FOREWORD
By the Chair of the Audit and Governance Committee 2018/19
Councillor Peter Malcolm

I am pleased to present the Audit and Governance Committee’s Annual Report. It records our progress in providing the degree of independence, questioning, and thoroughness required across a wide range of control and corporate governance matters.

During the year, the Committee met on four occasions and received reports in connection with the full range of issues that fall within our remit.

This report indicates the breadth of the Audit and Governance Committee’s work in ensuring that every aspect of the Council’s work should be compliant with standards and transparent to its stakeholders. Increasingly, the Committee is receiving reports on items such as new guidance from CIPFA which ensure that we are being kept up to date on current developments in wider governance standards and expectations as well as dealing with relevant Council business. I believe that this Annual Report demonstrates our value to the Council and the public in ensuring that improvements to the governance of the Authority are being delivered.

As Chair, I believe that the Audit and Governance Committee has provided a valuable contribution to the development of standards and protocols across a wide range of governance areas during what has been a challenging year and has proved its worth in helping to ensure that these are implemented across the Council in an effective and compliant way.

Looking forward, the Council is facing a period of unprecedented change in order to continue to achieve the required budget savings and comply with new statutory requirements. The need to maintain effective controls and standards in our public services is vital and I believe that a strong Audit and Governance Committee is essential to ensure that the Council achieves its objectives effectively in these areas. To support this, it is important that the Audit and Governance Committee continues to operate in a proactive manner regarding risks to the organisation and, in conjunction with officers, continue to identify key risks and ensure that appropriate actions are taken in direct response to these in a timely manner.

On a personal level I would like the Committee to continue its work on strengthening the Council’s democratic and governance procedures, especially when we consider the massive shift taking place in local government, and recent reviews of the wider Constitution and governance structures within the Council should help to support this aim.

Finally, I would like to acknowledge the excellent work of the members of the Audit and Governance Committee and the supporting officers during the past year.
1. BACKGROUND

1.1 What drives governance policy?

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.

Effective corporate governance is a fundamental feature of any successful public sector organisation. Following several high profile failures in the private sector, the desire to strengthen governance arrangements spread from the private sector to the public sector and resulted in 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 Framework, originally launched in 2007, has since been updated in 2016 as a result of which governance standards became focused on seven core principles.

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.

Rochdale Borough Council has a local Code of Corporate Governance based on the following seven core principles which underpin and define the meaning of good governance:

(i) Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law;
(ii) Ensuring openness and comprehensive stakeholder engagement;
(iii) Defining outcomes in terms of sustainable economic, social, and environmental benefits;
(iv) Determining the interventions necessary to optimise the achievement of the intended outcomes;
(v) Developing the entity’s capacity, including the capability of its leadership and the individuals within it;
(vi) Managing risks and performance through robust internal control and strong public financial management; and
(vii) Implementing good practices in transparency, reporting, and audit to deliver effective accountability.

1.2 Why do we need an Audit and Governance Committee?

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. Rochdale’s Audit and Governance 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 and Governance 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 and Governance 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.

1.3 What does an Audit and Governance Committee do?

The Audit and Governance 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. Working in partnership with the Monitoring Officer and the Council’s two Independent persons, the Committee also plays a key role in the oversight of complaint arrangements under the Code of Conduct for Members of the Council.

This purpose is reflected in the Committee’s terms of reference which are reviewed and adopted each year by Full Council (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 Annual 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, Charter, audit plans, and considering progress against such plans as necessary through quarterly reports to Committee;

- receiving Annual Reports on Internal Audit and counter-fraud activities; and
- reviewing the progress and adequacy of management’s response to Internal Audit’s recommendations, and matters arising from Internal Audit reports;

- 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;

- receiving reports on the Risk Management Strategy and the monitoring and review of risk management, in order to consider the effectiveness of arrangements;

- having oversight of the Council’s arrangements for dealing with complaints about Members and any other issues associated with the Code of Conduct for Members; and

- in cases where an investigation has upheld allegations that Members have breached the Code of Conduct, the Committee holds public hearings to make the final decision and determine the sanction in appropriate cases.

1.4 How do Officers Support the Committee?

The Audit and Governance Committee is supported by:

- The Chief Finance Officer as Section 151 Officer who is responsible under the law for ensuring the proper administration of the Council’s financial affairs and 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, dealing with the day to day handling of ethical standards complaints and reporting to the Council in cases where the Local Government & Social Care Ombudsman makes a reportable finding of maladministration;

- The Head of Internal Audit who has a key role to play in supporting the Committee because of the importance of the Internal Audit service to governance; and

- Any other officer of the Council as required.

