

TITLE OF REPORT: Annual Report of the Audit and Standards Committee 2021/22

REPORT OF: Darren Collins, Strategic Director, Resources and Digital

Purpose of the Report

1. To ask Cabinet to consider the Audit and Standards Committee Annual Report for 2021/22 and agree that this report is submitted to Council.

Background

- 2 In line with best practice the Audit and Standards Committee is required to report to Cabinet and Council on the Committee's activity each year. The report for 2021/22 was agreed by the Audit and Standards Committee on 26 July 2022.

Proposal

- 3 Cabinet is asked to consider the Audit and Standards Committee's Annual Report at Appendix 2 and agree to submit it to Council. The Report provides an overview on the work of the Audit and Standards Committee during 2021/22 and describes how it has had a positive impact on governance, financial reporting and audit issues across the Council, as well as providing challenge and independent assurance on the risk management framework and associated internal control environment.

Recommendation

- 4 It is recommended that Cabinet endorse the Annual Report of the Audit and Standards Committee for 2021/22 and agree that it is submitted to Council.

For the following reason:

To strengthen the Council's arrangements for oversight by councillors of governance, audit, risk management, the internal control framework, value for money and efficiency.

Appendix 1

Policy Context

1. The proposal supports the Council's policy, service planning and performance management framework, which aims to ensure that all resources are directed towards delivery of the Council's strategic approach, Making Gateshead a Place Where Everyone Thrives.

Background

2. In line with best practice, the Audit and Standards Committee is required to submit an annual report to Cabinet and Council, and also any further reports and recommendations as it sees fit. The areas of activity of the Audit and Standards Committee during 2021/22 are set out in the Annual Report.

Contents of the Report

3. Appendix 2 outlines the activity which the Audit and Standards Committee has covered over the last year.
4. The Audit and Standards Committee has received reports in the following areas:
 - Internal Audit planning, performance and activity;
 - External Audit planning, performance and activity;
 - Corporate Risk Management and Resilience activity;
 - Counter Fraud Updates;
 - Standards Updates;
 - Annual Governance Statement Assurance Framework;
 - The Annual Governance Statement and supporting evidence;
 - Achievement of Going Concern Status;
 - Audit Completion Report and Council's Statement of Accounts;
 - Treasury Management Policy & Strategy and mid-year update;
 - Local Code of Governance Update;
 - Review of Internal Audit Charter;
 - External Auditor Appointments Beyond 1 April 2023; and
 - Grant of Dispensations
5. There were no reports in year which were specific to Standards issues. No complaints have been received under the Member's Code of Conduct, that required investigation, nor was there any guidance or best practice issued during the year that warranted a report. The Monitoring Officer is responsible for maintaining and promoting high standards within the Council and he and his staff have contributed to the Audit work on good governance particularly those matters relating to the Corporate Risk Management activity and the Annual Governance Statement.

6. Based on the evidence presented during the year and at the meeting of the Audit and Standards Committee on 28 June 2022 it was concluded that the Council's system of internal control and governance framework is effective. This was demonstrated through the approval of the Annual Governance Statement for 2021/22, which accompanies the Statement of Accounts.

Consultation

7. The Audit and Standards Committee considered and agreed the contents of this report at their meeting of 26 July 2022.

Alternative Options

8. There are no alternative options.

Implications of Recommended Option

9. **Resources:**
 - a) **Financial Implications** - The Strategic Director, Resources and Digital confirms that there are no financial implications arising from this report.
 - b) **Human Resources Implications** – There are no human resources implications arising from this report.
 - c) **Property Implications** – There are no property implications arising from this report.
10. **Risk Management Implications** - The Audit and Standards Committee receives quarterly reports on risk management.
11. **Equality and Diversity Implications** – there are no equality and diversity implications arising from this report.
12. **Crime and Disorder Implications** – There are no crime and disorder implications arising from this report.
13. **Health Implications** – There are no health implications arising from this report.
14. **Climate Emergency and Sustainability Implications** – There are no climate emergency and sustainability implications arising from this report.
15. **Human Rights Implications** – There are no human rights implications arising from this report.
16. **Ward Implications** – There are no ward implications arising from this report.

