



Audit Committee Annual Report 2022/23

September 2023

Role of Audit Committee

The role of audit committees in local government has grown and developed extensively in recent years. The main professional body which issues guidance regarding local government audit and financial governance matters is the Chartered Institute of Public Finance and Accountancy (CIPFA). CIPFA has published a Position Statement and accompanying guidance on Audit Committees in Local Authorities. This Position Statement and guidance details how the audit committee is a key component of an organisation's governance arrangements and has the potential to be a valuable resource for the whole authority. Where it operates effectively, an audit committee adds value to its authority by supporting improvement across a range of objectives. CIPFA's guidance sets out the following principal areas where audit committees can exert influence and add value:

- Aiding the achievement of the authority's goals and objectives by helping ensure appropriate governance, risk, control and assurance arrangements
- Promoting the principles of good governance and how they are applied during decision making
- Raising awareness of the need for sound internal control and contributing to the development of an effective control environment
- Supporting arrangements to govern risk and for effective arrangements to manage risk
- Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively across the authority
- Reinforcing the objectivity, importance and independence of both internal and external audit and supporting the effectiveness of the audit functions
- Supporting the development of robust arrangements for ensuring value for money
- Helping the authority to implement the values of ethical governance, including effective arrangements for countering the risks of fraud and corruption
- Promoting measures to improve transparency, accountability and effective public reporting to the authority's stakeholders and the local community.

The Position Statement defines the specific responsibilities of an audit committee as:

Maintenance of governance, risk management and control arrangements

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

Financial and governance reporting

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

Establishing appropriate and effective arrangements for audit and assurance

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
 - Oversee its independence, objectivity, performance and conformance to professional standards
 - Support effective arrangements for internal audit
 - Promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

Audit Committee Meetings 2022/23

The Audit Committee met formally on six occasions during 2022/23. All meetings were quorate and took place face to face at County Hall. In addition to Committee Members, the Head of Internal Audit and Risk Management, the Section 151 Officer, Monitoring Officer (or representative), External Auditor (Mazars) and other officers as appropriate, attended all Audit Committee meetings.

The Committee's work programme for 2022/23 was agreed by Audit Committee in March 2022. The work programme was developed in order that Audit Committee agreed the core business of Audit Committee, whilst able to receive additional reports on any ad-hoc items of business during the year. This helps ensure that Audit Committee receives information at the optimum times during the year to properly perform its role as set out in the Constitution and its Terms of Reference, and some additional reports were received and considered by Audit Committee during the year. A total of 48 reports were considered by Audit Committee during the year, details of which are provided in Annex A. At the beginning of each meeting, the Committee's work programme was reviewed and progress against actions required was monitored.

Audit Committee's programme of work during 2022/23 culminated in the agreement of the Council's Annual Governance Statement at its meeting in July 2023.

Key Highlights from the Work of Audit Committee

Key highlights from the Committee's work during the year included:

Internal Audit

Audit Committee received a number of reports from Internal Audit during the year. These reports included:

- the Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control for 2021/22, which stated that the Council's systems of internal control and risk management were satisfactory overall but drew attention to specific aspects of governance where weaknesses required strengthening;
- summaries of the outcomes of Internal Audit's reports, detailing the audit objectives of each assignment, the number of high, medium and low priority recommendations made, any areas of good practice identified, and key findings / issues identified from the audit with management comment on action taken in response to audit recommendations;
- the Strategic Audit Plan for 2022/23 and update reports relating to the delivery of the plan during the year, reflecting the evolving nature of risks and subsequent changes in assurance coverage required during the year.

As part of its role in overseeing arrangements for an effective Internal Audit, Audit Committee agreed an updated Internal Audit Charter, a Quality Assurance and Improvement Programme and a self-assessment of Internal Audit's compliance with the Public Sector Internal Audit Standards (PSIAS) following the cessation of the shared Internal Audit service with North Tyneside Council, ahead of a scheduled external assessment of compliance, in accordance with the PSIAS.

External Audit

Audit Committee received a number of updates from the Council's external auditor, relating to the progress of audits in relation to the audit of 2020/21 and 2021/22 accounts, and Value for Money opinion for 2019/20, 2020/21 and 2021/22. External audit's work in relation to the audit of 2020/21 has been paused, pending resolution of an outstanding national issue relating to the reporting of infrastructure within local authorities' accounts. Reports included Mazars' audit approach, highlighted significant audit risks and areas of key judgements from work undertaken. The external auditor's consideration and conclusion on Mazars' independence as auditors was also considered and agreed by Audit Committee.

