

Audit Committee Annual Report 2021/22

September 2022



Introduction from Co-opted Acting Chair of Audit Committee

Since I was appointed into the independent role on 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 local government. The scale and breadth of what the Council does continues to impress, and the 2021/22 year has seen the continued 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. Throughout this period Internal Audit has adapted and demonstrated the need to flex service provision to meet the new challenges.

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. I found over my many years on this committee that the members have shown great interest and understanding of the role, and have asked many challenging questions. At times of uncertainty, transparency can be of heightened importance so I hope this annual report from Audit Committee on its work and how it has met its agreed Terms of Reference during 2021/22 is a useful source of assurance to Cabinet.

In addition to summarising highlights from the substantive business considered by Audit Committee in 2021/22, 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.

Malcolm Wilkinson
Co-opted Acting Chair of Audit Committee

Role of Audit Committee

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

CIPFA have recently issued a revised Position Statement on Audit Committees in Local Government. The requirements of the revised Position Statement will be assessed during 2022/23, in conjunction with anticipated guidance, to ensure that our Audit Committee continues to adhere to best practice.

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, a self-assessment of our existing arrangements was considered by Audit Committee at its meeting in March 2022. The self-assessment built on previous reviews undertaken, including the Chair of Audit Committee engaging 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, with progress reported to Audit Committee at its meeting in March 2022.

The self-assessment undertaken in March 2022 demonstrated that the Audit Committee arrangements once again reflected the good practice recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). It was noted that the areas for development previously identified had been implemented during 2021/22. Audit Committee queried the small number of items in the self-assessment which had been marked as only partially met and asked what would be needed enable them to be recorded as fully compliant. It was explained that in relation to requirement for the Committee to report directly to Full Council that the Audit Committee Annual Report had been presented to Cabinet and that arrangements were in place for this to continue. It was acknowledged that whilst the role and purpose of the Audit Committee was clearly understood by the Members of the Committee this was not always the case across the Authority. The presentation of the Annual Report has gone some way towards rectifying the situation, in conjunction with training. The Chair had regular meetings with the Chief Executive

and other Senior Officers, and it was reported that further work would be undertaken to build engagement with the Senior Leadership Team.

It will be important that actions agreed to develop Audit Committee's interaction with the wider Authority are implemented to further help improve the Audit Committee's visibility, effectiveness, and usefulness within the Authority.

Audit Committee Substantive Business – Key Highlights

In addition to considering how we might improve Audit Committee's delivery of its role and remit during 2021/22, the Committee's business proceeded largely as planned, and a number of interesting and important reports were received and discussed. A summary of reports received by the Committee is set out at Annex 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 2021/22 was reported during the year and provided a 'satisfactory overall' opinion. This is a positive outcome for the organisation, particularly given the impact of the Covid pandemic, and is testament to the management of 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 detailed the work undertaken by Internal Audit during the year, highlighting the main findings from their work. The report explained that a number of the organisation's fundamental financial systems, and high value / high volume transactional systems, were among those awarded a 'significant assurance' or 'full assurance' audit opinion. Attention was also drawn to 'significant assurance' opinions provided by Internal Audit in respect of the Treasury Management, Risk Management, Payment Card Industry Data Security Standards and the Accuserv System audits.

In terms of the areas where a 'limited assurance' opinion was determined, Internal Audit drew attention to their audit of Section 106 and Community Infrastructure Levy. This reflected the need to strengthen controls and procedures in some areas, including the setting and monitoring of trigger points and in the calculation of s106 amounts. Recommendations aimed at strengthening controls had been agreed and were 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 several areas. Particular interest is paid by Audit Committee to 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 2021/22, the Audit Committee continued to receive regular updates from Internal Audit and Risk Management, with information regarding the ongoing impact of the Coronavirus pandemic, with resulting changes to Internal Audit's Strategic Audit Plan for 2021/22 to reflect the evolving nature of risks and subsequent assurance coverage required during the year.

During 2021/22 Audit Committee also discussed the ending of the shared service agreement with Northumberland County Council. The shared service ended in April 2022.

External Audit

In the Auditors Annual Report for 2020/21, 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, the 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 2020/21 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 2021 (previously 31 May each year) and for the consideration and approval of the accounts taking place no later than 30 November 2021 (previously 31 July each year).

