

GOVERNANCE, RISK & AUDIT COMMITTEE – ANNUAL REPORT 2021-22

Summary: This report aims to provide the Council with an outline of the role, purpose and background of the Governance, Risk & Audit Committee, as well as a summary of the work undertaken throughout both the 2021-22 municipal year.

Conclusions: Despite significant ongoing delays caused to the 2019/20 accounts sign-off and external audit process by issues beyond the Council's control, the Committee continued to meet its obligation to provide oversight of the Council's governance procedures, corporate risk and internal/external audits.

Recommendations: **It is recommended that Council notes the report, affirms the work of the Governance, Risk & Audit Committee, and considers any concerns raised within the report.**

Reasons for Recommendations: To inform Council of the work of the Governance, Risk and Audit Committee in 2021-22.

Cabinet member(s): All
Ward(s) affected: All

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1. Introduction – Role and Purpose of the Committee

1.1. The role of the Governance, Risk and Audit Committee is to provide oversight and monitor the governance, risk management and internal control arrangements of the Council, to provide independent assurance that these are effective and efficient. This is achieved through items received by the Committee in relation but not limited to; internal and external audit, key finance items, governance reviews and strategic risk management reporting.

1.2. The Terms of Reference (which have been updated to allow the Committee to sign off the Final Accounts) outline the purpose of the Committee in more detail:

a) Internal Audit

- To consider and approve annually the Internal Audit plan of work, considering the scope and depth of the work in addressing the Council's significant risks and issues.
- To consider the outcomes of the internal audit plan of work and to monitor management's progress in implementing agreed audit recommendations.
- To consider and approve the Annual Report and Opinion of the Head of Internal Audit, ensuring that the systems of internal control, governance and risk management have been effective and efficient over the course of the year.
- To consider the performance of the internal auditors in relation to the adherence to the Public Sector Internal Audit Standards.

b) External Audit

- To consider annually the External Audit plan of work.
- To consider External Audit reports and letters.

c) Accounts / Finance

- To consider the extent of the Council's compliance with its own and other published financial statements and controls.
- To review and approve the annual Statement of Accounts and the Annual Governance Statement contained therein.

d) Risk Management

- To review the strategic risks that the Council faces and ensure that these are being appropriately managed, monitored and mitigated.

e) Governance

- To review the Council's arrangements for governance, with particular regard to the Local Code of Corporate Governance and the Financial and Contracts Procedure Rules.
- To review the Council's arrangements to counter fraud and corruption, with particular regard to the policies on: Counter Fraud, Whistleblowing and Money Laundering.
- To hold periodic private discussion with the Head of Internal Audit and the External Auditors to review working relationships and discuss any pertinent issues.
- To commission ad-hoc work from internal and external audit.
- To assess the Committee's own effectiveness on an annual basis against best practice.

2. Committee Background and Membership

2.1 The Committee was originally convened on 21st June 2006 as the Final Accounts Committee. It was established to allow a more robust discussion of the final accounts prior to their approval by Full Council. On 16th October 2006, the Committee met for the first time as the Audit Committee. Its remit was more far-reaching than accounts and included scrutiny of external and internal audit, risk management and internal control. On 6th September 2016, the Committee agreed to change its name to the Governance, Risk and Audit Committee to better reflect its function and the range of its oversight.

2.2 The membership of the Committee remained stable throughout the 2021-22 municipal year and was comprised of the following six Members:

Cllr J Rest (Chairman)
Cllr S Penfold (Vice Chair)
Cllr C Cushing
Cllr H Blathwayt
Cllr Dr P Bütikofer
Cllr P Fisher

2.3 Throughout 2021-22, apologies were given on seven occasions with six absences covered by substitutes, highlighting good communication from Committee Members and support from substitutes, when required.