17. **Background Information** – Report of the Audit and Standards Committee meeting on 26 July 2022.

Contents of the Report to Cabinet and Council – 2021/22

1. The areas of activity considered by the Audit and Standards Committee during 2021/22 are set out below.

Internal Audit planning, performance and activity

2. As at 31 March 2022 87% of the Internal Audit Plan was completed, which resulted in 73 audit reports. Of these reports 64 (88%) found systems to be operating well or satisfactory, with 9 (12%) reporting systems having significant weaknesses, of which one was in relation to schools.
3. All recommendations are followed-up as part of the Internal Audit process and the Audit and Standards Committee will monitor the outcomes.
4. Based on this evidence arising from Internal Audit activity during 2021/22, the Council's internal control systems and governance and risk management arrangements are considered to be effective.
5. The Internal Audit Service has also co-ordinated the Council's National Fraud Initiative (NFI) work and has supported Council managers with irregularity, e-mail, internet and other disciplinary investigations on an ongoing basis during 2021/22, with quarterly updates to Audit and Standards Committee.
6. The Audit and Standards Committee also approved the Audit Strategy and Plan and will continue to monitor Internal Audit's progress on a quarterly basis against the 2022/23 Audit Plan.

External Audit planning, performance and activity

7. The following external audit report has been reviewed over the year:
 - Audit Strategy Memorandum Year Ending 31 March 2022.
8. The Committee was also asked to consider how it exercises oversight of certain key management processes in relation to some specific areas of governance with a potential to impact upon the financial statements during 2021/22. This was a requirement to satisfy the external auditors that such oversight was in place in order to comply with International Auditing Standards. The Committee agreed that an effective level of oversight was in place.

Corporate Risk Management and Resilience activity

9. The Committee received quarterly reports on the assurance derived from risk management. These reports make Councillors aware of the arrangements that exist within the Council for managing risk, the impact that these have had and the plans for further development of risk management arrangements.

Counter Fraud Update

10. The Committee received a report every six months updating on activity undertaken in relation to the work of the Corporate Fraud Team summarising performance against the Counter Fraud and Corruption Strategy and the effectiveness of the Strategy. Conclusions also form part of the Annual Governance Statement.

Standards Update

11. The Committee received quarterly reports which highlighted national and local standards issues, raised Member awareness of national reviews and consultations which may be relevant to their role and identified whether further Member training was required.

Annual Governance Statement Assurance Framework

12. The Committee received a report providing an overview of the work to be undertaken to produce the Annual Governance Statement (AGS) for 2021/22 which demonstrates the level of assurance that can be given by the Council's control systems and governance arrangements, the Assurance Framework.

The Annual Governance Statement and supporting evidence

13. The Annual Governance Statement for 2021/22 concluded that the Council's system of internal control, risk management and governance framework is effective.
14. The Audit and Standards Committee approved the Annual Governance Statement for 2021/22 at its meeting on 28 June 2022, following a review of the evidence detailed below in paragraphs 15-32, and evidence seen by the Committee during the year.

Cabinet Members

15. Assurance was sought from Members of the Cabinet on the effectiveness they felt could be placed on the Council's corporate governance arrangements. They concluded that effective governance arrangements are in place.

Senior Managers

16. Service Directors completed self-assessment assurance statements detailing the level of assurance obtained from their key control processes. The conclusion of this exercise found that senior managers agreed that effective control systems were in place overall. These areas will be examined as part of the 2022/23 Audit Plan and the outcomes reported to the Audit and Standards Committee in October 2022.

