

AUDIT AND GOVERNANCE COMMITTEE
ANNUAL REPORT 2021/22

Introduction from the Chair of Audit & Governance Committee

I am pleased to introduce this, the fourth annual report of the Council's Audit and Governance Committee. I first became a member of the Committee for the 2016/17 Municipal Year and have sat on the Committee every year since except for 2017/18. I was Vice-Chair of the Committee from 2019/20, becoming the Chair for 2021/22.

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 Governance 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 governance and risk. Strong and effective control environment arrangements are an essential element of a robust corporate governance framework. The Audit and Governance 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 2021/22, the Strategic Director – Corporate Resources, the Head of Internal Audit, the Democratic Services team and the representatives from our external auditors for their continuing support during the last year.

I would also like to thank the two co-opted members of the Committee for their time and input into the Committee meetings, as well as their attendance at our training sessions.

I have thoroughly enjoyed chairing the Audit and Governance Committee.

Councillor Joanna West
Chair of the Audit and Governance Committee
May 2022

1. Introduction

The original 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 2021/22 and how it has discharged its responsibilities. The 2021/22 Municipal Year ran from 26th May 2021 to 24th May 2022.

2. Information about the Committee

Audit and Governance Committee Membership

In the 2021/22 Municipal year the Committee had nine members, plus two co-opted members:

Councillor Joanna West - Chair (Labour and Co-operative)
Councillor Stephen Willoughby – Vice Chair (Liberal Democrats)
Councillor Paul Bettany (Reform Derby)
Councillor Lucy Care (Liberal Democrats)
Councillor Alan Grimadell (Conservative)
Councillor Fareed Hussain (Labour)
Councillor Harvey Jennings (Conservative)
Councillor Adrian Pegg (Conservative)
Councillor Tracey Pearce (Conservative)

Co-opted Members: Stuart Green, Philip Sunderland

Audit and Governance Committee Meetings and Attendance

The Committee held six meetings in 2021/22:

16th June 2021
28th July 2021
29th September 2021
3rd November 2021
26th January 2022
23rd March 2022

Table 1 below shows the level of attendance at each of the scheduled meetings in 2020/21. Committee Members achieved an overall attendance rate of 74.2% (49 out of a possible 66) in the 6 meetings held in 2021/22. This is lower than the overall attendance rate in 2020/21 of 87.2%. Only one Councillor achieved a 100% attendance rate during 2021/22, as did one of the co-opted members.

Table 1: Attendance at Audit and Governance Committee Meetings

	16/6/21	28/7/21	29/9/21	3/11/21	26/1/22	23/3/22
Councillors	9	6	8	5	7	6
Co-opted	1	1	1	2	2	1

In line with good practice the Council's s151 Officer and the Head of Internal Audit have attended all Audit and Governance Committee meetings. In addition, other senior officers have attended where appropriate, or where they have been invited by 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 2021/22 we held four workshop sessions to cover training and briefings on the Wednesday prior to the Committee meeting.

In 2021/22, the Committee received specific training on:

- The role of Internal Audit
- How Internal Audit grades recommendations and how it arrives at the overall assurance rating for a piece of work
- Procurement
- Cyber security and Data Protection
- Control failures and lessons learnt around cash handling, stock control and purchasing arising from an investigation.

I also attended a Chartered Institute of Public Finance and Accountancy (CIPFA) workshop on the Annual Governance Statement (AGS). I have provided my feedback on the issues raised to both the Committee and the key officers, particularly on the Local Code of Governance and the need for the Audit and Governance Committee to review an Annual Governance Statement Action Plan. I also discussed the expected content of the AGS with the Section 151 Officer.

3. How have we discharged our responsibilities?

The way we have discharged our responsibilities in 2021/22 is described below:

Approving the Statement of Accounts

- In last year's annual report, the former Chair of the Committee commented on the fact that as a Committee we had concerns regarding the non-completion of the external audit of the 2019/20 financial statements by the time of our March 2021 meeting. I can now confirm that the Committee did receive the final version of the Annual Audit Letter for the year ended 31st March 2020 (re the 2019/20 Accounts) from the Council's External Auditors at our first meeting of the 2020/21 Municipal Year on 16th June 2021.