2 FINANCIAL YEAR 2018/19

This Annual Report for 2018/19 produced by the Audit and Governance 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 and Governance Committee has fulfilled its terms of reference and how it is fully committed to helping to improve the Council’s governance and control environments during what should prove to be another very challenging year ahead.

The Committee’s activities during 2018/19 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.
3 SOME KEY INFORMATION

3.1 Audit and Governance Committee Membership

The Audit and Governance Committee has 9 core Members, together with two independent persons to support standards related issues in accordance with the Localism Act 2011. Throughout 2018/19 these members were as follows:

Councillor Peter Malcolm – Chair
Councillor Aasim Rashid – Vice-Chair
Councillor Ali Ahmed
Councillor Patricia Dale
Councillor James Gartside
Councillor Aftab Hussain
Councillor Donna Martin
Councillor Kathleen Nickson
Councillor Shah Wazir
Ann Taylor (independent person)
Andrew Underdown (independent person)

On 17 December 2018 it was agreed by Members that the terms of reference and membership of the Audit and Governance Committee be amended to include up to two independent members. This this was further approved by Council on 27 February 2019 and the recruitment process is now being developed.

3.2 Key Features of the Audit Committee and its Operation

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

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>Expectation</th>
<th>Met</th>
<th>Comment</th>
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</thead>
<tbody>
<tr>
<td>Independence</td>
<td>Independent from the executive and scrutiny</td>
<td>✓</td>
<td>The Committee reports to the Council</td>
</tr>
<tr>
<td>Number of Members</td>
<td>3 to 5 members</td>
<td>✓</td>
<td>The Committee has 9 Members, plus 2 independent persons, with the option of two further independent members.</td>
</tr>
<tr>
<td>Number of meetings</td>
<td>Aligned to business needs</td>
<td>✓</td>
<td>The frequency of meetings, 4 or 5 times a year, complies with best practice and ensures all core business is completed in a timely manner. Other meetings may be scheduled if deemed appropriate to support business needs.</td>
</tr>
<tr>
<td>Co-option</td>
<td>To be considered relative to skills</td>
<td>✓</td>
<td>Training is currently provided to increase Members’ skills; this is assessed on an ongoing basis to ensure the Committee continues to be effective and to determine future training requirements. Membership now includes up to 2 independent members.</td>
</tr>
<tr>
<td>Terms of Reference</td>
<td>Accord with suggested best practice</td>
<td>✓</td>
<td>The Committee has adopted the CIPFA recommended model Terms Of Reference and these are reviewed annually to ensure that they remain fit for purpose.</td>
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</tbody>
</table>
### Skills and training

<table>
<thead>
<tr>
<th>Best Practice</th>
<th>Expectation</th>
<th>Met</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>Skills and training</td>
<td>Members have sufficient skills for the job</td>
<td>✓</td>
<td>General and specific training is provided to increase Members’ skills, with an induction for new Members and ongoing assessment of any specific needs to inform future training plans.</td>
</tr>
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#### 3.3 Meetings and Attendance

In line with best practice, the Audit and Governance Committee met 4 times during the year in July, October, December 2018 and April 2019.

Attendance by Members in 2018/19 was over 77%.

### 4  CORE ACTIVITY 2018/19

#### 4.1 Terms of Reference

The Audit and Governance Committee’s Terms of Reference are comprehensive, cover all main areas and are attached at Appendix 1 to this Annual Report. The Committee’s work and outcomes in each of its areas of responsibility are summarised in the following subsections.

#### 4.2 Internal Audit

The Audit and Governance Committee:
- Approved Internal Audit’s Annual Audit Plan;
- Approved the updated Internal Audit Charter;
- Considered regular reports produced by the Head of Internal Audit highlighting internal audit work completed, Internal Audit performance against key indicators and any significant issues arising during the period;
- Considered the Head of Internal Audit’s Annual Report and assurance opinion on the Council’s control environment;
- Ensured internal and external audit plans were complementary and provided optimum use of the total audit resource;
- Received updates and an Annual Report on Internal Audit’s counter fraud remit and activities undertaken; and
- Monitored the progress made in the implementation of high and medium priority audit recommendations through regular reports received from Internal Audit, also inviting senior management within certain services to attend and present updates on progress being made on significant areas.

We continue to provide support to the Internal Audit service to ensure management is responsive to recommendations made and agreed.