3. Work of the Committee 2021-22

3.1 The Committee met six times during the 2021-22 municipal year, with additional meetings scheduled in March and April 2022 at the request of the Committee to consider additional reports. Across those meetings the following items of business were considered:

Governance

- Annual Governance Statement & Local Code of Corporate Governance 2020/21 (September 2021)
- Monitoring Officer's Annual Report 2020-21 (September 2021)
- Annual report on the work of the Governance, Risk and Audit Committee 2020-21 (September 2021)
- Local Government Ombudsman Annual Review (September 2021)
- Draft Procurement Strategy 2021-25 (September 2021)
- Updated Whistleblowing Policy (September 2021)
- Procurement Exemptions Report (Quarterly)
- Letter of Representation 2019/20 (March 2022)
- Updated Annual Governance Statement 2019-20 (March 2022)
- Desktop Review of Formal Employment Process (April 2022)

Risk Management

- Civil Contingencies Update (December 2021)
- Corporate Risk Register (Quarterly)

Internal Audit

- Progress report on Internal Audit Activity (Quarterly).
- Follow-up on Internal Audit Recommendations (Quarterly)
- Annual report and opinion 2020-21 and review of the effectiveness of Internal Audit (June 2021)
- CIPFA Self-Assessment (March 2022)

- Strategic & Annual Internal Audit Plans 2021-22 (June 2021)
- Strategic & Annual Internal Audit Plans 2022-23 (March 2022)

External Audit

- EY External Audit Plan 2019-20 (December 2021)
- External Audit Procurement Exercise (December 2021)
- EY Audit Results Report 2019-20 (March 2022)

Accounts / Finance

- Draft Statement of Accounts 2020-21 (September 2021)
- Review of Assets Register (September 2021)
- Final Statement of Accounts (2019-20 (March 2022)

4. Key Issues

- 4.1 Significant External Audit delays persist for NNDC and many other authorities across the country. This has caused significant disruption to the Committee's Work Programme and had an ongoing impact on the annual accounts sign-off process and a subsequent negative impact on the annual workload of the Finance Team. It should be noted that in an attempt to address these concerns, the External Audit Procurement Exercise undertaken in December 2021 sought to ensure that authorities be given the right to review their contracts, and request that KPIs for timeliness are included within these contracts.
- 4.2 Outstanding Internal Audit recommendations and historical audit recommendations remain a concern for the Committee with some dating back to 2018. The Committee remains pro-active in monitoring these long outstanding recommendations, with Internal Audit Recommendation Follow-Up reports now reviewed on a quarterly basis. Officers with responsibility for implementing outstanding audit recommendations have also been called-in to explain delays on several occasions.
- 4.3 The latest Fighting Fraud and Corruption Strategy highlighted an increasing threat of fraud related risks for all local authorities, and as a result a Consortium-wide internal audit resulted in a limited assurance grading for counter-fraud and corruption across all Internal Audit Consortium authorities. As a result, immediate management action was taken to address the Internal Audit recommendations including updating the Anti-Fraud Policy and undertaking a full risk-assessment, which were considered by the Committee in June 2022.

5. Conclusions

- 5.1. The Committee has continued to meet its obligations of providing oversight for matters of governance, risk, internal and external audit. It is hoped that the current process of procuring a new external audit contract through PSAA will address the significant delays and improve the overall service provided. Committee attendance has remained consistent, with several observers and Cabinet Members attending on a regular basis to discuss reports.
- 5.2. The commencement of quarterly consideration of procurement exemptions has greatly improved oversight and understanding of the Council's procurement processes and should provide Members and Internal Audit with an increased level of assurance.
- 5.3. It should be noted delays with the External Audit accounts sign-off process in earlier years relate to a disagreement in accounting practices between local

authorities and auditors. This has been resolved, however there remains a backlog of years to catch-up on. The 2019/20 accounts have been audited and were ready to be signed, however early in 2022 CIPFA announced proposed Code changes in relation to Infrastructure Assets, with no final agreement yet on the action required by authorities. NNDC has significant infrastructure assets in coastal defences and therefore has been affected by the proposed CIPFA Code change. Officers are currently working with external auditors to agree a resolution on Infrastructure Assets to allow the sign-off the 2019/20 accounts as soon as this is resolved.

- 5.4. In summary, by continuing to fulfil its role and identifying areas for improvement, the Committee has proven itself able to provide effective oversight for the Council, as well as continuing to improve its knowledge and subject area expertise. Looking forward, the Committee must continue to remain focused to help ensure that effective value for money, good governance and oversight of risk is maintained.