

# Audit and Governance Committee

## Annual Report 2020-21

### FOREWORD

The Audit and Governance Committee's Annual Report records progress in how the Committee provides 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 five occasions and received reports in connection with the full range of issues that fall within its remit.

This report indicates the breadth of the Audit and Governance Committee's work in ensuring that every aspect of the Council's work is compliant with standards and transparent to its stakeholders. The Committee received reports on a variety of items, this included being kept up to date on current developments in wider governance standards and expectations as well as dealing with relevant Council business. The Annual Report demonstrates the value of the Audit & Governance Committee to both the Council and the public in ensuring that improvements to the governance of the Authority continue to be made.

The Audit and Governance Committee continues to look to make 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.

During 2020/21, the Council was faced with tackling the issues rising as a result of the Covid-19 pandemic. As working practices were amended during these unprecedented times, the Audit and Governance Committee were made aware of, and supported, the work that internal audit carried out to ensure that both the needs of the Rochdale residents were met, whilst maintaining the required level of assurance relating to the Council's activities.

Looking forward, the Council continues to face a period of change in order to not only maintain support during the ongoing pandemic, but also to continue to achieve the required budget savings and comply with statutory requirements. Having 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.

The Audit and Governance Committee must continue its work on strengthening the Council's democratic and governance procedures, especially when considering the massive shift taking place in local government, and a continual challenge of the wider Constitution and governance structures within the Council should help to support this aim.

Finally, it is important to acknowledge the excellent work of the members of the Audit and Governance Committee and the supporting officers during the past year.

**The Chair of the Audit and Governance Committee**

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### 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.

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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 Independent Member and Independent Person, 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;
  - the statements made 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;

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- 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 2020/21

This Annual Report for 2020/21 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 2020/21 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.

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### 3 SOME KEY INFORMATION

#### 3.1 Audit and Governance Committee Membership

During 2020/21 the Audit and Governance Committee had 9 core Members, together with one independent member and one independent person to support standards related issues in accordance with the Localism Act 2011. Throughout 2020/21 these members were as follows:

Councillor Peter Malcolm – Chair  
Councillor Aasim Rashid – Vice-Chair  
Councillor Ali Ahmed  
Councillor Sultan Ali  
Councillor James Gartside  
Councillor Aftab Hussain  
Councillor Donna Martin  
Councillor Kathleen Nickson  
Councillor Donna Williams  
Jaime Sanderson (independent member)  
Craig Ainsworth (independent person)

#### 3.2 Key Features of the Audit Committee and its Operation

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 9 members, plus 1 independent member and 1 independent person, with the option of 1 further independent member and person.
Number of meetings	Aligned to business needs	√	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.
Co-option	To be considered relative to skills	√	Training is provided to increase Members' skills; this is assessed on an ongoing basis to ensure the Committee remains effective and to determine future training requirements. Independent members provide relevant oversight
Terms of Reference	Accord with suggested best practice	√	The Committee has adopted the CIPFA recommended model Terms Of Reference and these are reviewed annually to ensure that they remain fit for purpose.
Skills and training	Members have sufficient skills for the job	√	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.

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### 3.3 Meetings

In line with best practice, the Audit and Governance Committee met 4 times during the year in July, September, December 2020, and March 2021.

## 4 CORE ACTIVITY 2020/21

### 4.1 Terms of Reference

The Audit and Governance Committee's Terms of Reference (Appendix 1) are comprehensive, cover all main areas. 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;
- 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.

Support is provided 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; and
- 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.

Support is provided to external audit to ensure management is responsive to recommendations made and agreed.

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### 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.

Support is provided 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 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 relating to embedding social value into relevant processes through a presentation by the Director of STAR procurement hub; and
- Consideration of the Council Size report for the Electoral Review of RBC for the Committee to recommend that Full Council approves the Council Size Submission to the Local Government Boundary Commission for England.

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### 5. PLANS FOR 2021/22

During 2021/22 the Audit and Governance Committee has continued to champion good governance across the Council, and going forward will look to develop further and help to support and address many of the issues which may arise in such a challenging and difficult environment. Priorities for 2021/22 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 2020/21 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;
- Continue to ensure that effective controls and standards in our public services are maintained throughout the recovery process from the response to the Covid-19 pandemic;
- 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.

## 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 these 3 areas:

### 1 Council functions

- 1.1 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);
- 1.2 Powers to make payments or provide benefits in cases of maladministration etc;
- 1.3 Duty to divide constituency into polling districts; and
- 1.4 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

- 2.1 Establish a Sub-Committee to consider an exceptional referral of a complaint from the Monitoring Officer;
- 2.2 To appoint to Hearings Panels (Sub-Committees) if not otherwise appointed by the Monitoring Officer;
- 2.3 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:
- 2.4 The grant of the dispensation would be in the interest of the inhabitants of the Authority's area; or
- 2.5 It is otherwise appropriate to grant the dispensation; and
- 2.6 Monitoring of the Code of Conduct for Councillors and Voting Co-opted Members, of the Protocol for Relationships between Members and Council Employees, the Code of Conduct for Members considering Planning Matters and the Code of Conduct for Members dealing with Licensing Matters (Licensing Act 2003, Gambling Act 2005, and Scrap Metal Dealers Act 2013).

### 3 Functions of the Chartered Institute of Public Finance and Accountancy's recommended 'audit committee'

- 3.1 To approve the Annual Governance Statement and monitor achievement;
- 3.2 To approve the Internal Audit Charter;
- 3.3 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;
- 3.4 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;
- 3.5 To consider the Internal Audit Annual Report and to ensure the implementation of appropriate action;
- 3.6 To review the adequacy of the Anti-Fraud and Corruption Policy, and related policies and procedures, to ensure their application and effectiveness;
- 3.7 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
- 3.8 To review the Council's Risk Registers (Council Constitution, Part 3 responsibility for functions).