It was also noted that the auditor had not issued a certificate that the audit had been completed in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2020 Code of Audit Practice, as the procedures required by the National Audit Office on the Whole of Government Accounts submission had not yet been performed and guidance for 2020/21 had been delayed.

Audit Committee also considered an Audit Planning Report for 2021/22, detailing audit risk areas and methodology for undertaking of the audit of accounts for the

2021/22 financial year. During consideration of the report by Audit Committee, reference was made to the work undertaken in relation to the identification of fraud in respect of grant funding. It was explained that the Authority has processes and systems in place to deal with potentially fraudulent activity. Reference was made to the work undertaken with the Internal Audit section in relation to the checks in place for the issue of the grant funding and the significant pre and post assurance checks carried out.

Finance

The Annual Statement of Accounts for 2020/21 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 the impact of changes made as a result of the Covid-19 pandemic, particularly the suspension of face-to-face Authority meetings and the sudden move to home working by over 1000 officers of the Authority.

In addition, as part of the national sector-led improvement programme, the Authority had taken part in a Local Government Association (LGA) Corporate Peer Challenge. A follow up visit, on the 29th and 30th June 2021, had been undertaken to review progress on the six corporate peer challenge recommendations and to carry out a Covid-19 recovery and renewal challenge. It was explained that the feedback from the LGA team had been extremely positive, and four recommendations had been made to support the Authority's ongoing work on Covid-19 recovery and renewal.

The Annual Governance Statement, which explained how the Council delivered good governance and reviewed the effectiveness of its arrangements, was co-ordinated by the Director of Resources and considered in 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.

Future Work of Audit Committee: 2022/23 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.

In accordance with CIPFA's recommendation the next annual assessment of the Audit Committee's performance will be undertaken. 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.

Consideration remains required on how the role and remit of Audit Committee can continue to be promoted, 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. This work should be in conjunction with work underway to consider an appropriate skills development programme for Audit Committee

members, reflecting the Audit Committee's Work Programme and CIPFA's recommended 'core knowledge and skills framework for Audit Committee members.

A programme of briefings has been established and this will involve corporate risk owners from the Senior Leadership Team, attending Audit Committee to discuss the risks and controls with members.

The Audit Committee will continue to liaise with the Internal Audit and Risk Management team regarding the service, following the end of the shared Internal Audit and Risk Management service with Northumberland County Council.

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 this year.

Conclusion

Audit Committee is pleased to present this annual report to Cabinet for 2021/22 and hopes that this will give an outline of some of the issues which have been considered over the last year as Audit Committee has met its Terms of Reference. The Committee looks forward to developing its work programmes in accordance with revised best practice guidance and in assuring and supporting Cabinet as the current year progresses.

Annex A

Summary of Reports considered by Audit Committee in 2021/22

Meeting Date	Governance Matters Considered
26 May 2021	2020/21 Provisional Audit Planning Report Update on Annual Statement of Accounts 2020/21 2020/21 Opinion on the Framework of Governance, Risk Management and Control Key Outcomes from Internal Audit Reports Issued between November 2020 and May 2021 Strategic Audit Plan 2020/21 Final Monitoring Statement
28 July 2021	2020/21 Draft Statement of Accounts Corporate Risk Management Summary Report
22 September 2021	2020/21 Annual Financial Report 2020/21 Audit Results Report 2020/21 Draft Statement of Accounts 2020/21 Draft Annual Governance Statement Conclusion of Shared Service Arrangement (Internal Audit & Risk Management)
6 October 2021	2020/21 Annual Financial Report 2020/21 Audit Results Report 2020/21 Draft Statement of Accounts 2020/21 Draft Annual Governance Statement
17 November 2021	Key Outcomes from Internal Audit Reports Issued between May and November 2021 Strategic Audit Plan 2021/22 – Interim Monitoring Statement
23 March 2022	2021/22 Provisional Audit Planning Report 2020/21 Auditor’s Annual Report Accounting Policies to be used in the compilation of the 2021/22 Annual Statement of Accounts Closure of the 2021/22 Statement of Accounts Review of Audit Committee Effectiveness Proposed Audit Committee Work Programme 2022/23 Strategic Audit Plan 2022/23 Corporate Risk Management Summary Report