Internal Audit

17. The Internal Audit Service has undertaken audit work throughout the year based on the risk-based audit plan. In addition, the Council has a framework of assurance available to satisfy it that risks have been properly identified and are being managed by controls that are adequately designed and effective in operation. This includes assurance from a variety of sources other than the Internal Audit Service. These other audit systems have been assessed, as part of the Audit Plan.
18. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2021/22 was that internal control systems and risk management and governance arrangements are effective.

Risk Management

19. Risk management is embedded in the Council through a Corporate Risk Management Policy which includes the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. The Council maintains and reviews a register of its business risks, linking them to strategic business objectives and assigning ownership for each risk.
20. The Strategic Director, Resources and Digital reported that risk management arrangements during the year were effective.

Counter Fraud

21. The Council has a zero-tolerance approach to fraud and corruption. A counter fraud communications and awareness plan is in place to enable and evidence communication requirements to promote and raise awareness of the Council's counter fraud arrangements, including the publicising of any proven fraud cases and media handling. The plan details the key stakeholders and the methods and frequency of any communications during the year. The plan also details how the outcomes of any successful prosecutions would be handled.
22. The Strategic Director, Resources and Digital reported that counter fraud arrangements during the year were effective.

Performance Management and Data Quality

23. The Council has a corporate suite of strategic performance indicator to enable effective monitoring of the Council's strategic approach through which quality of service is measured via strategic outcome indicators. The monitoring of performance takes place at key performance points as identified in the framework including quarterly performance reported to Group Management Teams and Corporate Senior Officer meetings.
24. In addition, performance is also monitored, measured, challenged and scrutinised on a six-monthly basis at Cabinet and respective Overview and Scrutiny Committees.
25. The Corporate Data Management Group is overseeing the development of an approach to improving how the performance information is presented so that this is accessible to all stakeholders. Performance reports to Overview and Scrutiny are published on the Council's website
26. Based on evidence arising from the performance management framework process for 2021/22, effective controls are in place.

Views of the External Auditor and other External Inspectors

27. Mazars, the Council's external auditor, issued an Annual Report covering the financial year 2020/21, which was presented to the Committee in March 2022. This comprised of two elements: the audit of the Council's financial statements and an assessment of the Council's arrangements to achieve value for money in its use of resources. An unqualified opinion was given on the financial statements, and no significant weaknesses were identified in the Value for Money arrangements.
28. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

The Legal and Regulatory Framework

29. Assurance has been obtained from the Strategic Director, Corporate Services and Governance as the Monitoring Officer who has a legal duty to ensure the lawfulness and fairness of decision-making within the Council. The Council has a Constitution in place and compliance with established policies, procedures, laws and regulations is ensured by the requirement to give the Strategic Director, Corporate Services and Governance the opportunity to comment on every report submitted to a decision-making body.

Financial Controls

30. Assurance has been obtained from the Strategic Director, Resources and Digital, who is designated as the responsible officer for the administration of the Council's financial affairs under Section 151 of the Local Government Act 1972, that financial controls are effective.

Systems in place include Financial Regulations, the opportunity to comment on the financial implications of committee reports, monitoring meetings and evidence from internal and external audit.

Partnerships

31. Service Directors review partnerships within their service plans on an annual basis. As partners are key to the delivery of the Council's objectives assurance of their control and governance systems is required. Service Directors have also been required to provide assurance on governance arrangements through their self-assessment statements and all Services are required to identify, through their business plans, where delivery of activity could impact on partnership working.
32. Based on evidence arising from partnerships for 2021/22 effective controls are in place.

Other Reports

Achievement of Going Concern Status

33. The Committee received a report considering the Council's status as a going concern.
34. Authorities are required by Section 32 of the Local Government Finance Act 1992 to set a balanced budget. However, financial pressures within the local government sector mean that there continues to be a risk that the Chief Finance Officer (Section 151 officer) may need to consider whether action is required under Section 114 of the 1988 Act, where the Section 151 officer must report, following consultation with the council's monitoring officer, to all authority's members if they believe expenditure is likely to exceed incoming resources in the current or in any future year.
35. The report outlined the assessment of the Council's status as a going concern as this is now considered best practice in the current challenging local government financial climate.
36. Based on the assessment undertaken, the Council's Chief Finance Officer (Section 151 officer) view was that the Council is fully aware of the challenges it faces and is prepared to deliver its services in the future taking account of the future known risks and therefore the Council is a going concern and the 2020/21 Statement of Accounts should be prepared on that basis.