- The Committee still has on-going concerns around the external audit process. The Council's audited Financial Statements for the year ending 31 March 2021 were due to be presented to the Audit and Governance Committee for approval on 29th September 2021. However, we were informed that our external auditors – Ernst and Young (EY) had encountered some delays which had impacted their ability to sign off the accounts. The delay was due to additional national regulatory requirements around pensions and Group Accounts, together with delays in EY receiving information from the auditors of the Derbyshire Pension Fund. We were assured at the time that the actual audit of the Council's Financial Statements was substantially complete and was going through EY's internal review processes. The revised date provided to the Committee for submitting both the Financial Statements and EY's ISA260 for approval by the committee was 3rd November 2021. At the meeting on 3rd November, the Committee resolved to approve the audited Financial Statements for the year ended 31 March 2021, subject to outcome of Derbyshire County Council pension audit and completion of Ernst and Young's (EY) quality review. It was agreed to delegate authority for the final approval of the Financial Statements to the Strategic Director of Corporate Resources and myself as Chair of the Audit and Governance Committee, subject to satisfactory pension audit and any amendments arising from EY's own quality review.
- Since the November meeting, there have been further delays to the external audit process caused by a national issue around infrastructure assets. This has been referred to the Chartered Institute of Public Finance and Accountancy (CIPFA) who (at the time of writing this annual report) are in the process of issuing an urgent consultation on temporary proposals to update of the Code of Practice on Local Authority Accounting in the United Kingdom for infrastructure assets. EY can not sign off the Council's financial accounts until this issue is resolved.
- We reviewed the proposed accounting policies for the 2021/22 Accounts at our meeting on 23rd March 2022.

Reviewing/Approving the Annual Governance Statement

- We reviewed and approved the Annual Governance Statement (AGS) 2020/21 at our meeting on 29th September 2021. We sought assurance that the Statement properly reflected all significant governance issues and clarification in relation to the areas identified in the statement. Given that the AGS has to be published alongside the audited annual accounts and remains a "live document" until that point, we delegated to the Strategic Director of Corporate Resources the ability to make any required changes to it until the point that the External Audit had been completed and the Annual Accounts signed off.
- As Chair of the Committee, I had raised my concern that the Local Code of Governance had not been reviewed and updated for a number of years. A

revised Local Code was brought before the Committee for approval at our meeting on 26th January 2022.

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

- We considered the Internal Audit Annual Report for 2020/21 at our June 2021 meeting, which 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 and internal control.
- The Committee has welcomed the new approach to audit planning introduced by the Head of Internal Audit. Quarterly audit planning provides more flexibility to the audit planning process. We now have a process which is more responsive to changing risks faced by the Council during the year without the need for the Head of Internal Audit to seek Committee approval on amendments to the audit plan. We received and reviewed the plans for quarters 2,3 and 4 for 2021/22 and the plan for quarter 1 2022/23 at our meetings.
- We received quarterly update reports from the Head of Internal Audit on the delivery of the 2021/22 annual internal audit plan. This also included a summary of findings from audit reports, performance measures and progress made by management on the implementation of audit recommendations. As a committee we have sought regular updates on the implementation of significant risk rated recommendations that have been made by Internal Audit. This has helped us to gain a more thorough understanding of the issues involved and the work being done to address identified weaknesses in control of risks. Specifically, we have had responsible officers update the Committee on the progress with implementation of recommendations relating to the CCTV and to the Bus Station. Where we have been concerned at the lack of progress being made on the implementation of a recommendation, we have called in the responsible officer to seek assurances from them that the recommendation will be implemented as soon as is practical. The Committee has raised its concerns on the time it is taking management to implement agreed audit recommendations.
- We had sight of both the Internal Audit Charter for the Central Midlands Audit Partnership and its Quality and Assurance Improvement Programme (QAIP). The Chair of the Audit and Governance Committee attends the CMAP Partnership Board meeting where CMAP's budget is approved.
- The Chair and Vice-Chair received regular updates on internal audit work during the year from the Head of Internal Audit and the s151 Officer.

Promoting a counter fraud culture

- We received update reports on counter fraud activities taking place within the Council. This included an update on the work of the Counter Fraud Team. We also received assurance on the work done to prevent fraud in connection with the Covid Business grants.
- The Committee reviewed the Council's Counter Fraud, Bribery and Corruption Policy and Framework document at our meeting on 26th January 2022.

Receiving External Audit reports

- The delays in completing the audit of the Council's annual accounts have impacted on the receipt of the External Auditor's reports to Committee. As stated earlier the Annual Audit Letter in respect of the 2019/20 accounts was presented to Committee at our June 2021 meeting.
- The External Auditor's Audit Planning Report for the year ended 31 March 2021 was scheduled to be reviewed at our March 2021 meeting, but due to the audit still ongoing, the presentation of the report had to be postponed until the July 2021 meeting.
- Committee did receive the External Auditor's Draft Audit Results Report for the year ended 31 March 2021 at our meeting on 3rd November 2021. But due to the delays raised earlier, the final version cannot yet be presented to the Committee.
- The Strategic Director of Corporate Resources has provided the Committee with updates regarding the delays in the external auditor concluding the audit of the 2020/21 accounts on a regular basis. We have also been able to question the External Auditor on the reasons for the delays and the status of the audit.

