA	In Attendance	Ab	Absent

## 3.0 Programme of reports 2016/17

- 3.1 Detailed below is the programme of reports considered by Governance and Audit Committee during 2016/17, and how they relate to the Committees terms of reference.

Function/Issue	Responsible officer/ body	22/06/16	11/08/16	20/09/16	07/12/16	08/03/17
<b>Audit activity</b>						
External Audit Fee Letter 2016/17	GT	✓				
External Audit Annual Letter 2015/16	GT				✓	
Annual Fraud Report 2015-16	EKAP/DCR	✓				
External Audit Grant Certification Letter 2015/16	GT					✓
Internal Audit Annual Report	EKAP	✓				
External Audit Findings Year Ending March 2016	GT			✓		
External Audit Plan 2016/17	GT					✓
Internal Audit 2017-18 Audit Plan and Audit Charter	EKAP					✓
Internal Audit Quarterly Update Report	EKAP	✓		✓	✓	✓
Draft Audit Committee Assurance Statement	DCR	✓				
Government report in respect of ERDF grant claim, 2005 - 2008	DCR	✓				
Appointing External Auditors	DCR				✓	
<b>Regulatory framework</b>						
Annual Governance Statement 2015/16	DCG			✓		
Annual Governance Statement Action Plan Update	DCG	✓		✓	✓	✓
Annual Treasury Management Review 2015/16	DCR	✓				
Corporate Risk Register Annual Review	DCR	✓				
Corporate Risk Register Update	DCR				✓	✓
Draft Annual Governance Statement	DCG		✓			
Governance Framework and Local Code of Corporate Governance Update	DCG					✓
Review of Effectiveness of the Council's Internal Audit Arrangement 2016/17	FSM					✓
Treasury Management Strategy 2016-17	DCR				✓	
Mid-Year Treasury Report 2016-17	DCR				✓	
Final Statement of Accounts	DCR			✓		

### **Key**

DCG Director of Corporate Governance and Monitoring Officer

DCR Director of Corporate Resources and Section 151 Officer

EKAP East Kent Audit Partnership

FSM Financial Services Manager (Dep S151 Officer)

GT Grant Thornton

## **4.0 Review of the Governance and Audit Committee's effectiveness**

- 4.1 The Governance and Audit Committee should ensure it has effective communication with the authority, to include the Executive, the Head of Internal Audit, the External Auditor and other stakeholders. Consequently it is considered to be best practice for the Committee to be self aware and to submit an annual report to Council.
- 4.2 The annual report summarises the work of the Committee for the year and concludes that it has received clear, concise and relevant information, regular training events on topics specific to the business of the Committee, and has done all that it can to meet the aims and objectives for the Committee in the best way that it can.

## **5.0 Annual Report**

- 5.1 The Governance and Audit Committee is assured on the integrity and reliability of data held in the financial statement. It receives clear, concise reports and actions are dealt

with in an appropriate timescale. The members of the Committee receive specific training in order to assist them with their role in receiving comprehensive assurance from the accounting officer.

- 5.2 The work of internal and external audit provides detailed 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.
- 5.3 The assurances from the accounting officer, the work of internal and external audit together support the Committee in forming their opinion of the financial statements, enabling them to agree to sign them off in accordance with regulations.
- 5.4 The Committee receives a regular report on agreed actions from the Annual Governance Statement process. It also reviews the Council's Governance Framework and Local Code of Corporate Governance.
- 5.5 The Committee reviews the Risk Management Strategy on a regular basis and considers the effectiveness of the risk management process both through the work of internal audit and through receiving quarterly risk management reports.
- 5.6 The Committee considers the effectiveness of the internal audit arrangements by reviewing the annual assessment of the Director of Corporate Resources, the view of external audit and the quality of reports, actions and follow-ups through the quarterly reports submitted throughout the year to Committee.
- 5.7 The Committee is able to request service managers and, where necessary, the relevant portfolio holder to attend the Committee to give an update on progress against agreed actions to reduce risk and/or improve governance.
- 5.8 The Chairman and Officers have considered the effectiveness of the Committee. The self-assessment evidence demonstrating achievement of the Committee's terms of reference is attached at Appendix 1.
- 5.9 The recommended actions are listed in Appendix 2 attached to this report. They will be incorporated into the council's Annual Governance Statement (AGS) for 2016/17 and then reviewed on a quarterly basis through the AGS action plan.

