



AUDIT COMMITTEE ANNUAL REPORT 2016/17

Councillor S Corris, Chair

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AUDIT COMMITTEE: ANNUAL REPORT 2016/17

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1. FORWARD

By the Chairman of the Audit Committee 2016/17 Councillor Stuart Corris.

I am pleased to present the Annual Report of the Audit Committee which outlines the Committee's work and achievements over the year ending 31st March 2016.

I hope that this Annual Report helps to demonstrate to Stockport residents and the Council's other stakeholders the vital role that is carried out by the Audit Committee and the contribution that it makes to the Council's overall governance. All meetings are open to members of the public.

To provide ongoing assurance over the Council's internal controls and systems, the Committee is attended by the Borough Treasurer, the Internal Audit and Risk Manager and representatives from Grant Thornton, the Council's External Auditors.

I would like to express my thanks to those officers and members who have supported the work of this Committee by presenting, discussing, challenging and debating solutions to the ongoing risk, control and governance environment of the Council. The committee has been well attended this year and there has been constructive questioning by members throughout. There have been no major areas of concern for the committee to note or report back on which is reassuring for the Council.

Finally I would also note that training and ongoing workshops in the year that have been delivered by Internal Audit and Finance services are excellent and confirm the desire to have continuing training sessions in the future.

2. BACKGROUND

2.1 Public Sector Governance

The historical trend for strengthening governance arrangements has continued apace and is evidenced by the updates in April 2016 from the joint Chartered Institute of Public Finance and Accountancy (CIPFA)/Society of Local Authority Chief Executives (SOLACE) document Delivering Good Governance in Local Government - a Framework. The original Framework was structured around the six core principles found in the Good Governance Standard for Public Services drawn up by an independent commission established by CIPFA, the Office for Public Management (OPM) and the Joseph Rowntree Foundation.

The updated guidance positions the attainment of sustainable economic, societal, and environmental outcomes as a key focus of governance processes and structures. Outcomes are what give the role of the Council its meaning and importance, and it is fitting that they have this central role in the sector's governance.

The guidance further highlights the increasing focus on sustainability and the links



between governance and public financial management that are considered crucial. As such Stockport Council must recognise the need to focus on the long term, as our responsibilities lie further than just our current electors. We must also take account of the impact of current decisions and actions on future generations.

The Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. In discharging this overall responsibility, the Council is also responsible for ensuring that there is a sound system of control which facilitates the effective exercise of the Council's functions and which includes arrangements for the management of risk.

A sound corporate governance framework involves accountability to service users, stakeholders and the wider community, within which authorities take decisions, and lead and control their functions, to achieve their objectives. It thereby provides an opportunity to demonstrate the positive elements of an authority's business and to promote public confidence.

Stockport Council has adopted the revised local Code of Corporate Governance in 2016/17 based on the following seven core principles which underpin and define the meaning of good governance:

The principles and main documents associated with their delivery are set out below:

- Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rules of law.
- Ensuring openness and comprehensive stakeholder engagement.
- Defining outcomes in terms of sustainable economic, social and environmental benefits.
- Determining the interventions necessary to optimize the achievement of the intended outcomes.
- Developing the entity's capacity, including the capability of its leadership and the individuals within it.
- Managing risks and performance through robust internal control and strong public financial management.
- Implementing good practices in transparency, reporting, and audit, to deliver effective accountability.



2.2 Why Audit Committees?

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. Stockport'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 from both the public and private sectors, the Audit Committee can report its observations and concerns directly to the Council.

A local authority has a duty to ensure that it is fulfilling its responsibility 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 these arrangements.

Good corporate governance requires independent, effective assurance about the adequacy of financial management and of management arrangements for achieving the organisation's objectives. These responsibilities require an independent and challenging approach.

Through these mechanisms, Committee Members are able to use their skills and experiences to influence the council's governance, internal control processes, and risk management arrangements.

An effective committee can bring many benefits to the Council including:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- providing additional assurance through a process of independent and objective scrutiny;
- raising awareness of the need for internal control and the implementation of audit recommendations; and,
- reinforcing the importance and independence of internal audit.

2.3 What does an Audit Committee do?

The Audit Committee's main responsibilities are to oversee the Council's corporate governance arrangements, the work of internal audit, and the Council's response to external audit and other external inspections.

This purpose is reflected in the committee's terms of reference which are reviewed and adopted each year (Attached at Appendix 1).



The committee advises the Council on all matters relating to its corporate governance. In doing so, the committee receives scheduled reports on the following matters:

- reviewing the operation and compliance with the Council's Code of Corporate Governance and making recommendations on its content;
- keeping the Council's Anti-Fraud and Corruption Policy under review and making recommendations to the Council on the content and operation of that Policy;
- reviewing and approving the Annual Governance Statement and ensuring that;
 - they properly reflect the risk environment;
 - there is reliable evidence to support the disclosures made; and,
 - that any necessary improvement actions are being taken;
- approving the annual Statement of Accounts;
- receiving and reviewing the External Auditor's opinion on the Statement of Accounts, and monitoring management's responses to the issues raised by external audit;
- overseeing internal audit's operations, in particular:
 - receiving any internal audit strategies, codes of practice, audit plans, and considering progress against such plans as necessary;
 - receiving the Annual Report on Counter Fraud and Internal Audit Activities;
 - reviewing the progress and adequacy of management's response to internal audit's recommendations, and matters arising from the internal audit reports; and,
- receiving the External Auditor's Annual Audit Letter, Audit Plans, and any other reports and significant matters deemed necessary by the External Auditor;
- reviewing the progress and adequacy of management's response to external audit recommendations;
- reviewing the progress and adequacy of management's response to matters arising from external inspection reports;
- receiving reports on the monitoring and review of risk management, in order to consider the effectiveness of arrangements.



