

Annual Report of the Audit and Risk Assurance Committee  
2017/18



# Introduction

Councillor Liam Preece  
Chair of the Audit and Risk Assurance Committee



The Audit and Risk Assurance Committee here at Sandwell, as across local government, is a key component of a council's corporate governance. It provides an independent and high-level focus on the audit, risk management, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Committee is to provide independent assurance to the council on the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It also oversees the work of both the internal and external auditors, helping to ensure that efficient and effective assurance arrangements are in place. The key benefits of the Committee can be seen as:

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

It has been another particularly eventful year for the new-look Committee with its strengthened membership. We have continued to play a key role in how the council has faced the challenges arising from, and following the publication of the Gowling WLG report. In particular during the year we considered the outcome of the council's referral of a number of issues to the Economic Crime Unit at the West Midlands Police.

Following this we expressed the view that it was not in the interest of the electorate that legal action, related to misconduct in public office, should be so difficult to pursue and that prosecutors should, in the future, be more willing and empowered to take action. It was suggested that current legislation be reviewed and we set this out in a letter to the Director of Public Prosecutions and the Home Secretary.

We were also pleased to note that a number of issues we referred to the council's Monitoring Officer for consideration under the arrangements for dealing with complaints of a breach of the Member Code of Conduct, had progressed through the Standards regime.

The focus of the Committee going forward will now be in helping to ensure that the council continues to develop a strong governance and internal control framework in which to operate in.

Taking all of this into account, I believe it has been another successful year for the Committee and we look forward to building on this during 2018/19.

Finally, as the Chair of the Audit and Risk Assurance Committee I would like to thank all the Councillors who served on the Committee during the year, senior officers who have provided ongoing advice for the committee, and our internal and external auditors who have all contributed towards its success.

## Committee membership

Councillor Liam Preece (Chair)					
Councillor Keith Allcock					
Councillor Bill Gavan					
Councillor Ann Jaron					
Councillor Ann Jarvis					
Councillor Bob Piper					
Councillor Paul Sandars					
Mike Ager (Independent, Vice Chair)					

Senior Officers from the council were also present where appropriate, including the Executive Director of Resources, Monitoring Officer, risk owners, the Audit Services and Risk Management Manager and where appropriate the External Auditor (KPMG) also attended.

## The Committee's business

During the year the Committee conducted the following business:

<ul style="list-style-type: none"> <li>Council Updates on Allegations of Fraud, Misconduct and Related Issues</li> <li>Counter Fraud Updates</li> <li>Letter to the Home Secretary and Director of Public Prosecutions</li> <li>Restrictions placed on, and Chronology of the sale of the Public Toilets</li> <li>New Policy related to Grants and Community Organisations</li> <li>Code of Corporate Governance</li> </ul>	<ul style="list-style-type: none"> <li>Internal Audit Annual Report</li> <li>Internal Audit Progress Reports</li> <li>Internal Audit Charter</li> <li>Internal Audit Plan</li> <li>Internal Audit – External Assessment</li> <li>Strategic Risk Register Updates</li> <li>Directorate Risk Register – Adult Social Care, Health and Wellbeing</li> <li>Audit and Risk Assurance Committee – Terms of Reference</li> </ul>
<ul style="list-style-type: none"> <li>Statement of Accounts</li> <li>Report to those Charged with Governance (ISA 260)</li> <li>KPMG - Annual Audit Letter</li> <li>KPMG – Certificate of Grants and Returns</li> <li>KPMG – External Audit Plan</li> <li>Annual Governance Statement and Action Plan Update</li> </ul>	<ul style="list-style-type: none"> <li>Audit and Risk Assurance Committee Annual Report</li> <li>GDPR Update</li> <li>CIPFA Audit Committee Updates</li> <li>Financial Regulations and Contract Procedure Rules</li> <li>Local Government Ombudsman's Annual Review</li> </ul>

### *The Committee's work on Allegations of Fraud, Misconduct and Other Issues*

As can be seen from the above, one of the main areas of work that the Committee continued to play an active role in during the year was in helping the council deal with the issues arising from, and following on from the publication of the Gowling WLG report (also known as the "Wragges report") including:

- The outcome of the council's referral to the Economic Crime Unit at the West Midlands Police, whereby following a detailed review of the material held by the council, they reached a determination that there was insufficient evidence to meet the threshold for recording a crime. However, they stated that this would not prevent the council pursuing any action that it deemed appropriate if it identifies any breaches of standards or misconduct. Following this we expressed the view that it was not in the interest of the electorate that legal action, related to misconduct in public office, should be so difficult to pursue and that prosecutors should, in the future, be more willing and empowered to take action. It was suggested that current legislation be reviewed and we set this out in a letter to the Director of Public Prosecutions and the Home Secretary.
- In 2016/17 the Committee referred a number of matters to the council's Monitoring Officer for consideration under the arrangements for dealing with complaints of a breach of the Member Code of Conduct. Following this the council's Monitoring Officer considered the conduct alleged, and sought assistance from the council's Independent Person before deciding that a formal Standards investigation was required in a number of cases. Since that time one Standards investigation has been completed and others are ongoing.
- Concerns over the disposal of land at Clarkes Lane/Heath Lane and the Celebration Sculpture.
- Restrictions placed on, and the chronology of the sale of the public toilets matter referred to in the Gowling WLG report.
- Reviewing and commenting on the changes being made to the council's process for awarding grants to community organisations.