## **6.0 Future Challenges**

- 6.1 The Governance and Audit Committee will continue with its existing duties whilst continually striving to achieve best practice where this is feasible and affordable. In the forthcoming year, the Committee will need to:
  - address the implications of the Local Accountability and Audit Act 2014 and the appointment of new auditors
  - oversee corporate risk management within the context of potential change arising from strategic discussions regarding local government structural change
  - maintain effective internal control in a period of government funding reductions and service change.
  - Adopt the delivering good governance in local government framework 2016

## **7.0 Appendices**

Appendix 1 Governance and Audit Committee Annual Assessment for the period 2016/17

Appendix 2 Governance and Audit Committee Action Plan from 2016/17 assessment to be actioned in 2017/18

### Governance and Audit Committee Self-assessment of good practice

Good practice questions	Yes	Partly	No	Comments/Action
<b>Audit Committee purposes and governance</b>				
1. Does the council have a dedicated Audit Committee?	✓			
2. Does the Audit Committee report directly to full council?	✓			Annual Report of Governance and Audit Committee that goes to Annual Council
3. Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?		✓		<b>Action;</b> Review the terms of reference against the CIPFA's Position Statement
4. Is the role and purpose of the audit committee understood and accepted across the authority?	✓			Set out in the constitution and understood by Members and officers
5. Does the audit committee provide support to the authority in meeting the requirements of good governance? Is an annual calendar of meetings/reports prepared to ensure all duties noted in the terms of reference are fulfilled?	✓			Meeting dates are arranged with deadline dates in mind to ensure they are met. Council protocol to issue agenda at least 5 clear working days prior to the meeting.
6. Are the arrangements to hold the committee to account for its performance operating satisfactorily?		✓		<b>Action;</b> Undertake a more detailed review of the committee's operation in the coming year
<b>Functions of the committee</b>				
7. Do the committee's terms of reference explicitly address all the core areas identified in CIPFA's Position Statement?	✓			
• Good governance	✓			
• Assurance framework	✓			
• Internal audit	✓			
• External audit	✓			
• Financial reporting	✓			
• Risk management	✓			
• Value for money or best value		✓		Covered by work provided by internal and external audit
• Counter-fraud and corruption	✓			
8. Is an annual evaluation undertaken to assess whether	✓			Annual report sets out the work undertaken in

Good practice questions	Yes	Partly	No	Comments/Action
the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?				accordance with the committee terms of reference. This includes all core areas.
9. Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?		✓		<b>Action:</b> To be undertaken as part of the terms of reference review
10. Where coverage of core areas has been found to be limited, are plans in place to address this?	n/a	n/a	n/a	Core areas sufficiently covered
11. Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	✓			
<b>Membership and support</b>				
12. Has an effective audit committee structure and composition of the committee been selected? This should include:  <ul style="list-style-type: none"> <li>• Separation from the executive</li> <li>• An appropriate mix of knowledge and skills among the membership</li> <li>• A size of committee that is not unwieldy</li> <li>• Where independent members are used, that have been appointed using an appropriate process</li> </ul>	   ✓ ✓  ✓ n/a	n/a	n/a	Members of the Committee are independent of the Executive.
13. Does the chair of the committee have appropriate knowledge and skills	✓			Chair has undertaken training
14. Are arrangements in place to support the committee with briefings and training?	✓			Governance and Financial section within formal Induction Programme for Members following Elections. Training sessions provided throughout the year, especially for the Statement of Accounts. Members also request training when required.
15. Has the membership of the committee been assessed against the core knowledge and skills framework and be found to be satisfactory?			✓	<b>Action:</b> Assess the Committee against the core knowledge and skills framework to inform any future training plans.



Good practice questions	Yes	Partly	No	Comments/Action
16. Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief finance officer?	✓			
17. Is adequate secretariat and administrative support to the committee provided?	✓			
<b>Effectiveness of the committee</b>				
18. Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	✓			The Charter and Strategy cover these areas. Also Customer Feedback which is detailed in the quarterly Internal Audit update reports and the Internal Audit Annual Report.
19. Has the committee evaluated whether and how it is adding value to the organisation?		✓		Partly through the Annual Report
20. Does the committee have an action plan to improve any areas of weakness?	✓			See actions recommended above.

**Governance and Audit Committee Action Plan 2016/17**

Following the completion of an annual assessment of the performance of the Governance and Audit Committee for the period May 2016 to April 2017, the issues below were identified and action will be undertaken during the period May 2017 to April 2018 to address these.

<b>Ref</b>	<b>Good practice principle / description / issue identified</b>	<b>Proposed Action</b>	<b>Proposed completion date</b>	<b>Responsible officer / body</b>
15-16/01	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's Position Statement?	Review the terms of reference against the CIPFA's Position Statement	June 2017	DCG
15-16/02	Has the audit committee considered the wider areas identified in CIPFA's Position Statement and whether it would be appropriate for the committee to undertake them?	To be undertaken as part of the terms of reference review	June 2017	DCG
15-16/03	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Undertake a more detailed review of the committee's operation in the coming year via Member workshop.	June 2017	DCG and DCR
15-16/04	Has the membership of the committee been assessed against the core knowledge and skills framework and be found to be satisfactory?	Assess the Committee against the core knowledge and skills framework to inform any future training plans. Linked to training and development planning.	tbc	DCG and DCR

**Key:**

DCG      Director of Corporate Governance & Monitoring Officer  
 DCR      Director of Corporate Resources/S151 Officer  
 CE        Chief Executive