

## **Audit & Accounts Committee – Annual Report 2019/20**

### **Purpose**

- 1.1 This report seeks Committee's input into the Annual Report of the Audit and Accounts Committee for 2019/20. The Annual Report is designed to inform Full Council of the Committee's activities during the Municipal Year 2019/20.

### **Recommendations**

- 2.1 That Committee reviews the content of the draft annual report attached at Appendix 1.
- 2.2. Subject to any revisions suggested by Committee, to approve that the Chair presents the annual report to Full Council.

### **Reasons**

- 3.1 The production of an annual report by the audit committee is considered to be good practice by the Chartered Institute of Public Finance and Accountancy.

### **Supporting information**

- 4.1 In February 2018 the Committee completed a self-assessment exercise on its effectiveness. One of the questions in the exercise was "Does the committee make a formal annual report on its work and performance during the year to full council?" All Committee members that responded put a "no". An annual report on the Committee's work is seen as good practice as it raises the status of the Committee and its role and makes all members aware of the scope and importance of the committee's work.
- 4.2 Committee agreed in March 2018 that the following action be put in the improvement plan:  
  
"The Chair produces a formal report each year to present at full council which outlines the work of the Audit and Accounts Committee, and informs all Council members on the level of robustness of the internal control environment and the management of risks."
- 4.3. The requirement to produce an annual report was included in the revised Committee terms of reference.

## **Public/stakeholder engagement**

5.1 None

## **Other options**

6.1 None

## **Financial and value for money issues**

7.1 None

## **Legal implications**

8.1 None

## **Other significant implications**

9.1 None

**This report has been approved by the following people:**

<b>Role</b>	<b>Name</b>	<b>Date of sign-off</b>
<b>Legal</b>		
<b>Finance</b>		
<b>Service Director(s)</b>		
<b>Report sponsor</b>	Chair of Audit & Accounts Committee	17 Sept 20
<b>Other(s)</b>		

<b>Background papers:</b>	None
<b>List of appendices:</b>	Appendix 1 - Draft Annual Report of the Audit & Accounts Committee 2019/20

# **AUDIT AND ACCOUNTS COMMITTEE**

## **ANNUAL REPORT 2019/20**

DRAFT

## **Introduction from the Chair of Audit & Accounts Committee**

I am pleased to introduce this, the second annual report of the Council's Audit and Accounts Committee. I have been the Chair of the Committee since May 2018 and I am keen that both the role and profile of the Committee continues to grow.

Unfortunately, our municipal year was curtailed when the Covid-19 pandemic struck in March 2020. This resulted in the cancellation of our meetings scheduled for 25<sup>th</sup> March 2020 and 17<sup>th</sup> June 2020. The impact on the Committee's work was that some of the key reports that would normally be presented to the March meeting (Internal and External Audit Plan reports) and the June meeting (Internal Audit Opinion) were delayed until our meeting in July 2020.

This Annual Report helps to demonstrate to the City's residents and the Council's other stakeholders the vital role that is carried out by the Audit and Accounts Committee and the contribution that it makes to the Council's overall governance. The key activities of the Committee during the year are set out in the report. In summary we concentrated our work on:

- Assessing whether the Council has an adequate system of internal control to make sure it can meet its various financial and governance responsibilities, as well as deliver on its priorities
- Whether those systems of control are working effectively to mitigate risk.
- Seeking ongoing assurance from the Council's s151 Officer, the Head of Internal Audit, Ernst Young (our External Auditor) and those Council officers requested to attend the Committee to discuss specific issues on which we require further understanding.

As a result of this work, we can provide the Council with assurance around the effectiveness of internal control, risk management and governance arrangements.

The Committee has continued to adapt the way it works and where it focusses its time, particularly around risk management and governance. Strong and effective control environment arrangements are an essential element of a robust corporate governance framework. The Audit and Accounts Committee has a leading role to play in ensuring that the Council's governance arrangements are effective and contribute to the mitigation of risks. As the Council's operating model changes, we need to ensure that our work and the control systems it oversees remain effective.

I would like to take this opportunity to thank all the Councillors who served as a member of the Committee in 2019/20, the Director of Financial Services, the Head of Internal Audit, the Democratic Services team and the representatives from our external auditors for their continuing support during the last year.