## The Conclusion of the Committee for 2017/18

While concerns were expressed regarding a number of issues following on from the publication of the Gowling WLG and associated reports, it was noted that strong action continues to be taken to address the issues identified and therefore, the Committee were able to confirm:

- That the system of internal control, governance and risk management in the council was adequate in identifying risks and allowing the council to understand the appropriate management of these risks.
- That there were no areas of significant duplication or omission in the systems of internal control, governance and risk management that had come to the Committee's attention, that had not been adequately resolved.

## Sources of assurance

The Committee also gained assurance in order to produce the above conclusion, from the following sources:

### *The work of Internal Audit*

The Council's Internal Auditors gave the following opinion in their Annual Report:

"Based on the work undertaken during the year and the implementation by management of the recommendations made, Internal Audit can provide reasonable assurance that the council has adequate and effective governance, risk management and internal control processes".

### *The work of the External Auditors*

During the year the external auditors (KPMG) reported back to the Committee on a number of occasions as detailed above. At the time of this report we were awaiting their final report.

### *The Annual Governance Statement*

The Annual Governance Statement operated throughout the year ended 31 March 2018, and up to the date of the approval of the annual report and accounts. Based on the council's established risk management approach, the following issues were assessed as being significant for the purpose of the Annual Governance Statement. Over the coming year appropriate steps to address these matters and further enhance governance arrangements will be taken:

- Children's Services
- Resilience of the Medium Term Financial Strategy
- Land Sales and Other Matters
- Compliance with Contract Procedure Rules and Allocation of Grants
- Business Continuity
- General Data Protection Regulations
- Cyber Security

### *Risk Management*

The Committee regularly receives and reviews the council's Strategic Risk Register, and assesses the assurance provided in order to demonstrate how risks are being mitigated. It may also, where required, call in individual risks for a more detailed review and during the year received an update on the risks associated with the introduction of the new General Data Protection Regulations and the risks associated within the Adult Social Care, Health and Wellbeing directorate.

## The Committee's main achievements

The Committee believes its key achievements during the year were:

- Helping the council continue to deal with the issues following on from the publication of the Gowling WLG report and other associated areas, in particular consideration of the Police response to the issues referred to them, culminating in the issue of a letter to the Home Secretary and Director of Public Prosecutions.
- Maintaining a good working relationship with the council's internal and external auditors.
- Maintaining an awareness of the changes to the appointment of external auditors through the Local Audit and Accountability Act which has seen the appointment of new external auditors for the council from 2018/19 onwards.
- Reviewing the Committee's terms of reference in order to ensure they remain fit for purpose.
- Providing additional assurance through a process of on-going independent review.
- Raising the profile of internal control issues across the council and of the need to ensure that audit recommendations are implemented.
- Regular consideration and review of the council's strategic risk register and accompanying assurance map.
- Maintaining a detailed focus on the actions being taken to combat fraud
- Building the skills and knowledge of the new and extended Committee members through regular technical updates and the consideration of related guidance issued by CIPFA.
- The continued presence of an independent member as Vice-Chair in order to broaden the Committee's experience and independent view point, and putting in place a process to recruit an additional independent member onto the Committee.
- Reviewing the Internal Audit Charter in line with the Public Sector Internal Audit Standards.

## Audit and Risk Assurance Committee –Terms of Reference

### *Statement of purpose*

Our Audit and Risk Assurance Committee is a key component of the council's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of our Audit and Risk Assurance Committee is to provide independent assurance to the members on the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### *Governance, risk and control*

To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To review the annual governance statement prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.

To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

To monitor the effective development and operation of risk management in the council.

To monitor progress in addressing risk-related issues reported to the Committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

### *Internal Audit*

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

To approve a risk based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;
- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- The opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control together with the summary of the work supporting the opinion - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To support the development of effective communication with the head of internal audit.

### *External Audit (KPMG)*

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### *Financial Reporting*

To receive detailed training in respect of the process associated with the preparation, audit and sign off of the annual statement of accounts

To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.



To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

*Accountability arrangements*

To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.

To report to full council on a regular basis on the Committee's performance in relation to the terms of reference, and the effectiveness of the Committee in meeting its purpose.