2.4. How do Officers Support the Committee?

The Audit Committee is supported by:

- The Borough Treasurer who has overall responsibility for the arrangements in this area;
- The Monitoring Officer who is required by law to ensure that the Council acts within its legal powers at all times;
- The Borough Treasurer, as Section 151 Officer who is responsible under the law for ensuring the proper administration of the council's financial affairs;
- The Internal Audit and Risk Manager who has a key role to play in supporting the Committee because of the importance of the Internal Audit service to governance;
- The Internal Audit and Risk Manager provides training to new members of the Council on a yearly basis;
- Any other officer of the Council as required.

3. The 2016/17 FINANCIAL YEAR

This Annual Report for 2016/17 produced by the Audit Committee has been prepared in accordance with the CIPFA best practice publication '*A Toolkit for Local Authority Audit Committees*'. The report demonstrates how the Audit Committee has fulfilled its terms of reference during a very challenging year and how it is fully committed to helping to improve the Council's governance and control environments during what should prove to be a very challenging year ahead.

The committee's activities during 2016/17 were designed to make a positive contribution to the continual improvement of governance arrangements across the Council, as well as performing the statutory roles as identified in the Constitution.

4. AUDIT COMMITTEE FACTS

4.1. Membership

The Audit Committee has six Members:

Councillor Stuart Corris - Chair
Councillor Syd LLoyd - Vice-Chair
Councillor John Taylor
Councillor Roy Driver
Councillor Mark Hunter
Vacancy



4.2. Key Features

The Committee meets CIPFA's definition of best practice as illustrated below:

Best Practice	Expectation	Met	Comment
Independence	Independent from the executive and scrutiny	√	The Committee reports to the Council.
Number of Members	3 to 5 members	√	The Committee has five Members and one vacancy.
Number of meetings	Aligned to business needs	√	The frequency of meetings is considered adequate as this enables all Council business to be considered in a timely manner. The July meeting reflects the changes to the presentation of the Annual Accounts. Frequency will be reviewed annually.
Co-option	To be considered relative to skills	√	
Terms of Reference	Accord with suggested best practice	√	The Committee TOR was comprehensively reviewed in 2016/17 and clearly outlines the responsibility around audit, governance, risk and financial accounting.
Skills and training	Members have sufficient skills for the job	√	Two risk sessions on the Highways Investment Programme and Stockport Together have been held in 2016/17. Training around the overview of the statutory accounts was also held.



4.3. Meetings and Attendance

The Audit Committee normally meets three or four times a year. Dates are flexible to ensure consistent coverage over the year.

Attendance by Members and approved deputies is outlined on the Council's intranet.

5. ACTIVITY 2016/17

5.1. Activity Undertaken in the year

The Committee's work and outcomes in each of its areas of responsibility are summarised in the following subsections.

Audit Activity

1. Considered and approved the 2016/17 annual internal audit plan, reviewed and monitored the internal audit strategy, strategic and operational plans.
2. Considered specific internal audit reports (summary full reports).
3. Monitored the actions taken in response to internal audit recommendations via performance dashboards.
4. Considered reports dealing with the management and performance of the internal audit service, in the form of progress reports and dashboard data.
5. Agreed the updated Internal Audit Charter.
6. Received the annual report from the Internal Audit and Risk Manager setting out internal audit activity during the year and an opinion on the level of assurance as to the Council's corporate governance, risk management and internal control arrangements.
7. Discussed key risk and control issues around the Highways Investment Programme and Stockport Together with professionals in Internal Audit, Finance and service areas.
8. Received and considered implications of the Public Sector Internal Audit Standards.
9. Commented on the planned external audit activity and coverage, including the proposed fees, to ensure it gives value for money.
10. Considered the options for the appointment of new external auditors in 2018.
11. Considered specific reports from the external auditor and other inspection agencies.
12. Monitored the actions taken in response to external audit recommendations.
13. Considered the external auditor's annual letter, relevant reports and the 'report to those charged with governance'.



Risk Activity

1. Considered the effectiveness of the Council's risk management arrangements, the control environment, and associated anti-fraud and anti-corruption arrangements.
2. Sought assurance that action is being taken on risk related issues.
3. Discussed the Council's assurance statements to ensure these properly reflect the Council's risk environment and the actions needed to improve it.
4. Monitored the effective development and operation of risk management strategies and policies, reviewing and challenging the content of the corporate risk register and associated arrangements and action plans.