Audit Completion Report and Council's Statement of Accounts

37. The outcome and findings of the audit of the Council's Statement of Accounts 2020/21 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 27 September 2021. At the time of issuing the

report, and subject to satisfactory conclusion of the remaining audit work, Mazars anticipated issuing an unqualified opinion on the financial statements, and no significant weaknesses in arrangements to report in relation to the arrangements that the Council has in place to secure economy, efficiency and effectiveness in its use of resources. The Committee noted the contents of the report and any update reports and that the Accounts Committee be advised that they had no issues to raise on the outcomes and findings of the Council's Statement of Accounts 2020/21 by Mazars.

Treasury Management Policy & Strategy and Six-Monthly Update

38. In line with CIPFA's Code of Practice on Treasury Management the Annual Treasury Policy and Strategy are reviewed by the Audit and Standards Committee prior to being reported to Cabinet and Council. A six-monthly position is also reported through the Audit and Standards Committee to highlight progress on investment performance and borrowing.

Local Code of Governance Update

39. The Council has a local code of governance which was originally presented to the Audit Committee in April 2007. In line with good practice the document should be reviewed regularly, and the Audit and Standards Committee were asked to consider and approve an updated version on 31 January 2022, based on the CIPFA Delivering Good Governance in Local Government: Framework. The Code defines how the Council complies with the principles of good governance laid down by the Independent Commission on Good Governance in Public Services and forms an integral part of the Councils' Annual Governance Statement, which is a legal requirement to demonstrate the level of assurance that can be given by the Council's control systems and governance arrangements.

Review of Internal Audit Charter

40. The Internal Audit Charter is reviewed annually, and the outcome is reported to the Audit and Standards Committee to seek comments and approval in line with Best Practice. The Chief Internal Auditor carried out the annual review and confirmed that it continues to reflect best practice and no amendments were required.

External Auditor Appointments Beyond 1 April 2023

41. A report was presented to the Committee of the optional arrangements for the appointment of external auditors for the financial year beginning on 1 April 2023, and sought agreement to accept the PSAA invitation to opt into the national sector-led option for the appointment of external auditors for five years commencing 1 April 2023, and submit any comments to Cabinet.

Grant of Dispensations

42. A report was presented to the Committee asking for dispensations to be granted to all Councillors who:
 - May have a prejudicial interest in any matter arising from consideration of reports dealing with outside bodies of which they are a member through appointment by the Council;
 - May have a prejudicial interest in any matter arising from consideration at Cabinet or Council, of reports dealing with:
 - The budget, including council tax precepts;
 - Fees and charges;
 - Capital and revenue monitoring; and
 - The medium term financial strategy.
43. In accordance with the Localism Act 2011 and the Council's Code for Conduct for Members, Councillors who have a registrable or non-registrable interest in a matter arising at a meeting which is 'prejudicial' must declare the interest, not participate in a debate or vote, and leave the room while the matter is discussed.
44. The Act allows councils to grant dispensations for specified period, not exceeding four years, in certain circumstances. On 31 May 2012 the Council delegated power to grant dispensations under the following grounds to the Audit and Standards Committee:
 - The granting of a dispensation is in the interests of persons living in the Authority; and
 - It is otherwise appropriate to grant a dispensation.
45. The Committee has previously granted dispensations to all Councillors as set out above in paragraph 40 for a period of four years until 17 June 2022, and agreed the recommendation to extend the dispensations for a four year period from 17 June 2022 to allow Councillors to participate in making decisions in the best interests of the people of Gateshead.