

### **Council Report**

Audit Committee Meeting – 18<sup>th</sup> August 2020.

### **Title**

Audit Committee Annual Report 2019/20.

### **Is this a Key Decision and has it been included on the Forward Plan?**

No.

### **Strategic Director Approving Submission of the Report**

Judith Badger, Strategic Director, Finance and Customer Services.

### **Report Author(s)**

David Webster, Head of Internal Audit

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### **Ward(s) Affected**

All wards.

### **Report Summary**

The purpose of the Annual Report 2019/20 is to bring together in one document a summary of the work undertaken by the Audit Committee. The production of the report complies with current best practice for audit committees. It allows the Audit Committee to demonstrate it has fulfilled its terms of reference and share its achievements with the Council and is thought useful as a reminder to the organisation of the role of the committee in providing assurance about its governance, risk management and financial and business controls.

The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance to local authorities to help ensure that Audit Committees operate effectively. The guidance recommends that Audit Committees should report annually on how they have discharged their responsibilities. A copy of the draft annual report of this Audit Committee is attached. A copy of the Audit Committee's Terms of Reference is included for information.

### **Recommendations**

The Audit Committee is asked to:

- 1) Note the production of the Audit Committee Annual Report 2019/20.
- 2) Consider and approve the draft report prior to its submission to Council.

### **List of Appendices Included**

Audit Committee Annual Report for 2019/20.

Audit Committee Terms of Reference.

**Background Papers**

Relevant reports presented to the Audit Committee and minutes of the meetings of the Audit Committee.

**Consideration by any other Council Committee, Scrutiny or Advisory Panel**

No.

**Council Approval Required**

Yes.

**Exempt from the Press and Public**

No.

## **Audit Committee Annual Report 2019/20**

### **1. Background**

- 1.1 The Audit Committee is a key component of corporate governance and provides an important source of assurance about the organisation's arrangements for managing risk, maintaining an effective control environment, and reporting on financial and other performance. The Committee is also responsible for approving the Statement of Accounts and the Annual Governance Statement.
- 1.2 The Committee's specific powers and duties are set out in section 9 of the Constitution under the Terms of Reference of the Audit Committee. A copy of the Terms of Reference is attached for information.
- 1.3 The Chartered Institute of Public Finance and Accountancy (CIPFA) issued guidance to local authorities to help ensure that Audit Committees are operating effectively. The guidance recommends that Audit Committees should report annually on how they have discharged their responsibilities.

### **2. Work Undertaken during 2019/20**

- 2.1 The Audit Committee met on five occasions in the year to 31 March 2019, in accordance with its programme of work. A sixth meeting was planned for 24<sup>th</sup> March 2020, but this had to be postponed until 26<sup>th</sup> May due to Covid-19. As the agenda was substantially unchanged the May meeting has been included in this report. The frequency of meetings ensures the Audit Committee can fulfil its responsibilities in an efficient and effective way.
- 2.2 During this period the Committee assessed the adequacy and effectiveness of the Council's risk management arrangements, control environment and associated counter fraud arrangements through regular reports from officers, the internal auditors and the external auditors. The Committee sought assurance that action has been taken, or is otherwise planned, by management to address any risk related issues that have been identified during the period. The Committee also sought to ensure that effective relationships continue to be maintained between the internal and external auditors, and between the auditors and management.
- 2.3 The specific work undertaken by the Committee is set out in the report.

### **3. Options considered and recommended proposal**

- 3.1 This report is presented to enable the Audit Committee to fulfil its responsibility for reporting on how they have discharged their duties.

### **4. Consultation on proposal**

- 4.1 None.

### **5. Timetable and Accountability for Implementing this Decision**

- 5.1 The Audit Committee is asked to receive this report at its August 2020 meeting.