Finance

The Annual Governance Statement is a significant report considered by Audit Committee each year. During the year, Audit Committee received and considered the draft Annual Governance Statement for 2021/22 which detailed the review of

governance reported. Audit Committee agreed that it properly reflected the risk environment of the Council and supporting assurances, including Internal Audit's opinion on the overall adequacy and effectiveness of the Council's framework of governance, risk management and control.

A number of reports were also received from Finance, relating to the Council's Statement of Accounts for 2022/23. Reports received and considered by Audit Committee throughout the year included consideration of 'going concern status' for the Council's Statement of Accounts, agreement of a timetable for preparation and publication of the Council's accounts, agreement of updated accounting policies used in the preparation of the Statement of Accounts, and a review of the Council's Group Accounting Boundary.

The Council is required to set out and prepare a Treasury Strategy for borrowing and prepare an Investment Strategy annually. The Treasury Management Strategy Statement for 2023/24 was considered and agreed by Audit Committee, in addition to receiving reports providing a review of Treasury Management activity and performance against the previously agreed Treasury Management Strategy for 2022/23.

Risk Management

Reports were received by Audit Committee, providing updates on progress with the development, implementation and embedding of risk management within the County Council. Reports also provided details of the latest position of the Council's corporate risks following review by the Executive Management Team and Cabinet portfolio holders.

External Inspections

Regular reports are received by Audit Committee in relation to external inspection activity and reports regarding Adults Social Care and Children's Services. Reports provide details of inspection outcomes and associated actions taken by the Council, in order that Audit Committee can be aware of external inspection results, receive assurance that appropriate action is being taken as necessary and assess the effectiveness of actions taken by the Council.

Counter Fraud

The Committee receives regular reports on counter-fraud activity, undertaken by the Council's dedicated Corporate Fraud Team. Reports provide an update on instances of suspected fraud identified and investigated, outcomes of counter-fraud activity and steps taken to recover any monies owed to the Council.

Group Audit Committee

The Council's Audit Committee fulfils the role of 'Group Audit Committee' for all entities operating within the County Council's accounting group boundary. In order for Audit Committee to fulfil its responsibilities as Group Audit Committee, an update is provided at every meeting of Audit Committee summarising details of the Internal Audit Plan and any internal audits completed within each non-dormant entity,

allowing governance oversight of all entities within the accounting group boundary. In addition, the Chair of Audit Committee has attended meetings of Advance Northumberland Audit Committee as an observer during 2022/23.

Governance

A number of additional reports were received by Audit Committee, in relation to governance matters identified and reported to the Council early in the 2022/23 year.

The Council's Section 151 Officer issued a report under s114 and s114A of the Local Government Finance Act 1988, on 23 May 2022. The report explained the Section 151 Officer's view that the Council had incurred items of unlawful expenditure and recommended further action be taken by the Council.

Prior to this, during 2021/22, the Leader of the Council had commissioned an Independent Governance Review which was undertaken by Solace in Business, led by Max Caller CBE. The findings from this review were reported to the County Council meeting on 8 June 2022. A number of governance issues were identified, and an independent Challenge Board subsequently supported the Council following the review.

Throughout 2022/23 and into 2023/24, the Council has implemented a number of actions in response to the recommendations arising from both the Independent Governance Review and the Section 151 Officer's s114 Report. Progress on the implementation of recommendations, and the associated impact of the framework of governance, risk management and control, have been reported to Audit Committee, with reports from the independent Challenge Board also considered.

Audit Committee Arrangements and Effectiveness

It is good practice to undertake an annual review of our Audit Committee arrangements and to review effectiveness. Using CIPFA's updated Position Statement and guidance, a self-assessment of our existing arrangements was considered by Audit Committee at its meeting in November 2022. The self-assessment was undertaken in conjunction with the Chair and Vice Chair of Audit Committee and demonstrated that our Audit Committee arrangements already reflected a number of the good practice areas recommended by CIPFA.