#### 4.3 External Audit

The Audit and Governance Committee:
- Considered the external auditor’s Audit Plan and audit fee;
- Considered progress against the plan presented by the external auditor;
• Received and considered all external audit and inspection reports issued in the year and considered management’s response to them, ensuring robust and thorough responses;
• Considered the Value for Money conclusions and ensured appropriate actions were being taken to address any issues and challenges arising;
• Considered the external auditor’s Annual Audit Letter;
• Considered reports on the risk and challenges being faced by Rochdale both now and into the future to ensure that an appropriate response and action was being taken by the Council; and
• Considered a report on grant claims certifications.

We continue to provide support to external audit to ensure management is responsive to recommendations made and agreed.

4.4 Risk Management

The Audit and Governance Committee:
• Received details of the Risk Management system, how it works and arrangements in place for mitigating risks;
• Considered regular reports from the Risk Manager on developments within both Service based and Corporate Risk Registers to ensure the Members are aware of any emerging risks across the Council and the extent to which the Risk Management Strategy is being embedded; and
• Considered and challenged the Corporate Risk Register to support monitoring undertaken by the Leadership Team.

We continue to provide support to promote effective Risk Management policies and procedures across the Council and ensure best practice is achieved.

4.5 Internal Control and Governance

The Audit and Governance Committee:
• Agreed the Council's Annual Governance Statement and action plans to improve identified weaknesses; and
• Considered the Council’s response to the Government’s Fighting Fraud Locally initiative to ensure that sound governance and counter-fraud arrangements are in place and are working as intended.

The Annual Governance Statement is a key document which summarises the Council’s governance arrangements and the effectiveness of the arrangements during the year.

4.6 Accounts

The Audit and Governance Committee:
• Received training and guidance on the preparation of the Annual Statement of Accounts and the key issues which should be considered prior to approval;
• Received and considered the external auditor’s report on the accounts, and ensured that the Council responded appropriately to the auditor’s comments and recommendations; and
• Reviewed and approved the Annual Statement of Accounts, 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.
4.7 Specific Issues

The Audit and Governance Committee also considered reports and presentations on the following specific issues during the period:

- Developments made in procurement strategies and procedures and future challenges through a presentation by the Director of STAR procurement hub;
- Approval of changes to certain accounting policies supporting the preparation of the Annual Statement of Accounts;
- An update on CIPFA’s Guidance on Audit Committees which was refreshed in 2018;
- The outcomes of the annual review of the Council’s Constitution to ensure its content remains appropriate and any changes arising from legislative requirements are captured;
- The adoption of a revised procedure for hearing complaints under the Code of Conduct;
- The outcomes of a self-assessment exercise which aimed to establish the level of compliance of the Audit and Governance Committee with recognised CIPFA best practice for audit committees; and
- Approved a proposal to recruit up to two independent members to the Audit and Governance Committee.

4.8 Ethical Standards/Code of Conduct

Formal investigation is reserved for the more serious cases or where an informal resolution is not considered appropriate. Only those cases where there is clear evidence of a serious breach of the Code of Conduct are therefore likely to result in a formal investigation, potentially followed by a hearing before a panel of Members and a formal sanction in appropriate cases. During the course of the year, the Monitoring Officer received 12 complaints.

<table>
<thead>
<tr>
<th>Brief summary of complaint</th>
<th>Outcome</th>
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<tbody>
<tr>
<td>Disrespectful social media posts.</td>
<td>No further action, as the posts were not related to Council business.</td>
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<tr>
<td>The Member had ‘treated’ the electorate prior to local elections.</td>
<td>No further action, as the allegations were outside the Code of Conduct for Members.</td>
</tr>
<tr>
<td>Comments in a ‘WhatsApp’ group by a Member about a third party business competitor.</td>
<td>No further action, as the posts were not related to Council business.</td>
</tr>
<tr>
<td>A Member of the Council complained that a Member of another group on the Council had been rude, aggressive and had interrupted them at a public meeting.</td>
<td>Complaint withdrawn.</td>
</tr>
<tr>
<td>The Chair of a Township Committee was biased in the way they chaired a meeting; a Member of the Committee was rude towards a member of the public.</td>
<td>The Chair had acted fairly and the complaint was not upheld. The complaint against the Committee Member was not upheld on the grounds that they had been robust but not aggressive.</td>
</tr>
<tr>
<td>Brief summary of complaint</td>
<td>Outcome</td>
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<tr>
<td>2 Members were subject to a complaint that they had referred to a member of the public (not present at a private meeting) in a disparaging way.</td>
<td>No further action as there was no justification for finding that the Members had made an insulting or defamatory remark. The complaint has been referred to the Ombudsman for review.</td>
</tr>
<tr>
<td>The Member had received a police caution for an electoral offence.</td>
<td>The offence took place before the Member was elected and was therefore outside the Code of Conduct jurisdiction. The decision to reject was upheld by the Ombudsman on review.</td>
</tr>
<tr>
<td>A Member had brought the office of Councillor or the Council into disrepute/had used Council resources for political purposes.</td>
<td>The complaint of disrepute was upheld by the Standards Committee. The complaint about misuse of resources was rejected.</td>
</tr>
<tr>
<td>Disrespectful social media posts.</td>
<td>No further action as the posts did not breach the Code.</td>
</tr>
<tr>
<td>Comments made in the media which upset the complainant.</td>
<td>No further action as the comments did not breach the Code.</td>
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</table>

