

**Title of Report: Annual Report to Cabinet and Council: 2020/21**

**Report of: Darren Collins, Strategic Director, Resources and Digital**

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### **Purpose of the Report**

1. The Committee's terms of reference require it to submit an annual report to the Cabinet and Council, and further reports and recommendations as it sees fit. The Committee is asked to consider the issues discussed during 2020/21 for inclusion in a report to Cabinet and Council.

### **Background**

2. The Annual Report to Cabinet and Council 2020/21 allows the Audit and Standards Committee to demonstrate the positive impact of its work through providing effective challenge across the Council. This includes providing assurance on the Council's arrangements for:
  - Maintaining effective internal control;
  - Risk management; and
  - Reporting on financial and other performance.

### **Contents of the Report**

3. Appendix 1 includes the details of activity which the Committee has covered over the last year for consideration for inclusion in the report to Cabinet and Council.
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
  - The Annual Governance Statement and supporting evidence;
  - Achievement of Going Concern Status;

- Audit Completion Report and Council Statement of Accounts;
- Treasury Management Policy & Strategy and mid-year update.;
- Local Code of Governance;
- Review of Internal Audit Charter; and
- Code of Conduct for Councillors

5 Based on the evidence presented during the year and at the meeting of the Committee on 21 June 2021 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 2020/21, which accompanies the Statement of Accounts.

### **Recommendation**

6 The Committee is asked to agree the draft report for submission to Cabinet and Council at Appendix 1.

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### **Contents of the Report to Cabinet and Council – 2020/21**

1. The areas of activity considered by the Audit and Standards Committee during 2020/21 are set out below.

#### **Internal Audit planning, performance and activity**

2. As at 31 March 2021 98% of the Internal Audit Plan was completed, which resulted in 58 audit reports. Of these reports 70 (86%) found systems to be operating well or satisfactory, with 8 (14%) 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 2020/21, 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 2020/21, 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 2021/22 Audit Plan.

#### **External Audit planning, performance and activity**

7. The following external audit reports have been reviewed over the year:
  - Audit Strategy Memorandum Year Ending 31 March 2021.
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 2020/21. 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.

### **The Annual Governance Statement and supporting evidence**

12. The Annual Governance Statement for 2020/21 concluded that the Council's system of internal control, risk management and governance framework is effective.
13. The Audit and Standards Committee approved the Annual Governance Statement for 2020/21 at its meeting on 21 June 2021, following a review of the evidence detailed below in paragraphs 14-31, and evidence seen by the Committee during the year.

### **Cabinet Members**

14. 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**

15. 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 2021/22 Audit Plan and the outcomes reported to the Audit and Standards Committee in October 2021.

### **Internal Audit**

16. 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.
17. Based on this audit activity the overall opinion of the Chief Internal Auditor for the year 2020/21 was that internal control systems and risk management and governance arrangements are effective.

### **Risk Management**

18. 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.
19. The Strategic Director, Resources and Digital reported that risk management arrangements during the year were effective.

### **Counter Fraud**

20. 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.
21. The Strategic Director, Resources and Digital reported that counter fraud arrangements during the year were effective.

### **Performance Management and Data Quality**

22. The Council has a Corporate Performance Management Framework which helps it deliver the priorities within the Council Plan. 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.

23. In addition performance is also monitored, measured, challenged and scrutinised on a six monthly basis at Cabinet and respective Overview and Scrutiny Committees.
24. 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
25. Based on evidence arising from the performance management framework process for 2020/21 effective controls are in place.

### **Views of the External Auditor and other External Inspectors**

26. Mazars, the Council's external auditor, issued an Annual Audit Letter covering the financial year 2019/20, which was presented to the Committee in March 2021. 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 in both of these areas for 2019/20.
27. Other external inspectorates' reports have been issued from time to time on management and governance arrangements to the Council.

### **The Legal and Regulatory Framework**

28. 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**

29. 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**

30. 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.

31. Based on evidence arising from partnerships for 2020/21 effective controls are in place.

## **Other Reports**

### **Achievement of Going Concern Status**

32. The Committee received a report considering the Council's status as a going concern.
33. 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.
34. 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.
35. 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 2019/20 Statement of Accounts should be prepared on that basis.

### **Audit Completion Report and Council's Statement of Accounts**

36. The outcome and findings of the audit of the Council's Statement of Accounts 2019/20 by the Council's external auditor, Mazars, along with the audited Statement of Accounts, were reported to the Audit and Standards Committee 19 October 2020. Mazars issued an unqualified opinion on the Statement of Accounts and concluded that the Council has proper arrangements in place to secure economy, efficiency and effectiveness in its use of resources. The Committee noted the contents of the report and resolved 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 2019/20 by Mazars

## **Treasury Management Policy & Strategy and Six Monthly Update**

37. 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**

38. 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 25 January 2021, 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**

39. 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.

## **Code of Conduct for Councillors**

40. A report was presented to the Committee setting out an updated Code of Conduct for the Council and updated members following a member led working group on amendments to the draft previously considered by the committee to better reflect the aspiration that members adhere to the highest standards of conduct. The report made proposals in respect of the full Council adopting the updated code.
41. The Committee considered the model code on a number of occasions over the last year, both through its development by the Local Government Association (LGA) as a consultee and more recently consideration of adopting the model code in Gateshead.