**Councillor Stephen Willoughby**  
**Chair of the Audit and Accounts Committee**  
**September 2020**

## **1. Introduction**

The Audit and Accounts Committee was set up in September 2005. Its role is defined in its terms of reference as laid out in the Council's constitution, as shown in Appendix 1. The areas covered within them are consistent with those identified as good practice by the Chartered Institute of Public Finance and Accountancy (CIPFA) in its document "Audit Committees: Practical Guidance for Local Authorities and Police" (2018).

This report informs Full Council of the Committee's activities during the Municipal Year 2019/20 and how it has discharged its responsibilities. The 2019/20 Municipal Year was from 22 May 2019 to 23 June 2020.

## **2. Information about the Committee**

### **Audit Committee Membership**

In the 2019/20 Municipal year the Committee had eight members, which was increased to nine members from 27<sup>th</sup> November 2019, plus two independent members:

Councillor Stephen Willoughby – Chair (Conservative<sup>1</sup>/Liberal Democrats<sup>2</sup>)  
Councillor Joanna West - Deputy Chair (Labour)  
Councillor Paul Bettany (UK Independence Party<sup>3</sup>/The Brexit Party<sup>4</sup>)  
Councillor Lucy Care (Liberal Democrats)  
Councillor Hardy Dhindsa (Labour)  
Councillor Ross McCristal (Conservative)  
Councillor Miles Pattison (Conservative) from 27<sup>th</sup> November 2019  
Councillor Adrian Pegg (Conservative)  
Councillor Baggy Shanker (Labour)

Independent Members: Stuart Green, Philip Sunderland

<sup>1</sup> Until 25<sup>th</sup> Nov 2019, <sup>2</sup> From 26<sup>th</sup> Nov 2019

<sup>3</sup> Until 14<sup>th</sup> July 2019, <sup>4</sup> From 15<sup>th</sup> July 2019

### **Audit Committee Meetings and Attendance**

The Committee has agreed to hold at least five meetings each year; and is required to meet at certain times to achieve a number of deadlines i.e. in July each year to review and approve the Annual Statement of Accounts and the Annual Governance Statement. Due to the Covid-19 pandemic, only 4 meetings were held in 2019/20. The meeting scheduled for 25<sup>th</sup> March 2020 was cancelled due to "Lockdown".

Table 1 below shows the level of attendance at each of the scheduled meetings in 2019/20. Committee Members achieved an overall attendance rate of 70.7% (29 out of a possible 41) in the 4 meetings held in 2019/20. Two Councillors achieved a 100% attendance rate during 2019/20, as did one of the Independent members. The

new member, who joined the Committee in late November 2019, attended the February 2020 meeting.

**Table 1: Attendance at Audit and Accounts Committee Meetings**

	<b>19 June 2019</b>	<b>30 July 2019</b>	<b>6 Nov 2019</b>	<b>5 Feb 2020</b>
<b>Councillors</b>	6	4	7	8
<b>Independent</b>	1	1	1	1

In line with good practice the Council's s151 Officer and the Head of Internal Audit have attended all Audit and Accounts Committee meetings. In addition, other senior officers have attended where appropriate, or where they have been invited by the Committee. The Cabinet Member for Finance and Procurement has also attended meetings of the Committee.

### **Committee Training**

As a Committee, we recognise the importance of providing all members with appropriate training to allow them to effectively carry out what can be a demanding and technical role.

In 2019/20, the Committee received specific training on financial reporting. All members were provided with induction training on the role of the member of an Audit Committee prior to the June 2019 meeting. In addition, relevant national guidance is regularly shared with Committee Members by the Head of Internal Audit. These include Audit Committee Updates (CIPFA Better Governance Forum).

The Chair has attended two sessions of the Audit Quality Forum run by the Local Government Association (LGA). He also attended a training session at CIPFA on how to review local government accounts. The Chair felt that the internal training he has received on the accounts in the past compared well with the external training and he has received a level of assurance that the Committee is briefed well on this subject by the Accountancy team.

The Vice-Chair received training from CIPFA on Treasury Management and Investment for Councillors and has also attended one LGA Audit Quality Forum session.

