

Audit Committee Annual Report 2020/21

September 2021



North Tyneside Council

Introduction from Co-opted Chair of Audit Committee

Since I was appointed into the independent role of co-opted Chair of North Tyneside Council's Audit Committee, I have enjoyed learning about the Council, and comparing the challenges it faces with those which I encountered during my career in the financial sector. The scale and breadth of what the Council does continues to impress, and the 2020/21 year has seen the unprecedented impact of the Coronavirus pandemic on all public sector organisations. The provision of independence assurance to the Council on its changing and evolving risk profile has, arguably, never been more important.

At their core, audit committees can play a vital role in supporting and maintaining a culture and environment to support the integrity of governance arrangements and the provision of information for decision making for the organisation. At times of uncertainty, transparency can be of heightened importance and, I hope this annual report from Audit Committee on its work and how it has met its agreed Terms of Reference during 2020/21 is a genuine source of assurance to Cabinet.

In addition to summarising highlights from the substantive business considered by Audit Committee in 2020/21, this report details the outcomes from reviewing our Audit Committee arrangements and its effectiveness. The report details progress we have made as a Committee, with regard to reflecting good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) and further developments identified to improve Audit Committee's effectiveness further.

An annual report to Cabinet on the work of the Committee is one action identified and I am pleased to introduce this annual report to Cabinet on behalf of the Audit Committee. I hope that this report is of interest and helpful to Cabinet and any views from Cabinet can be used to help guide the work of Audit Committee to ensure we can continue to develop a vital assurance link for the organisation and in turn, residents, businesses, and all those who live or work within the borough.

Kevin Robinson
Co-opted Chair of Audit Committee

Role of Audit Committee

Audit committees in local government have grown and developed extensively in recent years. The main professional body which issues guidance regarding local government audit and financial governance matters is the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA has published a Position Statement on Audit Committees in Local Authorities. This sets out seven main principles which CIPFA recommends should be evident in a good local authority audit committee.

The seven principles are:

- 1 Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
- 2 The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
- 3 Authorities should adopt a model that establishes the committee as independent and effective.** The committee should:
 - Act as the principal non-executive, advisory function supporting those charged with governance.
 - Be independent of both the executive and the scrutiny functions and include an independent member where not already required to do so by legislation.
 - Have clear rights of access to other committees / functions, for example, scrutiny and service committees, corporate risk management boards and other strategic groups.
 - Be directly accountable to the authority's governing body.
- 4 The core functions of an audit committee are to:**
 - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
 - In relation to the authority's internal audit functions:
 - oversee its independence, objectivity, performance and professionalism
 - support the effectiveness of the internal audit process
 - promote the effective use of internal audit within the assurance framework.

- Consider the effectiveness of the authority's risk management arrangements and the control environment, reviewing the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships and collaborations with other organisations.
- Monitor the effectiveness of the control environment, including arrangements for ensuring value for money, supporting standards and ethics and for managing the authority's exposure to the risks of fraud and corruption.
- Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
- Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.
- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

5 An audit committee can also support its authority by undertaking a wider role in other areas including:

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards and ethics committees to support ethical values.
- Reviewing and monitoring treasury management arrangements in accordance with 'Treasury Management in the Public Services: Code of Practice and Cross-Sectoral Guidance Notes' (CIPFA, 2017).
- Providing oversight of other public reports, such as the annual report.

6 Good audit committees are characterised by:

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role. The political balance of a formal committee of a council will reflect the political balance of the council, however, it is important to achieve the right mix of apolitical expertise.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest. There are many personal qualities needed to be an effective chair, but key to these are:
 - Promoting apolitical open discussion
 - Managing meetings to cover all business and encouraging a candid approach from all participants
 - An interest in and knowledge of financial and risk management, audit, accounting concepts and standards, and the regulatory regime.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

7 To discharge its responsibilities effectively the committee should:

- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the Chief Finance Officer(s), the Chief Executive, the head of internal audit and the appointed external auditor. Other attendees may include the Monitoring Officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required.
- Have the right to call any other officers or agencies of the authority as required.
- Report regularly on its work to those charged with governance, and at least annually report an assessment of their performance. An annual public report should demonstrate how the committee has discharged its responsibilities.