## **6. Financial and Procurement Advice and Implications**

6.1 There are no direct financial or procurement implications arising from this report.

## **7. Legal Advice and Implications**

7.1 None.

## **8. Human Resources Advice and Implications**

8.1 There are no direct Human Resources implications arising from this report.

## **9. Implications for Children and Young People and Vulnerable Adults**

9.1 There are no direct implications for Children and Young People and Vulnerable Adults arising from this report.

## **10. Equalities and Human Rights Advice and Implications**

10.1 There are no direct Equalities and Human Rights Implications arising from this report.

## **11. Implications for Partners**

11.1 Partners can be reassured that the Audit Committee is fulfilling its role within RMBC.

## **12. Risks and Mitigation**

12.1 None.

## **13. Accountable Officer(s)**

David Webster, Head of Internal Audit.

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**ROTHERHAM METROPOLITAN  
BOROUGH COUNCIL**

**AUDIT COMMITTEE ANNUAL REPORT  
2019/20**

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## **FOREWORD**

I am pleased to present this year's Audit Committee Annual Report.

The purpose of the report is to highlight to the Council the work the committee carries out & the contribution we make to the achievement of good governance.

Sections of the report make reference to the specific responsibilities of the Audit Committee, some notable achievements & our own personal development. The committee's full terms of reference are included for information.

I would like to thank members of the committee for their contribution over the past year, the team of RMBC officers who are accountable to us & our external auditors Grant Thornton for their ongoing support.

Cllr K Wyatt, AC Chair August 2020.

## **INTRODUCTION**

While there is no statutory obligation to have such an arrangement, Audit Committees are widely recognised as a core component of effective governance and therefore reflect good practice. RMBC's Audit Committee is properly constituted and as such is given sufficient authority and resources by the Council. In effect, the Committee has the right to obtain all the information it considers necessary and to consult directly with senior managers. In line with best practice the Audit Committee can report its observations and concerns directly to the Council.

A local authority has a duty to ensure that it is fulfilling its responsibilities for adequate and effective internal control, risk management and governance, as well as the economy, efficiency and effectiveness of its activities. The Audit Committee has a key role in overseeing and assessing the internal control, risk management and corporate governance arrangements and advising the Council on the adequacy and effectiveness of those arrangements.

This role is reflected in the Committee's Terms of Reference which are given below for information.

The Audit Committee had six Members during 2019/20:

Councillor Ken Wyatt – Chair  
Councillor Bob Walsh – Vice Chair  
Councillor Allen Cowles  
Councillor John Vjestica  
Councillor Katherine Wilson  
Bernard Coleman – independent person, until the February meeting.

Recruitment is underway to appoint an independent person to the committee.

## HIGHLIGHTS OF THE YEAR

There have been many benefits from the work of the committee. The main outcomes and improvements include:

- An unqualified External Audit opinion on the Council's Statement of Accounts, confirming their accuracy and completeness
- The timely sign-off of the accounts
- An Annual Governance Statement that reflected the developments within the Council
- A positive opinion from the Head of Internal Audit in his Annual Report
- The continuing development of Internal Audit and the planned early external assessment of standards
- A Risk Management process that is embedded within the Council

## SUMMARY OF WORK UNDERTAKEN IN 2019/20.

The Audit Committee completed the following during 2019/20

### External Audit – Grant Thornton

- Received and considered the detailed results of the external auditor's work in relation to the audit of the 2018/19 financial statements of the Council. The Committee was pleased to note that the auditors had given an unqualified audit opinion with just one audit adjustment necessary, which did not affect the financial performance or financial position of the Council. There was an unqualified value for money conclusion stating that the Council has made proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.
- Received and considered the external auditor's annual audit letter in respect of the 2018/19 audit year. The Committee was pleased to note that the external auditors had given an unqualified value for money audit opinion and an unqualified opinion on the financial statements. They also stated that the consolidation pack prepared to support the production of Whole of Government Accounts by HM Treasury was consistent with the audited financial statements and that the Annual Governance Statement was consistent with their understanding and compliant with the CIPFA/SOLACE framework on good governance in local authorities.
- Received and considered the external auditor's plan for the audit of the 2019/20 financial statements and the review of the Council's arrangements for securing value for money.
- Received and considered a report on the planned audit fee for 2019/20, to cover work on: the audit of the financial statements; reaching a conclusion on the economy, efficiency and effectiveness of the Council's use of resources; and the work on the Whole of Government Account Return.