Reviewing the Risk Management Framework

- In 2020/21 we re-focused the Committee's work on risk management to concentrate on the operation of the overall risk management framework rather than individual risks. We now receive reports that provide us with assurances that the risk management process is working properly. We are also keen to gain assurance on whether or not risk mitigations are being progressed and to use risk surgeries to look at situations where risks are not being managed properly.
- At our meeting on 28th July 2021, we received the 2020/21 year-end risk assurance report. The purpose of this report was to update the Committee on activity that has taken place over the last 6 months of 2020/21 and to set out proposals for risk reviews in 2021/22. At the January 2022 meeting we received the 2021/22 mid-year risk assurance update. This report provided the Committee with an overview of the on-going implementation of the risk

management framework within the development of Derby's risk culture, alongside a mid-year review of assurance activities relating to the Council's strategic risks.

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. This document is reviewed by the Chair and Vice-Chair in conjunction with the Head of Internal Audit at least every 2 months and amended where appropriate to reflect any new developments. During 2021/22, as well as our core work areas, we received reports and sought assurance in the following areas:
 - Waivers
 - Information Security
 - Council's Programme Management Office (PMO)
 - Risk Based Verification Policy
 - Annual Report and Review of Performance 2020/21

Special Topics

Auditor appointments opt in - Public Sector Audit Appointments

- Under the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015, the Council has the option to use Public Sector Audit Appointments Ltd (PSAA) in respect of future appointment of its external auditor for the audit year from 1st April 2023.
- At our meeting on 3rd November 2021, we recommended to Full Council that the Council becomes an opt-in local authority for PSAA to make all arrangements for the appointment of its external auditor from 1st April 2023, for a compulsory appointment time period of 5 financial years.

Referral from CYP Scrutiny Review Board

- At its meeting on 6th September 2021, the Children and Young People Scrutiny Review Board discussed an issue on Scrutiny Special Needs Provision – in relation to the “publication in online media of an article relating to school placements for children with special educational needs and disabilities”. The Cabinet member for CYP and the Strategic Director attended to give an explanation as to why the local authority had proposed that children were placed at a school that had yet to open or had not yet been approved. The Chair of the Scrutiny Review Board made two recommendations, the second being that “that this matter should be referred to the Audit and Governance Committee for further consideration”.
- It was not clear why this issue had been referred to this Committee. I therefore sought clarification on why the matter had been referred to Audit and Governance Committee and asked the Chair of the Children and Young

People Scrutiny Review Board to provide any further information necessary for our committee to consider the matter.

- The response from the Chair of CYP Scrutiny Review Board was that it fell under the terms of reference of the Audit and Governance Committee in that it demonstrated poor governance and put the authority at risk of financial loss. The Committee resolved at our meeting on 3rd November 2021 that we would recommend that this is included in Internal Audit's quarter 4 SEND audit. The Head of Internal Audit has confirmed to me that this matter was included in the scope of the SEND audit that commenced in January 2022.

Terms of Reference

- The Committee seeks to review its Terms of Reference (ToR) on an annual basis. To achieve this, we have a small "sub-group" of Committee members who review the ToR with the Head of Internal Audit as the advisor. The sub-group met in October 2021 and made a number of amendments to the ToR. The revised ToR was then taken to the January 2022 meeting for the Committee to review and approve the changes made. The revised ToR are attached at Appendix 1.
- The key changes to the ToR which the Committee approved were to add three new areas of responsibility and to seek additional information on an existing responsibility.

New Responsibilities:

- To consider the Council's arrangements for the mitigation of risk including receiving assurance on the adequacy of the Council's Insurance portfolio.
- Review the governance and assurance arrangements for any Council owned companies, significant partnerships or other collaborations
- To consider the exercise of officers' statutory responsibilities and of functions delegated to officers.

Expanded responsibility:

- *To consider reports from external regulators (e.g. Ofsted, Care Quality Commission, Local Government Ombudsman) that impact on the Committee's areas of responsibility and to receive an annual report providing an overview of all external regulator activity at the Council during the year.*
- These amendments to the Committee's ToR will require three additional reports being included in future Committee Work Programmes.

Audit and Governance Committee – Outstanding Resolutions

- Throughout the year we have monitored the progress being made on resolutions that the Committee has made. It was pleasing to see that by the time of the March 2022 Committee meeting, there were only two resolutions that were still outstanding, and both should be closed off by the time of our next meeting. Also, only one action arising from previous Self-Assessment exercises remained and that was an on-going action regarding the non-political nature of the Audit and Governance Committee.

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 monthly informal meetings with the Head of Internal Audit the Council's s151 Officer (Strategic Director – Corporate Resources) to discuss emerging issues, potential areas for Committee training etc.
- Where necessary, ad hoc meetings are also held between the Chair, Vice-Chair, s151 Officer and Head of Internal Audit.