Some areas were highlighted in the self-assessment where further development was needed to ensure that the good practice recommended by CIPFA was fully reflected. These included ensuring that the Terms of Reference fully reflected the updated CIPFA guidance, preparation of an annual report from Audit Committee to Council and evaluating the required knowledge, skills and associated training and support for Audit Committee members. Some minor amendments to Audit Committee's Terms of Reference were included as part of the updated Constitution agreed by Council in May 2023, to ensure that the Terms of Reference fully met the requirements of the updated Position Statement and accompanying guidance. A wider review of Audit Committee arrangements is currently in the process of being undertaken with Audit Committee members and Chair of Audit Committee, to develop a plan of actions which may be needed to ensure that CIPFA's latest good practice is fully reflected. This includes the knowledge and skills required by Audit Committee and our

arrangements in place to ensure that Audit Committee receives an appropriately structured programme of training and support.

In addition, the independent co-opted Chair of Audit Committee has attended all meetings of a regional North East Audit Committee Chairs' Forum, supported by the Local Government Association (LGA), during 2022/23.

Assessments of Audit Committee arrangements will continue to be undertaken on an annual basis, in accordance with CIPFA's good practice guidance. The outcomes of the next self-assessment and review will be reported to Council in the next annual report.

Conclusion

Over the past year the Audit Committee has undertaken a structured programme of work to gain assurance that governance, risk management and control systems are in place across the Council and are reliable and secure.

This report provides a summary of the range of work undertaken by Audit Committee, which has enabled it to fulfil its Terms of Reference and comply with the requirements of CIPFA's Position Statement for Audit Committees in Local Authorities and Police 2022. The Committee looks forward to developing its work programme and further developing its effectiveness to assure and support Council as the current year progresses.

The Audit Committee would like to extend its appreciation to all officers who have contributed reports and responded to questions raised by Audit Committee members.

Summary of Reports considered by Audit Committee in 2022/23

Meeting Date	Governance Matters Considered
25 May 2022	2021/22 Internal Audit Opinion on the Adequacy and Effectiveness of the Framework of Governance, Risk Management and Control Key Outcomes from Internal Audit Reports Issued between November 2021 and May 2022 External Audit Progress Report Strategic Audit Plan 2021-22 – Final Monitoring Statement Risk Management Update Group Audit Committee – Advance Northumberland Internal Audit Update
27 July 2022	KPMG Forensic Independent Review of Advance Northumberland Group S114 Report by S151 Officer Review of External Inspection Reports – Adult & Children’s Services Internal Audit Charter External Audit Update on Audit of 2020-21 Statement of Accounts Group Audit Committee – Advance Northumberland Internal Audit Update Risk Management Update
28 September 2022	Consideration of ‘Going Concern Status’ for Statement of Accounts for year ended 31 March 2022 Treasury Management Annual Report for 2021-22 Annual Governance Review and Annual Governance Statement 2020/21 Annual Report of Firefighters’ Pension Scheme Local Pension Board 2021-22 External Audit Progress Report Group Audit Committee – Advance Northumberland Internal Audit Update
30 November 2022	International Investigation Update Audit Committee Arrangements Key Outcomes from Internal Audit Reports Issued between May 2022 and October 2022 Strategic Audit Plan 2022/23 – Interim Monitoring Statement Treasury Management Mid-Year Review – 1 April to 30 September 2022 Corporate Fraud Team Annual Report 2021/22 External Auditor’s Audit Strategy Memorandum – year ending 31 March 2022

External Audit update on Audit of 2021/22 Statement of Accounts
Group Audit Committee – Advance Northumberland Internal Audit Update

25 January 2023

Response to the Challenge Board Interim Report 1 to Member Oversight Group
Changes to the Code of Practice for Local Authority Accounting in the UK for 2022/23
Treasury Management Strategy Statement for Financial Year 2023/24
Statement of Accounts 2022/23: Timetable for publication and update on Accounting Policies to be applied in preparation of 2022/23 Statement of Accounts
Annual Governance Review and Draft Annual Governance Statement 2021/22
Review of Exit Packages
Preparation of Strategic Audit Plan 2023/24
Public Sector Internal Audit Standards
External Audit Progress Report
Advance Northumberland Executive Management Response to 2021 KPMG Report
Group Audit Committee – Advance Northumberland Internal Audit Update

29 March 2023

Audit Committee Work Programme 2023/24
Review of External Inspection Reports – Adult Social Care & Children's Services
Corporate Fraud Interim Report
Statement of Accounts – Group Boundary Review
Statement of Accounts 2020/21
External Audit Completion Report 2020/21
Group Audit Committee Update
Corporate Risk Management
Strategic Audit Plan 2023/24