Members of the Committee were invited to a Financial Scrutiny and Audit session as part of the Councillor Induction process held in late June 2020.

### **3. How have we discharged our responsibilities?**

The way we have discharged our responsibilities in 2019/20 is described below:

## **Approving the Statement of Accounts**

- We approved the annual statements of accounts on behalf of the Council and considered the external auditor's ISA 260 report. Where appropriate the Committee challenged officers and the external auditors on the content of the accounts.
- We reviewed the proposed accounting policies for the 2018/19 Accounts at our meeting on 19<sup>th</sup> June 2019 and for the 2019/20 Accounts at our meeting on 5<sup>th</sup> February 2020.

## **Reviewing/Approving the Annual Governance Statement**

- We reviewed the Annual Governance Statement and recommended it to be signed on the Council's behalf by the Leader and the Chief Executive. We sought assurance that the Statement properly reflected all significant governance issues and clarification in relation to the areas identified in the statement.

## **Approving the Internal Audit Plan / Head of Internal Audit Annual Report and Opinion**

- We considered the Internal Audit Annual Report for 2018/19 at our June 2019 meeting; this included the Head of Internal Audit's Annual Opinion. This opinion is an important source of assurance to the Committee in relation to its responsibilities for governance, risk management, internal control. The Head of Internal Audit's opinion for 2018/19 was that there is an "Adequate System of Internal Control Subject to Reservations". His opinion reflected the findings of the A52 Investigation undertaken by Internal Audit during that financial year, as well as the total number of system weaknesses found during audit work which resulted in overall assurance ratings of either "limited" or "none". Excluding the school audits, 19.7% of audits were rated as providing limited assurance or no assurance. The Head of Internal Audit informed the Committee that he was satisfied that remedial action was progressing sufficiently to address these weaknesses. We continued to monitor this during 2019/20.
- We received quarterly update reports from the Head of Internal Audit on the delivery of the 2019/20 annual internal audit plan. This also includes a summary of findings from audit reports, performance measures and progress made by management on the implementation of audit recommendations.
- We had sight of the Audit Charter for the Central Midlands Audit Partnership and its Quality and Assurance Improvement (QAIP).
- We had approved the 2019/20 Internal Audit Plan at the March 2019 meeting and sought assurances throughout the year that the content of the plan was still relevant, and that internal audit had sufficient resources to deliver it. The 2020/21 Internal Audit Plan was scheduled for the March 2020 meeting, but

this had to be cancelled due to the Covid19 pandemic. The Chair and Vice-Chair received an update on the impact of Covid19 on internal audit work in a Skype meeting with the Head of Audit and the s151 Officer. The proposed way forward for internal audit work in 2020/21 was discussed by Committee on 29<sup>th</sup> July 2020.

### **Promoting a counter fraud culture**

- We received regular update reports on counter fraud activities taking place within the Council. This included an update on the work of the Counter Fraud Team.

### **Receiving External Audit reports**

- We considered a report in relation to grant claims certified by external audit.
- We received the Annual Audit Letter (2018/19) from the Council's External Auditor (6<sup>th</sup> November 2019).
- The External Audit Plan 2019/20 was scheduled to be reviewed at the March 2020 meeting. We were able to review this at our meeting on 29<sup>th</sup> July 2020.

### **Reviewing the Risk Management Framework**

- We received quarterly monitoring reports on risk management which gave members the opportunity to provide challenge to officers on how risks were being managed.
- We attend Risk Surgeries, which can be commissioned by the Audit and Accounts Committee to undertake a review of any specific risks on the strategic risk register. These surgeries promote a better understanding of risks and improve our challenge of strategic risk assessment and mitigation.
- Risk Surgeries are councillor led meetings on specific areas of risk that allow an open, honest and transparent challenge / conversation between councillors and colleagues. They are led by the Chair of Audit and Accounts Committee. A number of factors will be considered when making recommendations for Surgeries:
  - There has been limited progress on the implementation of mitigating actions, over at least two successive quarters
  - There is a deteriorating direction of travel, with either increased likelihood / impact of the risk.
  - There are significant or emerging likely impacts from a budget perspective, reputational view, or a failure to meet statutory requirements in the area of risk.
  - Any 'linked risks' contained within supporting directorate and /or departmental risk registers have increased in likelihood and/or there has been limited progress with mitigation at this level.