Review of North Tyneside’s Audit Committee

It is good practice to undertake an annual review of the effectiveness of our Audit Committee arrangements. Using CIPFA’s Position Statement as a foundation for a review of the Audit Committee, our existing arrangements were compared with CIPFA’s stated best practice and considered by Audit Committee during 2019/20. The Chair of Audit Committee subsequently engaged with serving elected members of Audit Committee on an individual basis, in addition to senior officers, to examine the arrangements in place for our Audit Committee. Several ideas to develop Audit Committee arrangements were discussed and agreed during that review.

A self-assessment of our Audit Committee arrangements undertaken during March 2021 was considered by Audit Committee and demonstrated that our Audit Committee arrangements reflect the good practice areas recommended by CIPFA. There are some identified areas for development which have been delayed during 2020/21, due primarily to circumstances relating to the pandemic, but actions planned to address these areas during 2021/22 are already in progress.

Summary of Key Findings from the Review, and Progress Made during to date

Review of our Audit Committee arrangements concluded that:

- The Audit Committee arrangements largely reflect the good practice suggested by CIPFA and Audit Committee can be a real cornerstone for governance within North Tyneside Council. It is uniquely placed to provide an assurance overview, drawing from the whole range of activities that the Authority is engaged in, and all outcomes which the Council hopes to deliver for the people of North Tyneside. The Audit Committee is a source of constructive challenge on where the organisation is maximising opportunities, and where there is scope to manage risks more effectively.

- The Terms of Reference for the committee required some slight updating, to reflect changes in CIPFA's updated Position Statement and guidance for local authorities' Audit Committees. The Terms of Reference for Audit Committee were therefore amended and agreed by Council in September 2020, to fully reflect CIPFA's latest guidance. The updated Terms of Reference were then used as a basis for the preparation of the Audit Committee Work Programme for 2021/22, agreed by Audit Committee in March 2021, in order to help ensure that Audit Committee meets its Terms of Reference
- In recent years, Audit Committee has felt somewhat isolated in its operation within the wider organisation. Previously there was limited interaction with the Senior Leadership Team, as the management board of the organisation; and without a formal link to Cabinet, or to other committees. As such, the Audit Committee was felt to have inputs but no measurable outputs or outcomes, which could limit its effectiveness.

Steps have been taken to improve the interaction between the Audit Committee Chair and the Senior Leadership Team, and a regular programme of briefings is now established for the Chair, with the Chief Executive, Chief Finance Officer and Chief Internal Auditor. The Chief Executive attended the March 2021 meeting of Audit Committee to outline the work which he had commissioned regarding a full fundamental review of our corporate risks and explain in detail to Audit Committee each risk within the corporate risk register. It was agreed that as Audit Committee receive reports on matters of governance, risk management and control throughout the course of the year, Audit Committee can determine the benefit of appropriate Heads of Service attending a meeting of the Committee and this is also being considered by the Senior Leadership Team in conjunction with the Chief Finance Officer. Together with the introduction of Audit Committee's annual report to Cabinet, it is hoped that this will further help to improve the Audit Committee's visibility, effectiveness and usefulness within the Authority.

Areas Recommended for Further Development

To build on the findings from the review and progress made to date, the following areas have been highlighted for further action during 2021/22.

- Annual Reporting to Cabinet: This annual report has been prepared for presentation to Cabinet, to demonstrate how Audit Committee currently meets its Terms of Reference and provide a summary of the work of the committee during the year. The annual report is also intended to support a dialogue between Audit Committee and Cabinet. Greater interaction at the commencement of each municipal year between Audit Committee and Cabinet, regarding the Audit Committee's work programme, would help ensure that this is optimising the assurance provided to the organisation and reflecting the needs of Cabinet. This will be discussed further with the Cabinet Member for Finance and Resources.

- Member Development Programme: A development programme for Audit Committee members, but also for non-members of Audit Committee to raise awareness on what the Committee's role is, and its remit, would be beneficial.

At the first meeting of Audit Committee in 2021/22, in May 2021, a successful initial training session was held with our new membership of Audit Committee, with a great deal of interaction from all members. This will be supplemented with additional briefings / training to be developed as required throughout the remainder of the year, in conjunction with Audit Committee members and Audit Committee's annual agreed Work Programme.

As part of briefings / training developed and the next regular review of Audit Committee arrangements, consideration will also again be given to CIPFA's recommended 'core knowledge and skills framework for Audit Committee members'.

- Wider Attendance at Audit Committee Meetings: As detailed above, attendance by appropriate Senior Leadership Team members at Audit Committee would be welcomed and attendance in connection with relevant items of Audit Committee work is being considered.