4. Audit & Governance Committee Self-Assessment

- The annual self-assessment questionnaire on the effectiveness of the Committee was completed by Members of the Committee on 26th January 2022.
- A total of six responses were received (55%). The key area raised in the responses was the need for a proper assessment of the skills mix of the Committee.
- Actions arising from previous self-assessments are monitored at each Committee meeting as part of the Outstanding Resolutions report.

Audit and Governance Committee

Terms of Reference

Statement of purpose

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

The Audit and Governance 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 Council's risk management framework and to seek assurances on its effectiveness.
6. To consider the Council's arrangements for the mitigation of risk including receiving assurance on the adequacy of the Council's Insurance portfolio.
7. To review, approve and monitor the Council's Counter Fraud policies and Whistleblowing Policy, and to seek assurance on the assessment of fraud risks and the potential harm to the Council from fraud, bribery and corruption.
8. To monitor progress in addressing risk-related issues reported to the Committee.
9. To consider the council's compliance with its own and other published standards and controls.
10. Review the governance and assurance arrangements for any Council owned companies, significant partnerships or other collaborations.
11. To consider reports from external regulators (e.g. Ofsted, Care Quality Commission, Local Government Ombudsman) that impact on the Committee's areas of responsibility and to receive an annual report providing an overview of all external regulator activity at the Council during the year.
12. To consider the exercise of officers' statutory responsibilities and of functions delegated to officers.

Internal Audit

13. To consider and approve the annual internal audit plan, including internal audit's resource requirements.
14. To approve the internal audit charter
15. To approve significant interim changes to the annual audit plan and resource requirements.
16. 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.

17. 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.

18. To consider summaries of specific internal audit reports as requested.

19. To consider reports dealing with the management and performance of the providers of internal audit services.

20. 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.

21. In conjunction with the Council's s151 Officer, to commission work from internal audit.

22. 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.

23. 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.

24. 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

25. 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
26. 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.
27. To comment on the scope and depth of external audit work and to ensure it gives value for money.
28. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies
29. In conjunction with the Council's s151 Officer, to commission work from external audit.
30. 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

31. 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.
32. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts

Treasury Management

33. 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.
34. To review the treasury risk profile and adequacy of the treasury management procedures.

Accountability Arrangements

35. 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

October 2021

Appendix 2

AUDIT AND GOVERNANCE COMMITTEE ORIGINAL PROGRAMME OF WORK TO MARCH 2022

Committee	Primary Activities	Other Activities
Wednesday 16 th June 2021	<ul style="list-style-type: none"> • Audit and Accounts Committee – Outstanding Resolutions • Committee Work Programme 2021/22 • Internal Audit Annual Report 2020/21 including the Head of Audit Opinion • Internal Audit Plan Qtr 2 2021/22 • EY - Annual Audit Letter 2019/20 • External Audit Plan y/e 31st March 2021 • Draft Annual Report of the Audit & Accounts Committee 2020/21 	
Wednesday 28 th July 2021	<ul style="list-style-type: none"> • Audit and Accounts Committee – Outstanding Resolutions • Internal Audit Progress Report • Counter Fraud Annual Report 2020/21 • Risk Assurance Report 	<ul style="list-style-type: none"> • Information Security Annual report • Annual Report 2020/21 • PMO Update (Provisional)
Wednesday 29 th September 2021	<ul style="list-style-type: none"> • Audit and Accounts Committee – Outstanding Resolutions • Final Statement of Accounts 2020/21 • EY - ISA 260 - Report to those charged with governance 	

Committee	Primary Activities	Other Activities
	<ul style="list-style-type: none"> • Annual Governance Statement 2020/21 • Audit & Accounts Committee self-assessment 	
Wednesday 3 rd November 2021	<ul style="list-style-type: none"> • Audit and Accounts Committee – Outstanding Resolutions • EY - Annual Audit Letter 2020/21 • Internal Audit Progress Report • Counter Fraud Update • Risk Assurance Update • Audit & Governance Committee Terms of Reference - Review 	<ul style="list-style-type: none"> • Waivers • Information Governance Update • Treasury Management mid-year progress
Wednesday 26 th January 2022	<ul style="list-style-type: none"> • Audit and Accounts Committee – Outstanding Resolutions • Internal Audit Progress Report • Accounting Policies 2021/22 	
Wednesday 24 th March 2022	<ul style="list-style-type: none"> • Audit and Accounts Committee – Outstanding Resolutions • Internal Audit Progress Report • Internal Audit Annual Plan Qtr 1- 2022/23 • External Audit Plan y/e 31st March 2021 • Risk Assurance Update 	<ul style="list-style-type: none"> • Waivers • Information Governance Update