## **Internal Audit**

- Continued to oversee the internal audit arrangements for the Council. This included approving minor updates to the Internal Audit Charter.
- Received and approved the Internal Audit Plan for 2019/20. The plan ensures that internal audit resources are prioritised towards those systems and areas which are considered to be the most risky or which contribute most to the achievement of the Council's corporate objectives.
- Monitored the delivery of the Internal Audit Plan through regular update reports presented by the Head of Internal Audit. Reviewed variations to the audit plans which were considered necessary to reflect new or changed Council priorities.
- Received and considered the results of internal audit work performed in respect of each Directorate.
- Monitored the progress made by management during the period to address identified control weaknesses.
- Monitored the performance of the Internal Audit team through regular update reports.
- Received and considered the Annual Report of the Head of Internal Audit for 2018/19 which provided an overall opinion on the Council's control environment. The report included a summary of the resources and audit coverage, the work undertaken and the audit opinions and recommendations issued during the year. The Head of Internal Audit confirmed that the Council overall had an adequate and effective framework of governance, risk management and control.
- Because of the postponement of the March 2020 until May, the committee also received the Annual Report of the Head of Internal Audit for 2019/20, which had a similar content and the same opinion on the adequacy and effectiveness of the framework of governance, risk management and control.
- Received and endorsed a proposal for the external validation of the internal assessment against Public Sector Internal Audit Standards to be completed. This was planned for April 2020 but could not be completed because of Covid-19. Instead the Committee received and considered the internal assessment which showed General Conformance with the Standards
- Received and considered the implementation of the Quality Assurance and Improvement Plan and the revised plan for 2020.

## **Anti-fraud and Corruption**

- Received and considered updates to the Anti-Fraud and Corruption Policy and Strategy.
- Received and considered updates on completed fraud investigations as part of the Internal Audit Progress Reports.

## **Risk Management**

- Continued to oversee the Council's risk management arrangements and strategy, including reviewing the refreshed risk management policy and guide.
- Reviewed the progress made by the Council to identify and address corporate risks. This included consideration of the Strategic Risk Register twice during the year.
- Assessed the adequacy and effectiveness of each Directorate's risk management arrangements through consideration of the risks and mitigating actions identified in their Risk Registers. Presentations were received from Strategic Directors and Cabinet Members on their approach to risk management.

## **Corporate Governance**

- Considered changes to the refreshed Code of Corporate Governance prior to approval. The Code reflects the core principles and requirements of the CIPFA/SOLACE 'Delivering Good Governance in Local Government Framework'.
- Considered the draft Annual Governance Statement for 2018/19.
- Considered and approved the Annual Governance Statement for 2018/19 of the Council. The Statement reflected the continued progress made by the Council during that year.
- Produced its own Annual Report for 2018/19 setting out the work undertaken by the committee.
- Received and considered at each meeting its own forward plan for the year ahead, ensuring that all relevant areas are covered during the year.

## **Finance**

- Considered the unaudited draft Statement of Accounts.
- Considered and approved the Statement of Accounts for 2018/19 for the Council.
- Received and considered a report on the final accounts closedown and accounting policies updates for 2019/20. A second closedown report was received after the changes to the accounting timetable due to Covid-19.
- Continued to review the Council's Treasury Management arrangements. This included reviewing the Annual Treasury Management Report for 2018/19 which covered the actual Prudential Indicators, and the Mid-Year Monitoring Report which included the actual and proposed treasury management activity.
- Received a report detailing the position with regards to the Designated School Grant reserve and the plan to operate within the annual allocation and reduce the deficit over future years.

## **Other**

- Received and considered two update reports on progress made to implement recommendations arising from external inspections.
- Received and considered reports on the Council's use of surveillance and acquisition of communication data powers under the Regulation of Investigatory Powers Act 2000 (RIPA). There had been no usage of these powers by the Council during 2018/19.
- Received an annual report on Information Governance, including compliance with GDPR and the Data Protection Act.

## **TRAINING AND DEVELOPMENT**

The Committee completed a self-assessment against CIPFA guidance during the year. It receives training or a briefing before most meetings based on the papers to be presented to the Committee and the results of the self-assessment.