- The risk has been considered by the Corporate Risk Management Group and is recommended for Surgery.
- There is a forecasted change in the context of the risk (i.e. national policy changes), which requires a review of the likelihood and impact; alongside a challenge on the effectiveness of any current controls.
- During the financial year 2019/20, Audits and Accounts Committee identified two risks from the Strategic Risk Register for consideration via a Risk Surgery...
  - SR10 / P-R1 - CYP Demand Management (High demand, sufficiency challenges and budget implications).
  - SR14/C&P-R1 - Sinfin Waste Plant (Adverse outcome to estimated fair value determination).

### **Our Annual Work Programme**

- We have an annual work programme (see Appendix 2) which allows us to obtain a greater understanding of issues of strategic interest, and areas that could impact on the governance of the Council. During 2019/20, as well as our core work areas, we received reports and sought assurance in the following areas:
  - Waivers
  - Information Security
  - Treasury Management
  - Annual Report from the Monitoring Officer
  - Covert Surveillance

### **Special Topics**

- We considered the A52 system weakness report at our meeting on 19<sup>th</sup> June 2019 and requested a progress update with particular reference to the work of the Programme Management Office (PMO), which is leading the corporate actions arising from the A52 scheme investigation.

### **Meetings with the Head of Internal Audit and the S151 Officer**

- In between the formal Committee meetings, the Chair and the Vice-Chair of the Committee have periodic informal meetings with the Head of Internal Audit to discuss emerging issues.
- The Chair and Vice-Chair also have ad hoc meetings with the Council's s151 Officer (Director of Financial Services).
- Recent meetings have involved both the s151 Officer and the Head of Internal Audit. The June 2020 meeting was used to discuss how Internal Audit's planned work for 2020/21 was being affected by the pandemic. With the Committee meetings scheduled for 25<sup>th</sup> March 2020 and 17<sup>th</sup> June 2020 being postponed, the Chair and Vice-Chair wanted to understand the implications of the pandemic on the Council's governance and how it was impacting on the work of internal audit, what proposals were being considered to enable Internal Audit to undertake work that would support the Head of

Audit's Annual Opinion, and how a plan of work would be provided to the July 2020 Committee meeting.

#### **4. Audit & Accounts Committee Self-Assessment**

At the February 2020 meeting, we carried out a further review of the action plan drawn up following our self-assessment exercise in February/March 2018 to identify which actions we felt were still relevant. It was also proposed to complete a new self-assessment questionnaire and an effectiveness self-assessment tool designed by CIPFA. It was anticipated that the results of this could be reported to the March meeting of the Committee where any actions required to address new/existing areas for improvement would be agreed. Due to Covid-19, this has been delayed until our meeting in September 2020.

### **Audit and Accounts Committee**

#### **Revised Terms of Reference**

#### **Statement of purpose**

The Audit and Accounts Committee is a key component of the Council's corporate governance. It provides a high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Audit and Accounts 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 Council's governance, risk management and control frameworks, and oversees the financial reporting and annual governance processes. It oversees internal and external audit, helping to ensure efficient and effective assurance arrangements are in place.

#### **Meetings**

The Committee will meet at least four times a year. The Chair of the Committee may convene additional meetings as he/she deems necessary. The Head of the Paid Service, Section 151 Officer or the Head of Internal Audit may ask the Committee to convene further meetings to discuss particular issues.

The Audit and Accounts Committee, the Head of Internal Audit and External Audit have the opportunity for informal briefing sessions.

The Audit and Accounts Committee is authorised to discharge the following functions:

#### **Governance, Risk, Control**

1. To review the Council's arrangements for corporate governance against the good governance framework and consider quarterly governance reports and assurances.
2. To review and approve the authority's Annual Governance Statement (AGS).
3. To maintain an overview of the Council's constitution in respect of contract procedure rules, financial regulations and codes of conduct and behaviour.
4. To review any issue referred to it by the Chief Executive or a Strategic Director, or any Council Body.