It would also improve the scope for debate and challenge on key risk matters if the Cabinet member risk owner could also be present for such risks, on a rolling basis, for consideration of key risk matters by Audit Committee.

Audit Committee Substantive Business – Key Highlights

In addition to considering how we might improve Audit Committee's delivery of its role and remit, the Committee's business during 2020/21 also proceeded largely as planned, subject to the impact of the Coronavirus pandemic, and a number of interesting and important reports were received and discussed. A summary of reports received by the Committee is set out at Appendix A. Key highlights from the Committee's work during the year included:

Internal Audit

Annual Opinion

The Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control for 2019/20 was 'satisfactory overall, which is a very positive outcome for the organisation. The opinion reflected that no 'no assurance' audit opinions, and no 'critical' audit recommendations, had been issued by Internal Audit during the year.

The opinion highlighted that a number of the organisation's fundamental financial systems, and high value / high volume transactional systems, were amongst those awarded a 'significant assurance' audit opinion. This included the audits of Council Tax, Business Rates, and Rent Assessment & Collection. Attention was also drawn to 'significant assurance' opinions provided by Internal Audit in respect of the Implementation of the General Data Protection Regulation (GDPR) across the Authority.

In terms of the areas where a 'limited assurance' opinion was determined, Internal Audit drew attention to their audit of Debt and Income Management and Cash and Non-Credit Income. This reflected the implementation of the new debtors system and the subsequent significant changes to working practices, which needed to be incorporated into a revised Sundry Income Collection and Debt Policy. With respect to cash arrangements, good practice was identified with controls in place within central corporate systems, but some weaknesses in cash-handling procedures within a sample of satellite establishments visited as part of the review were highlighted. A raft of measures aimed at strengthening controls had been agreed and was in the process of being implemented within the Authority.

A number of matters contained within the Chief Internal Auditor's annual report were discussed in detail by Audit Committee, with a number of intelligent and probing questions asked by Audit Committee members. Internal Audit has agreed to keep these areas under review and further updates will be brought back to Committee.

Audit Committee receives regular summaries of the outcomes of Internal Audit's reports. These summaries highlight:

- the audit objectives of each audit assignment
- the number of high, medium and low priority recommendations made
- any areas of good practice in the area under audit
- key findings / issues identified from the audit, and recommendations
- a management comment on action taken in response to the audit recommendations made.

Audit Committee considered the issues contained within these reports and sought clarification and further assurance in a number of areas. Particular interest is paid by Audit Committee to information regarding the successful implementation of agreed recommendations following completed internal audit assignments. The format of this work and subsequent reporting to Audit Committee has been discussed with the Chief Internal Auditor with a view to developing this area of work further and providing greater assurance to Audit Committee.

During 2020/21 the Audit Committee received regular updates from Internal Audit and Risk Management, with information regarding the impact of the Coronavirus pandemic. Reports were considered by Audit Committee on the Authority's corporate risks and the impact on the organisation's risk profile from the pandemic, with resulting changes to Internal Audit's Strategic Audit Plan for 2020/21, to reflect the evolving nature of risks and subsequent assurance coverage required during the year.

External Audit

In the Annual Financial Report for 2019/20, the External Auditor provided an unqualified opinion on the accounts and arrangements in place to secure value for money within the Council. This is a very positive outcome and reflects well on the financial processes and financial governance procedures in place within the Authority. Due to the Coronavirus pandemic, Ministry of Housing, Communities and Local Government (MHCLG) made changes to the Regulations governing the statutory accounts. These national changes were made in the Accounts and Audit

(Coronavirus) Amendments Regulations 2020 (SI 2020/404) and extended the statutory deadline for the 2019/20 accounts for all local authorities. The changes resulted in the deadline for the Chief Finance Officer to certify the draft accounts changing to 31 August 2020 (previously 31 May each year) and for the consideration and approval of the accounts taking place no later than 30 November 2020 (previously 31 July each year).

The External Auditor's audit of grant claims was summarised in the Annual Grants Report presented to the July 2020 meeting of Audit Committee. The report provided a full analysis of the claims and returns which had been certified relating to 2018/19.

Audit Committee considered a report providing an update on a number of key regulatory and independent reviews of local (external) audit market arrangements. The report also set out the potential outcomes of the regulatory reviews and the potential implications for the Committee, the Authority and auditors. It was explained that the implementation of some of the recommendations required parliamentary time to be set aside before any changes could be made. Any implications for the Authority will continue to be reviewed by Audit Committee.