Corporate Governance

1. Evaluated the adequacy of the application of the local code of corporate governance, including updates on improvement actions, levels of training and awareness and compliance with codes of conduct.
2. Oversaw the production of the Council's updated Code of Corporate Governance and Annual Governance Statement.
3. Reviewed the adequacy of the anti-fraud and corruption policies and strategies, and the effectiveness of the relevant processes and their application, including the arrangements for dealing with suspected or actual wrongdoing.
4. Discussed the contents of the Annual Fraud Report.
5. Discussed early issues around governance arrangements in relation to Greater Manchester Devolution and health and social care.

Accounts

1. Reviewed and approved the annual statement of accounts and related matters, considering whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
2. Received and considered the external auditor's report and statement.

6. PLANS FOR 2017/18

During 2016/17 the Audit Committee has consolidated the progress that has been made in previous years, and going forward will look to develop further and become the recognised champion of good governance for the Council, helping to address many of the reported issues in what promises to be a very challenging and difficult environment. Our priorities for 2017/18 are to continue to meet our duties as specified in the Constitution by developing and building on our current status as well as responding to and implementing any requirements arising from the Public Sector Internal Auditing Standards and the Local Audit and Accountability Act 2014. For 2017/18 we will:



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- Continue to develop the Stockport Council Audit Committee to review all governance issues identified,
- Develop the proactive nature of the Committee to facilitate actions by officers to ensure that risks are identified earlier in the process and remedial actions taken in a more timely fashion in response,
- Attend and contribute to risk workshops on specific projects that the committee feel they want further detail on,
- Continue to drive up standards and meet the demanding requirements of the external inspection and assessment regimes,
- Continue to review all governance arrangements to ensure the Council adopts the very latest best practice,
- Continue to support the work of Internal and External Audit and ensure appropriate responses are given to their recommendations,
- Oversee the implementation of the Public Sector Internal Auditing Standards,
- Continue to help the Council to manage the risk of fraud and corruption,
- Continue to develop the Stockport Council Audit Committee to review risk and partnership issues and safeguard public sector interests,
- Oversee the development of audit plans to evaluate and test controls in operation over complex project areas in regeneration and Integrated Health and Social Care,
- Equip existing and any new Members to fulfil our responsibilities by providing more detailed and effective training on all key areas of responsibility including financial arrangements and risk management, governance and audit planning.

Councillor Stuart Corris (Chair)
Stockport Council Audit Committee



APPENDIX 1

AUDIT COMMITTEE - TERMS OF REFERENCE

The Audit Committee has the following responsibilities:-

Audit Activity

1. Consider, approve, review and monitor the internal audit strategy, strategic and operational plans.
2. Consider specific internal audit reports (summary / full reports) as requested.
3. Monitor the actions taken in response to internal audit recommendations.
4. Consider reports dealing with the management and performance of the internal audit service.
5. Receive the annual report from the Internal Audit and Risk Manager setting out internal audit activity during the year and an opinion on the level of assurance as to the Council's corporate governance, risk management and internal control arrangements.
6. Comment on the planned external audit activity and coverage, including the proposed fees, to ensure it gives value for money.
7. Consider specific reports from the external auditor and other inspection agencies.
8. Monitor the actions taken in response to external audit recommendations.
9. Consider the external auditor's annual letter, relevant reports and the 'report to those charged with governance'.
10. To oversee the process by which the Council's External Auditor is appointed.
11. Monitor the relationship and co-operation between the internal and external audit functions and other relevant bodies.
12. Commission work from internal and external audit if considered necessary.
13. The Audit Committee can, on occasion, require the manager of a service which has been the subject of internal audit review, to account to internal audit recommendations.

Risk Activity

1. Consider the effectiveness of the Council's risk management arrangements, the control environment, and associated anti-fraud and anti-corruption arrangements.
2. Seek assurance that action is being taken on risk related issues, and if required can ask an appropriate person to attend a meeting to give evidence.
3. Be satisfied that the Council's assurance statements properly reflect the Authority's risk environment and the actions needed to improve it.



4. Monitor the effective development and operation of risk management strategies and policies, reviewing the corporate risk register and associated arrangements and action plans.
5. Where appropriate, to refer matters of concern to the relevant Scrutiny Select Committee and receive reports back.

Corporate Governance

1. Evaluate the adequacy of the application of the local code of corporate governance, including updates on improvement actions, levels of training and awareness and compliance with codes of conduct.
2. To oversee the production of the Council's Code of Corporate Governance and Annual Governance Statement and to recommend their adoption when satisfied.
3. Review the adequacy of the anti-fraud and corruption policies and strategies, and the effectiveness of the relevant processes and their application, including the arrangements for dealing with suspected or actual wrongdoing.
4. To maintain an overview of the Council's Constitution in respect of contract procedure rules and financial regulations.
5. Review any relevant issue referred by the Chief Executive, Corporate Directors, the Executive, Scrutiny Committees or any other council body.

Accounts

1. Review and approval of the annual statement of accounts and related matters, considering whether appropriate accounting policies have been followed and whether there are any concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.
2. Receive and consider the external auditor's report and statement.