During the year the Audit Chair attended Public Sector Audit Appointments events, the LGA Leadership Academy for audit chairs and training organised by Grant Thornton, the external auditors.

The audit chair and another committee member are members of the Sheffield City Region Audit and Standards committee, and the audit chair is also a member of the YPO Audit and Governance Committee.

## TERMS OF REFERENCE 2019/20

### Committee Size

To comprise:-

- Five Councillors, none of which are members of the Cabinet.
- One person who is not a councillor or officer of the Council (independent member).

### Statement of purpose

- 1 The Audit Committee is a key component of RMBC's corporate governance. It provides an independent and high-level focus on the audit, assurance and reporting arrangements that underpin good governance and financial standards.
- 2 The purpose of the audit committee is to provide independent assurance to the Council of the adequacy of the risk management framework and the internal control environment. It provides independent review of RMBC's governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It oversees internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.

### Governance, risk and control

- 3 To review the council's corporate governance arrangements against the good governance framework, including the ethical framework and consider RMBC's code of governance.
- 4 To review the Annual Governance Statement (AGS) prior to approval and consider whether it properly reflects the risk environment and supporting assurances, taking into account internal audit's opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control.
- 5 To approve the final AGS for publication.
- 6 To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
- 7 To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.
- 8 To monitor the effective development and operation of risk management in the council.
- 9 To monitor progress in addressing risk-related issues reported to the committee.
- 10 To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
- 11 To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
- 12 To monitor the counter-fraud strategy, actions and resources.
- 13 To review the governance and assurance arrangements for significant partnerships or collaborations.

### Internal audit

- 14 To approve the Internal Audit Charter.
- 15 To approve the risk-based Internal Audit Plan, including Internal Audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.

- 16 To approve significant interim changes to the risk-based Internal Audit Plan and resource requirements.
- 17 To make appropriate enquiries of both management and the Head of Internal Audit to determine if there are any inappropriate scope or resource limitations.
- 18 To consider any impairments to independence or objectivity arising from additional roles or responsibilities outside of internal auditing of the Head of Internal Audit. To approve and periodically review safeguards to limit such impairments.
- 19 To approve the internal or external assessments of Internal Audit against Public Sector Internal Audit Standards. This will include:-
  - 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 so severe that it must be included in the AGS
- 20 To consider 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:-
  - progress against the plan
  - key findings and issues of concern
  - action in hand as a result of internal audit work
  - performance indicators
- 21 To approve the Head of Internal Audit's annual report:-
  - 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.
- 22 To consider summaries of specific Internal Audit reports.
- 23 To receive 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 authority or there are concerns about progress with the implementation of agreed actions.
- 24 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.
- 25 To provide free and unfettered access to the Audit Committee Chair for the Head of Internal Audit, including the opportunity for him/her to meet privately with the committee.

#### **External audit**

- 26 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 Public Sector Audit Appointments (PSAA).
- 27 To approve the external auditor's annual plan
- 28 To approve any revisions to the external auditor's plan
- 29 To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
- 30 To consider specific reports as agreed with the external auditor.
- 31 To comment on the scope and depth of external audit work and to ensure it gives value for money.

- 32 To commission work from internal and external audit.
- 33 To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

### **Financial reporting**

- 34 To receive the draft annual statement of accounts following approval by the s151 Officer. Specifically, to consider whether appropriate accounting policies have been followed.
- 35 To approve the final audited annual statement of accounts for publication. Specifically to consider whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the council.
- 36 To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.
- 37 To deal with any matters referred to the Committee by the Strategic Director Finance and Customer services in relation to his/her responsibilities under section 151 of the Local Government Act 1972.

### **Treasury Management**

- 38 To review treasury management policy, strategy and procedures and to be satisfied that controls are satisfactory
- 39 To receive annual reports on treasury management, specifically the outturn report and the mid-year report
- 40 To review the treasury risk profile and adequacy of treasury risk management processes
- 41 To review assurances on treasury management, for example an internal audit report, external audit report or other review.

### **Accountability arrangements**

- 42 To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements, and internal and external audit functions.
- 43 To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.
- 44 To submit a report on the work of the committee to the Council on an annual basis.