The key theme from complaints this year is, once again, the need for Members to be mindful of the dangers in using social media to express views whether in an official or a private capacity. Whilst some of the posts were clearly made in the Members’ private capacity, and outside the Code, the exchanges generated complaints which had to be looked into and decided.

The Committee on Standards in Public Life reported on their review on the operation of the Code of Conduct regime. The Committee made a number of key recommendations to government which require legislative change, such as a power for Council Standards Committees to suspend a Member for up to 6 months for breaching the Code of Conduct. However, there were a number of best practice recommendations which could be adopted now. The Monitoring Officer is working with his counterparts at the other GM Districts, along with the Combined Authority and TfGM to develop a consistent approach where there are opportunities to strengthen ethical governance arrangements. The Audit and Governance Committee looks forward to receiving and considering recommendations for change in 2019/20.

5. PLANS FOR 2019/20

During 2018/19 the Audit and Governance 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 support and address many of the issues which may arise in such a challenging and difficult environment. Our priorities for 2019/20 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 out of the Public Sector Internal Auditing Standards and the Local Audit and Accountability Act 2015. For 2019/20 we will:

• Continue to develop the effectiveness of the Audit and Governance Committee to review all governance issues identified, including the support and challenge of new governance arrangements associated with the development of integrated health and care commissioning;
• 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;
• Continue to drive up standards to ensure the Council is able to meet the demanding requirements of the external inspection and assessment regime;
• 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;
• Ensure we maintain and further improve our standards in relation to the production of accounts;
• Continue to support the Council to manage the risk of fraud and corruption;
• Oversee the development of audit plans to evaluate and test controls in operation over complex and developing areas such as integrated health and social care; and
• 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, risk management, governance and audit.

Councillor Peter Malcolm (Chair)
Rochdale Borough Council Audit and Governance Committee
July 2019
Audit and Governance Committee Terms of Reference

According to The Council’s Constitution the audit committee is responsible for the following functions which have been split into the following 3 areas:

1. Council functions
   1. Duty to approve the Authority’s Statement of Accounts, income and expenditure and balance sheet, or record of payments and receipts (as the case may be);
   2. Powers to make payments or provide benefits in cases of maladministration etc;
   3. Duty to divide constituency into polling districts; and
   4. Power to divide electoral divisions into polling districts at local government elections.

2. Functions related to the Code of Conduct for Councillors and Voting Co-opted Members
   1. Establish a Sub-Committee to consider an exceptional referral of a complaint from the Monitoring Officer;
   2. To appoint to Hearings Panels (Sub-Committees) if not otherwise appointed by the Monitoring Officer;
   3. Granting dispensations to Councillors, Independent Members and Co-opted Members who would otherwise be unable to participate in and/or vote on a matter due to a prejudicial interest on the grounds that:
      i. The grant of the dispensation would be in the interest of the inhabitants of the Authority’s area; or
      ii. It is otherwise appropriate to grant the dispensation; and

3. Functions of the Chartered Institute of Public Finance and Accountancy’s recommended ‘audit committee’
   1. To approve the Annual Governance Statement and monitor achievement;
   2. To approve the Internal Audit Charter;
   3. To review and approve the Internal Audit Annual Plan and the Risk Management Strategy, considering the effectiveness of the proposed audit programme in providing adequate assurance over arrangements for governance, risk management and internal control;
   4. To consider Internal Audit reports arising from the Internal Audit Annual Plan, ensuring that adequate management responses are made in respect of the findings of audit investigations, and particularly monitoring the outcomes of responses to individual significant adverse reports on financial management and internal control;
   5. To consider the Internal Audit Annual Report and to ensure the implementation of appropriate action;
   6. To review the adequacy of the Anti-Fraud and Corruption Policy, and related policies and procedures, to ensure their application and effectiveness;
   7. To consider the External Audit Plan, the external auditor’s annual letter, relevant reports and the annual report to those charged with governance on issues arising from the audit of the Annual Statement of Accounts; and
   8. To review the Council’s Risk Registers (Council Constitution, Part 3 responsibility for functions).