

## **Appendix 1**

### **Audit Committee Annual Report 2020-21**

#### **Foreword by the Chair**

I am pleased to provide the Audit Committee's Annual Report for the municipal year 2020 / 2021. The Council is requested to take note of the work conducted by the Audit Committee in improving and further enhancing the governance arrangements throughout the Council. The report illustrates how the Audit Committee has continued to make a positive contribution to the Council's governance and control environments. These cover all aspects, such as internal control; risk management; internal audit; anti-fraud; external audit; and financial reporting. The Committee continues to be well supported by officers, providing a high standard of reports and presentations, and officers have taken on suggestions to make sure the benefits of this Committee are passed onto our citizens. I would like to thank the Internal Audit and the External Audit teams for their input. I should also like to take this opportunity to give my personal thanks to all the officers, and without exception, all fellow Committee members who have contributed and supported the work of the Committee in such a meaningful and positive way throughout the past year. Audit Committee Members have supported and challenged officers to ensure our risk, control and governance processes are effective, open, and transparent.

During 2020/21, the Council received two very significant reports which impacted the committee's activity:

- The external auditor's Report in the Public Interest.
- The Non-Statutory Review by Max Caller which was commissioned by the Secretary of State.

Taking these reports into account, this year has been unlike any other in more recent times. The capability of all our Council officers to make sure that services are continually delivered for the communities we serve shows the strength of the Council as a whole. I have welcomed the Audit Committee's continued support for officers and look forward to the work being carried out over the next 12 months. Going forward, 2021 / 2022 will continue to a testing time for all Councils with the resources available becoming more important. How we risk manage our priorities, resources and partnerships will be vital, notwithstanding the risk of fraud. The Audit Committee holds a distinctive position to challenge and scrutinise the activities of the Council, with the support of Officers and my fellow Councillors, long may this continue.

The following report summarises the work performed over the year 2020-2021 and describes how the committee has contributed to the effectiveness of the Council by the work it has done including:

- Assurance Statements and Governance
  - Scrutinising non-executive amendments to the Constitution
  - Monitoring and approving the Annual Governance Statement and associated activity
  - Monitoring and approving Partnerships governance arrangements
  - Receiving and making recommendations in respect of Annual Assurance Reports from key corporate specialisms
- Risk Management
  - Reviewing the mechanisms for the assessment and management of risk and thereby developing the Council's ability to respond to known and emerging risks and considering key risks
  - Overseeing the Council's Treasury Management arrangements
- Performance Management, Quality Management and Value for Money
  - Reviewing assurances provided
- External Audit, Inspection and Assurance
  - Managing a good working relationship with the external auditor, ensuring appropriate action is taken on its recommendations
  - Receiving cross-cutting external inspections and assurance reports, ensuring appropriate action is taken on their recommendations
- Internal Audit and Counter Fraud
  - Approving arrangements and monitoring performance of Internal Audit and Counter Fraud
  - Ensuring internal audit independence and that findings are actioned by managers and consequently help to improve the Council's effectiveness and governance arrangements;
- Financial Reporting
  - Monitoring of, and contribution to, the development of the Council's Statement of Accounts

### **The Purpose of Audit Committees**

The Audit Committee operates in accordance with the "Audit Committees, Practical Guidance for Local Authorities" produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2018. The Guidance defines the purpose of an Audit Committee as follows:

1. Audit committees are a key component of an authority's governance framework. Their function is to provide an independent and high - level resource to support good governance and strong public financial management.
2. The purpose of an Audit Committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes. By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.

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## **Terms of Reference**

The Council reviewed and updated the Audit Committee's terms of reference in 2021 as required by the Report in the Public Interest. As part of this process, CIPFA was engaged to review these terms of reference and suggest improvements. CIPFA provided the committee with assurance that the terms are appropriate and more extensive than comparator authorities, including detailed functions within them to support compliance with the Public Sector Internal Audit Standards. The Council has delegated some of its non-executive functions to the Audit Committee. These are defined in the committee's terms of reference.

Good governance is ultimately the responsibility of those charged with governance, as well as those with leadership roles and statutory responsibilities in the organisation, including the Chief Executive, Corporate Directors, the Chief Financial Officer and the Monitoring Officer. The Audit Committee plays a key role in supporting the discharge of those responsibilities by providing a high-level focus on audit, assurance and risk management and financial reporting.

Good corporate governance requires the Council to undertake its functions with integrity and in a way that is accountable to the people of Nottingham, transparent, effective and inclusive. My role as the Chair of the Audit Committee is to drive forward improvements on corporate governance. This means I must:

- Consider the reports of external audit and inspection agencies;
- Seek assurances that action is being taken on risk-related issues identified by auditors and inspectors and gain assurance that recommended improvements meet the needs identified and are being delivered to an appropriate timescale;
- Support the committee in reviewing the financial statements, external auditor's opinion and reports to councillors, and monitor management action in response to the issues raised by external audit;
- Support the committee in reviewing the Council's integrated planning and performance framework;
- Support consideration of the effectiveness of the Council's risk management arrangements, the control environment and associated anti-fraud and anti-corruption arrangements;
- Lead the committee to be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it;
- Lead approval of the Internal Audit's strategy, plan and monitor performance.
- Support Internal Audit and contribute to Peer Review
- Support the review of the summary Internal Audit reports and the main issues arising, and seek assurance that action has been taken where necessary;
- Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted; and
- Lead the Audit committee in procuring external audit if required.

## **Committee Aims**

In summary, the committee's role is to challenge, assess and gather assurance from within the Council and from external agencies, on the level and quality of the internal control and risk management processes in place to ensure that Council objectives are met. As part of this role it approves Audit Plans, the Statement of Accounts, and Annual Governance Statement and monitors the robustness of performance management systems. The benefits gained from operating an effective committee are that it:

- contributes to the development of an effective control environment including arrangements for management of risk;
- increases stakeholder confidence in the objectivity and fairness of financial and other reporting by promoting transparency and accountability;
- reinforces the importance and independence of internal and external audit and any other similar review process (e.g. providing a view on the AGS) and the implementation of audit recommendations;
- advises on the adequacy of the assurance framework and considers whether assurance is deployed efficiently and effectively to give assurance that business objectives are met;
- helps the authority to implement the values of ethical governance, including effective arrangements for countering risks of fraud and corruption

## **Membership**

The Audit Committee was made up of 9 non-executive councillors appointed to reflect the political balance of the Council. The members of the committee for 2020/2021 were:

Councillor Audra Wynter (Chair)  
Councillor Leslie Ayoola (Vice Chair)  
Councillor Graham Chapman  
Councillor Michael Edwards  
Councillor Jay Hayes  
Councillor Jane Lakey  
Councillor Sajid Mohammed  
Councillor Anne Peach  
Councillor Andrew Rule

## **Work Undertaken**

The work is reflective of the committee's terms of reference shown at **Appendix A** which is addressed via an annual work programme endorsed by the committee and cross-referenced to the elements of the annual work programme. The analysis has been derived from the reports and presentations set before the committee in the period, which are shown in **Appendix B**.

## Assurance Statements and Governance

The Audit Committee Work Programme shown in **Appendix A** reflects the many subject areas and sources of information that the committee considers in its deliberations about corporate governance. The information assimilated allows

members of the committee to understand governance issues and determine their opinion about the overall state of corporate governance in the Council. In addition the Audit Committee formed informal working groups to help the committee to better understand and consider the following areas:

- Capital
- Companies
- Fraud (Anti-fraud, anti-bribery, and anti-corruption)
- Risk & Assurance

Reports on the following areas were considered by the committee during the year:

- Annual Governance Statement (AGS)
- Governance of Group Companies
- Information Technology and Information Governance (IT)
- Counter Fraud Strategy and Whistleblowing Policy
- Risk Management
- Annual Report of Health and Safety
- Annual Human Resources Assurance report.
- Report on Culture & Ethics
- Treasury Management
- Performance Management
- External Audit
- Local Government and Social Care Ombudsman – Complaints Annual Assurance 2018-19 & Public Interest Report
- Internal Audit and Counter Fraud
- Financial Reporting
- Statement of Accounts (SOA)
- Role of the Audit Committee and Annual Work Programme

### **Looking Forward**

The Audit Committee will amongst other activities

- continue to seek assurance on the implementation of the Recovery and Improvement Plan including theme milestones and outcomes
- monitor progress in bringing the Council's external audit's up to date and ensuring future external audit cycles progress smoothly and on time
- have oversight of the Corporate Risk Register and associated management assurance frameworks including examination of key risks as needed
- provide challenge to the executive and senior officers to encourage implementation of improvements and delivering best value

### **Independence**

The key criterion in assessing the independence of the committee is that its members are non-executives and their conduct on the committee is independent of

political allegiances. Councillors have sought advice from legal and governance officers to achieve this requirement, and made declarations or have left the meeting where a conflict of interest was apparent, as appropriate. We accept the observations of the external auditor about the conflicts of interest that arise when councillors act as directors on council owned companies and the Council continues to make appropriate arrangements including for councillors on the Audit Committee as part of the Constitution theme of its Recovery and Improvement Plan. The Audit Committee terms of reference now allow for 2 independent members.

### **Training & Development**

Training has been provided to committee members during the year on:

- the Role of the Audit Committee and its members (CIPFA – March 2021)
- Risk management (Zurich – March 2021)
- Financial statements (Director of Strategic Finance – September 2020)
- Treasury Management (Link Asset Management – November 2020)

### **Conclusion**

Having considered the available guidance, the terms of reference and duties of the Audit Committee, and the work undertaken over the period since the last annual report, it is my assessment that the committee has carried out its roles effectively during 2020/21, subject to the issues noted in the external auditor's Report in the Public Interest, and the Non-Statutory Review. The committee has made several changes to its activity during 2020/21 to improve its effectiveness and will aim to complete improvements during 2021/22.

## Appendix A - Analysis of Audit Committee Work Programme

Description	Report	Meeting			
<b>(a) Main Purposes:</b>					
1. The Audit Committee is a key component of Nottingham City Council'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.	Annual Audit Committee Report			SEP	
2. Provide independent assurance to those charged with governance of the adequacy of the risk management framework and the internal control environment.	External Audit reports, Annual Audit Committee Report, Annual Governance Statement (AGS) reports	JUN	JUL	SEP	NOV
3. Provide independent review of the Council's governance, risk management and control frameworks.	AGS & External Audit reports		FEB	MAR	MAY
4. Oversee the financial reporting and annual governance processes.	Budget, Statement of Accounts, Accounting Policies & AGS reports		JUL	SEP	
5. Oversee internal audit and external audit, helping to ensure efficient and effective assurance arrangements are in place.	Annual IA Plan and updates & EA Updates	JUN	JUL	SEP	NOV
6. Scrutinise the Council's financial and non-financial performance to the extent that it affects the Council's exposure to risk and weakens the control environment.	Budget, Statement of Accounts, EA Updates, IICSA, OFSTED, Ombudsman, Companies, Assurance & Corporate Risk reports and presentations	JUN	JUL	SEP	NOV
			FEB	MAR	MAY

Description	Report	Meeting			
7. Oversee proposed and actual changes to the Council's policies and procedures pertaining to governance.	Audit Committee Terms of Reference, Public Interest Report, Companies Governance, Councillor Directors, Non-Statutory Review and Recovery & Improvement Plan, Interim AGS & Governance Updates connected to Action Plans			SEP	NOV
		DEC	FEB	MAR	MAY
<b>(B) Main Functions:</b>					
<b>Governance, Risk &amp; Control</b>					
1. Review the Council's corporate governance arrangements against the good governance framework, including the ethical framework and consider the local code of governance.	AGS reports		JUL	SEP	
				MAR	
2. Review the Annual Governance Statement 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.	AGS		JUL	SEP	
				MAR	
3. Consider the Council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.	Annual Audit Letter & VfM Report				
				MAR	MAY
4. Consider the Council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.	Assurance Reports (H&S, ITG, Complaints, HR)			SEP	
				MAR	MAY
5. Receive and consider the results of reports from external inspectors, Ombudsman and similar bodies and from statutory officers.	Budget, Annual summary of External Assurances, IICSA, OFSTED, Complaints & LG Ombudsman,	JUN	JUL	SEP	
			FEB		

Description	Report	Meeting			
6. Monitor the effective development and operation of risk management in the council.	Risk Management Reports, Brexit, Covid-19 & Emergency Planning		JUL		
		DEC		MAR	MAY
7. Monitor progress in addressing risk-related issues reported to the committee.	IICSA, Ofsted, Budget, Risk Management Updates, External Audit updates, Corporate Action Plans, Companies & Brexit	JUN	JUL	SEP	NOV
		DEC	FEB	MAR	MAY
8. Consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.	IA Progress Updates & Service presentations, Companies reports	JUN		SEP	
			FEB		MAY
9. Review the assessment of fraud risks and potential harm to the Council from fraud and corruption.	Annual IA Report & Annual Audit Letter			SEP	
					MAY
10. Monitor the counter fraud strategy, actions and resources.	Annual IA Report & progress update			SEP	
			FEB		
11. Review the governance and assurance arrangements for significant partnerships or collaborations, including the Partnership Governance Framework, annual health checks and the Register of Significant Partnerships.	Audit Committee Terms of Reference	JUN			
			FEB		MAY
12. Commission work from internal and external audit.	Culture & Ethics				
					MAY
13. Consider arrangements for and the merits of operating quality assurance and performance management processes.	Customer Experience, EMSS			SEP	
14. Consider the exercise of officers' statutory responsibilities and of functions delegated to officers.	e.g. S114A & S5A reports	Not applicable in 2020/21			
15. Effectively scrutinise, review and monitor treasury management strategies and policies in accordance with guidance issued to local authorities, and make appropriate recommendations to the responsible body.	TM 2019/20 Annual Report, TM Strategy and Capital Strategy, TM Half-Yearly update		JUL		
			FEB		

Description	Report	Meeting			
16. Consider any appeals made by an employee against decisions made by the Appointments and Conditions of Service Committee relating to a grievance made against the Chief Executive. Members involved in considering these will not be able to participate in any further consideration of the matter at other committees.	[Audit Committee will be advised by officers if/when it is required to carry out this role]	Not applicable in 2020/21			
<b>Financial Reporting</b>					
17. Review the Annual Statement of Accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Council.	Statement of Accounts		JUL	SEP	
				MAR	
18. Consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.	Audit Findings Report, Auditor's Report to members of NCC (both with Statement of Accounts), Public Interest Report		JUL	SEP	
				MAR	
19. Approve the Council's Statement of Accounts and associated governance and accounting policy documents	Accounting Policies, Statement of Accounts, external audit outcome and Public Interest reports & Annual Governance reports		JUL	SEP	
			FEB	MAR	
<b>External Audit</b>					
20. 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 PSAA or the authority's auditor panel as appropriate.	Annual Audit Letter		JUL		
				MAR	
21. Consider the external auditor's annual letter, relevant reports and the report to those charged with governance.	Annual Audit Letter	JUN	JUL	SEP	NOV
			FEB	MAR	MAY

Description	Report	Meeting			
22. Consider specific reports as agreed with the external auditor.	Public Interest Report			SEP	
23. Comment on the scope and depth of external audit work and to ensure it gives value for money.	EA reports	JUN	JUL	SEP	NOV
24. Advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.	Annual Audit Committee Report			SEP	
<b>Internal Audit</b>					
25. Undertake the duties of the Board mandated by PSIAS as identified in Appendix 2.	PSIAS duties are listed below			SEP	
26. Consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services.	IA Progress Reports		FEB	SEP	
27. Consider the head of internal audit's annual report.	Annual IA Report			SEP	
28. Consider summaries of specific internal audit reports as requested.	IA Progress Reports		FEB	SEP	
<b>Accountability Arrangements</b>					
29. 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.	Annual Audit Committee Report			SEP	
30. 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.	Annual Audit Committee Report			SEP	

Description	Report	Meeting			
31. