

**AUDIT AND ACCOUNTS COMMITTEE**

**ANNUAL REPORT 2020/21**

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

I am pleased to introduce this, the third annual report of the Council's Audit and Accounts Committee. I have been the Chair of the Committee since May 2018.

Unfortunately, the start of the 2020/21 municipal year was impacted by the Covid-19 pandemic, which struck in March 2020. This resulted in the cancellation of our first meeting on 17<sup>th</sup> June 2020, after we had already cancelled the last meeting of the 2019/20 municipal year, scheduled for 25<sup>th</sup> March 2020. This meant 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) had to be delayed until our meeting on 29<sup>th</sup> July 2020.

The pandemic also meant that all of our meetings in 2020/21 had to be held virtually. I feel that the Committee adapted very well to the requirements.

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 governance and risk. 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 and co-opted/independent persons who served as a member of the Committee in 2020/21, 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.

Finally, I would like to say that it has been a great experience to have chaired the Audit and Accounts Committee for the last three years, but I've had to step down due to increased work commitments. However, it is great to inject both some fresh blood and continuity with Councillor Joanna West taking over as the Chair. Joanna has served so well as Vice Chair in the last three years. I wish her every success as she takes over this year.

**Councillor Stephen Willoughby**  
**Chair of the Audit and Accounts Committee**  
**May 2021**

## **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 2020/21 and how it has discharged its responsibilities. The 2020/21 Municipal Year ran from 23<sup>rd</sup> June 2020 to 31<sup>st</sup> March 2021.

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

### **Audit Committee Membership**

In the 2020/21 Municipal year the Committee had nine members, plus two independent members:

Councillor Stephen Willoughby – Chair (Liberal Democrats)  
Councillor Joanna West - Deputy Chair (Labour)  
Councillor Paul Bettany (Reform Derby)  
Councillor Lucy Care (Liberal Democrats)  
Councillor Hardy Dhindsa (Labour)  
Councillor Shiraz Khan (Labour)  
Councillor Ross McCristal (Conservative)  
Councillor Miles Pattison (Conservative)  
Councillor Adrian Pegg (Conservative)

Independent Members: Stuart Green, Philip Sunderland

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

The meeting scheduled for 17th June 2020 was cancelled due to the Covid pandemic, therefore in the 2020/21 Municipal Year we held five meetings as detailed below:

29<sup>th</sup> July 2020  
30<sup>th</sup> September 2020  
4<sup>th</sup> November 2020  
27<sup>th</sup> January 2021  
24<sup>th</sup> March 2021

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 87.2% (48 out of a possible 55) in the 5 meetings held in 2020/21. Five Councillors achieved a 100% attendance rate during 2020/21, as did one of the Independent members.

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

	29/7/20	30/9/20	4/11/20	27/1/21	24/3/21
<b>Councillors</b>	7	9	7	8	8
<b>Independent</b>	1	2	2	2	2

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.

### **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 2020/21, the Committee received specific training from the Head of Internal Audit on "Internal Control" and on "Fraud Risk" and from the External Auditor on the "External Audit Planning Process".

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

The way we have discharged our responsibilities in 2020/21 is described below:

#### **Approving the Statement of Accounts**

- We considered the annual statements of accounts on behalf of the Council at our meeting on 30<sup>th</sup> September 2020 and also considered the external auditor's ISA 260 report. At that meeting we noted the progress being made to finalise the audit of the accounts and agreed to await the outcome of the Derbyshire County Council pension audit. The Committee proposed to delay the approval of the audited Financial Statements for the year ended 31 March 2020 until our meeting of 4 November, subject to all information being received. At the meeting on 4<sup>th</sup> November, we approved the audited Financial Statements for the year ended 31 March 2020, but subject to the outcome of the Derbyshire County Council pension audit and the completion of the External Auditor's quality review and any narrative amendments arising from it. This outstanding audit work with regards to pensions meant that the external auditor was not in a position to give a final opinion on the statement of accounts.
- Given our concerns regarding the non-completion of the audit of the financial statements by the time of the March 2021 meeting, Committee were provided with a verbal update on the latest position on the accounts. We were informed that the work regarding pensions had been concluded but due to the delay

with this, it had impacted on the work the auditors needed to complete regarding Going Concern including the updated cashflow forecast.

- We reviewed the proposed accounting policies for the 2020/21 Accounts at our meeting on 24<sup>th</sup> March 2021.

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

- We reviewed the Annual Governance Statement at the meeting on 30<sup>th</sup> September 2020 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 2019/20 at our July 2020 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 and internal control.
- The Committee was also able to discuss with the Head of Internal Audit the new ongoing approach he was introducing from 2021/22 to bring more flexibility to the audit planning process. This will see a quarterly internal audit plan being brought to Committee. The Committee was supportive of the approach as it was felt that it would help address changes in the 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 quarterly update reports from the Head of Internal Audit on the delivery of the 2020/21 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 Coroners Service and to Bereavement Services. 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.
- We had sight of the Audit Charter for the Central Midlands Audit Partnership and its Quality and Assurance Improvement (QAIP). The Chair of the Audit

and Accounts Committee attends the Partnership Board meeting where CMAP's budget is approved.

- Due to the pandemic leading to the cancellation of the March 2020 and the June 2020 meetings we didn't get to review the proposed Internal Audit Plan for 2020/21 until the July 2020 meeting. At that meeting, we discussed the proposed way forward for internal audit work in 2020/21. The Chair and Vice-Chair had received regular updates on the impact of Covid19 on internal audit work from the Head of Internal Audit and the s151 Officer.

### **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 received a draft audit results report (for the year ended 31<sup>st</sup> March 2020) from the Council's External Auditor at our meeting on 30<sup>th</sup> September 2020 and a further update report at our meeting on 4<sup>th</sup> November 2020.
- The External Audit Plan 2020/21 was scheduled to be reviewed at the March 2021 meeting, but due to the audit still ongoing the presentation of the plan has been postponed until the June 2021 meeting.
- As a Committee, we were concerned about the length of time it took for the Ernst & Young, the Council's external auditor to sign off the 2019/20 accounts. We raised this directly the Committee meetings in November 2020 and January 2021. This still was not resolved by the time of our meeting on 24<sup>th</sup> March 2021. As a Committee we sought an explanation from the External Auditor at the March meeting. A late item was tabled by the Strategic Director of Corporate Resources to provide the Committee with an update regarding the delays in the external auditor concluding the audit. We were also able to get a full explanation from the auditors on the reasons for the delays and the current status of the audit.

### **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 approved the updated Risk Management Strategy and the updated Risk Management Handbook at our meeting on 4<sup>th</sup> November 2020.
- Following conversations with officers, 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 are now seeking 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.

## **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 2020/21, as well as our core work areas, we received reports and sought assurance in the following areas:
  - Waivers
  - Information Security
  - Treasury Management
  - Redmond Review

## **Special Topics**

- The Chair and Vice Chair meet with the Director of Leisure, Culture and Tourism to seek more details on the decision-making process in relation to an “avoidable waiver” for Christmas decorations in the Market Place.
- The Chair had a meeting in April 2021 to discuss the Assembly Rooms situation with representatives from Faithful and Gould. This was in response to concerns raised by the Committee on the Assembly Rooms and was listed in our outstanding resolutions.

## **Other**

- The Committee reviewed its terms of reference at the November 2020 meeting. We approved two changes to clarify our responsibility around risk management and our responsibility around assurance on fraud risks. One further change was proposed to the name of the Committee. Members were concerned that the word “Accounts” in the title was misleading and we wanted to reflect the more wide-ranging responsibility of the Committee around governance. It was agreed that we would recommend to the next AGM that the title of the Committee be amended to Audit and Governance Committee.
- Committee raised a concern that we felt that the Head of Internal Audit’s independence was impaired by the Council’s reliance on him to produce all the counter fraud policies. Our view was that he was compromised when performing any internal audit work relating to those policies.

## **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 to discuss emerging issues.
- The Chair and Vice-Chair also have ad hoc meetings with the Council's s151 Officer (Strategic Director – Corporate Resources).

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

- At its meeting on 5 February 2020, the Committee agreed that all members of the Committee would complete the self-assessment questionnaire by 28 February and that a report would be brought to the March 2020 meeting on the outcomes, together with any actions that were required to address areas identified which required improvement. Due to Covid-19, this was delayed until our meeting in September 2020.
- A total of six responses were received (55%). The self-assessment questionnaire responses highlighted a number of areas for further development. The Chair and Vice-Chair, together with the Head of Internal Audit, reviewed the previous action plan and added in all the new areas for development, with those previous actions that were still outstanding, to create a new action plan.
- The action plan is monitored at each Committee meeting as part of the Outstanding Resolutions report.

### **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 ORIGINAL PROGRAMME OF WORK TO MARCH 2021

Committee	Primary Activities	Other Activities
Wednesday 29 <sup>th</sup> July 2020 at 10am	<ul style="list-style-type: none"> <li>• Audit and Accounts Committee – Outstanding Resolutions</li> <li>• Committee Work Programme 2020/21</li> <li>• External Audit Plan y/e 31<sup>st</sup> March 2020</li> <li>• Internal Audit Progress Report</li> <li>• Internal Audit Annual Report 2019/20 including the Audit Opinion</li> <li>• Internal Audit Plan 2020/21</li> <li>• Counter Fraud Annual Report 2019/20</li> <li>• Risk Management Update Q4 2019/20</li> <li>• Outcomes of the risk surgeries</li> <li>• Annual Report 2019/20</li> <li>• CIPFA Guidance on Internal Audit Engagement Opinions</li> <li>• Annual Report &amp; Performance Review 2019/20</li> </ul>	<ul style="list-style-type: none"> <li>• Information Security Annual report</li> <li>• Waivers</li> </ul>
Wednesday 30 <sup>th</sup> September 2020	<ul style="list-style-type: none"> <li>• Audit and Accounts Committee – Outstanding Resolutions</li> <li>• Final Statement of Accounts 2019/20</li> <li>• EY - ISA 260 - Report to those charged with governance</li> </ul>	<ul style="list-style-type: none"> <li>• Monitoring Officer update</li> </ul>

Committee	Primary Activities	Other Activities
	<ul style="list-style-type: none"> <li>• Annual Governance Statement 2019/20</li> <li>• Risk Management Update (Q1)</li> <li>• Draft Annual Report of the Audit &amp; Accounts Committee 2019/20</li> <li>• Audit &amp; Accounts Committee self-assessment</li> </ul>	
Wednesday 4 <sup>th</sup> November 2020	<ul style="list-style-type: none"> <li>• Audit and Accounts Committee – Outstanding Resolutions</li> <li>• EY - Annual Audit Letter 2019/20</li> <li>• Internal Audit Progress Report</li> <li>• Counter Fraud Update</li> <li>• Risk Management Update (Q2)</li> <li>• Audit &amp; Accounts Committee Terms of Reference</li> </ul>	<ul style="list-style-type: none"> <li>• Waivers</li> <li>• Information Governance Update</li> <li>• LGO Annual reports and statistics</li> <li>• Treasury Management mid-year progress</li> </ul>
Wednesday 27 <sup>th</sup> January 2021 at 10am	<ul style="list-style-type: none"> <li>• Audit and Accounts Committee – Outstanding Resolutions</li> <li>• Internal Audit Progress Report</li> <li>• Risk Management Update (Q3)</li> <li>• EY - Certification of claims and returns annual report 2019/20</li> <li>• Accounting Policies</li> <li>• Local Code of Corporate Governance – Review</li> </ul>	<ul style="list-style-type: none"> <li>• Whistleblowing Policy</li> <li>• Anti-Fraud and Corruption Strategy</li> <li>• Anti- Money Laundering Policy &amp; Procedure</li> <li>• Anti- Bribery Policy &amp; Procedure</li> <li>• Treasury Management &amp; Investment Strategy 2021/22</li> </ul>
Wednesday 24 <sup>th</sup> March 2021 at 10am	<ul style="list-style-type: none"> <li>• Audit and Accounts Committee – Outstanding Resolutions</li> <li>• Internal Audit Progress Report</li> <li>• Internal Audit Annual Plan 2019/20</li> </ul>	<ul style="list-style-type: none"> <li>• Waivers</li> <li>• Information Governance Update</li> </ul>

Committee	Primary Activities	Other Activities
	<ul style="list-style-type: none"> <li>• External Audit Plan y/e 31st March 2021</li> <li>• Counter Fraud Update</li> </ul>	

Other Activities not scheduled as yet:

Appointments to Independent Remuneration Panel