5. To consider, approve and monitor the effective development and operation of risk management in the Council.
6. To review, approve and monitor the effectiveness of Council policies on whistleblowing, counter fraud and corruption, anti-bribery and anti-money laundering.
7. To monitor progress in addressing risk-related issues reported to the Committee.
8. To consider the Council's compliance with its own and other published standards and controls.
9. To consider reports from external regulators (e.g. Ofsted, Care Quality Commission, Local Government Ombudsman) that impact on the Committee's areas of responsibility.

### ***Internal Audit***

10. To consider and approve the annual internal audit plan, including internal audit's resource requirements.
11. To approve the internal audit charter
12. To approve significant interim changes to the annual audit plan and resource requirements.
13. To consider (periodic) reports from the Head of Internal Audit on internal audit's performance during the year. 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 (QAIP),
  - reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards (PSIAS) and Local Government Application Note (LGAN), considering whether the non-conformance is significant enough to be included in the AGS.
14. To consider the Head of Internal Audit's annual report, including
  - the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement.

- 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.
15. To consider summaries of specific internal audit reports as requested.
  16. To consider reports dealing with the management and performance of the providers of internal audit services.
  17. To consider 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 Council, or there are concerns about progress with the implementation of agreed actions.
  18. In conjunction with the Council's s151 Officer, to commission work from internal audit.
  19. To contribute to the QAIP, and in particular, to the external quality assessment of internal audit that takes place at least once every five years.
  20. 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.
  21. To provide free and unfettered access to the Chair of Committee for the Head of Internal Audit, including the opportunity for informal briefings with the Committee.

### ***External Audit***

22. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by the Public Sector
23. To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance and such specific reports as are agreed with external audit.
24. To comment on the scope and depth of external audit work and to ensure it gives value for money.

25. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies
26. In conjunction with the Council's s151 Officer, to commission work from external audit.
27. To provide free and unfettered access to the Chair of the Committee for the External Auditor, including the opportunity for informal briefings with the Committee.

### ***Financial reporting***

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

### ***Treasury Management***

30. To consider the robustness of the Council's treasury management strategy, policies and procedures before their submission to Cabinet, to ensure that controls are satisfactory.
31. To review the treasury risk profile and adequacy of the treasury management procedures.

### ***Accountability Arrangements***

32. To present an annual report on the work of the Committee to the Council, providing an opinion on the adequacy and effectiveness of the Council's governance, risk and control frameworks.

### **Review period of terms of reference**

It is good practice to review the Committee's terms of reference on an annual basis.

### **Date of Last Review**

November 2018

## Appendix 2

### AUDIT AND ACCOUNTS COMMITTEE PROGRAMME OF WORK TO MARCH 2020

Committee	Primary Activities	Other Activities
Wednesday 19 June 2019 at 10am	Committee Work Programme 2019/20 Internal Audit Annual Report 2018/19 including the Audit Opinion Internal Audit Progress Report Draft Annual Governance Statement 2018/19 Counter Fraud Update Draft Annual Report of the Audit & Accounts Committee 2018/19 Risk Management Update Q4 Accounting Policies	A52 Systems Weakness Information Security Update
Wednesday 31 July at 10am	Final Statement of Accounts 2018/19 Annual Governance Statement 2018/19 EY - ISA 260 - Report to those charged with governance Annual Report 2018/19	Regulation of Investigatory Powers Act (RIPA) – Annual Report Waivers Monitoring Officer update
Wednesday 6 November at 10am	Internal Audit Update EY - Annual Audit Letter 2018/19 Counter Fraud Update Risk Management Update (Q1 & Q2)	Information Governance Update LGO Annual reports and statistics
Wednesday 5 February 2020 at 10am	Audit & Accounts Committee – Self	Whistleblowing Policy

Committee	Primary Activities	Other Activities
	Assessment Internal Audit Update Counter Fraud Update Risk Management Update (Q3) EY - Certification of claims and returns annual report 2018/19	Anti-Fraud and Corruption Strategy Anti- Money Laundering Policy & Procedure Anti- Bribery Policy & Procedure
Wednesday 25 March at 10am	Internal Audit Progress Report Internal Audit Annual Plan 2019/20 External Audit Plan y/e 31 <sup>st</sup> March 2019	Waivers Information Governance Update Local Code of Corporate Governance