An Audit Quality Report was considered by Audit Committee in November 2020, which provided details of the findings of the Financial Reporting Council's monitoring of the quality of Major Local Audits undertaken nationally during 2019/20. Monitoring is undertaken by the Financial Reporting Council's Audit Quality Review ('AQR') team and is intended to promote the overall quality of local auditing in the United Kingdom. As part of the process the Authority's 2019/20 audit was chosen as part of the inspection. Audit Committee considered the report and findings, noting that the review of the external auditor's audits, including the audit of the Authority, "were assessed as requiring no more than limited improvement and there were no key findings."

Finance

The Annual Statement of Accounts was received by the Committee, in accordance with the updated statutory accounts deadlines resulting from the Accounts and Audit (Coronavirus) Amendments Regulations 2020 (SI 2020/404). Audit Committee members' attention was drawn to a number of the notes to the Authority's financial statements, including a reduction in the gains linked to assets and the pension fund valuation. The Audit Committee sought clarification on how the external auditor verified the references to cash and cash equivalents and obtained assurance that third party confirmation was utilised in addition to reconciliations being undertaken and individual transactions examined.

The Annual Governance Statement, which explained how the Council delivered good governance and reviewed the effectiveness of its arrangements, was co-ordinated by the Head of Resources and considered in some detail by the Committee. Having reviewed the evidence underpinning the Annual Governance Statement, the Senior Leadership Team had taken the view that governance arrangements in operation were effective. Audit Committee considered the contents of the Annual Governance Statement in conjunction with the Authority's corporate risks which are regularly reviewed by the Committee, with reference to the impact on the organisation's risk profile from the Coronavirus pandemic.

Future Work of Audit Committee: 2021/22 and Beyond

Building on the work already undertaken and outlined in this report, some of the tasks required of Audit Committee in the coming year are already clear.

A further assessment of the Audit Committee's performance will be undertaken, in accordance with CIPFA's recommendation that such a review takes place annually. This review will include all serving Audit Committee members and the outcomes will be reported to Audit Committee and to Cabinet in the next annual report.

An appropriate skills development programme for Audit Committee members will continue to be developed in conjunction with the Audit Committee's Work Programme and CIPFA's recommended 'core knowledge and skills framework for Audit Committee members'. Consideration will also be given on how the role and remit of Audit Committee can continue to be promulgated more widely, in order that there is greater clarity for officers and those elected members who do not serve (or have not yet served) on the Committee as to its purpose and rationale.

Under the Public Sector Internal Audit Standards, the Internal Audit service will again need to be externally assessed during 2022/23. The form of this external assessment and its outcomes will be reported to Audit Committee and will form part of the Committee's work programme during next year.

Conclusion

Audit Committee is pleased to present this annual report to Cabinet, and hopes that this will give a flavour of some of the issues which have been considered over the last year as Audit Committee has met its updated Terms of Reference. The Committee looks forward to developing its work programmes and in assuring and supporting Cabinet as the current year progresses.

Summary of Reports considered by Audit Committee in 2020/21

Meeting Date	Governance Matters Considered
27 May 2020	Meeting cancelled due to pandemic
29 July 2020 (virtual meeting)	2018/19 Annual Certification of Claims and Returns Report 2019/20 Audit Planning Report Audit Market Reform and Revised Auditing Standards and Guidance 2019-20 Draft Statement of Accounts Annual Governance Statement 2019/20 2019/20 Opinion on the Framework of Governance, Risk Management and Control Key Outcomes from Internal Audit Reports Issued between November 2019 and July 2020 Strategic Audit Plan 2019/20 Final Monitoring Statement Internal Audit Charter Update on the Strategic Audit Plan 2020/21
18 November 2020 (virtual meeting)	Audit Quality Inspection Report (Financial Reporting Council) 2019/20 Annual Financial Report 2019/20 Annual Governance Statement Key Outcomes from Internal Audit Reports Issued between July and November 2020 Corporate Risk Management Summary Report Strategic Audit Plan 2020/21 – Interim Monitoring Statement
24 March 2021 (virtual meeting)	Annual Audit Letter Accounting Policies to be used in the compilation of the 2020/21 Annual Statement of Accounts Annual Statement of Accounts 2020/21 Process Proposed Audit Committee Work Programme 2021/22 Review of Audit Committee Effectiveness Strategic Audit Plan 2021/22 Corporate Risk Management Summary Report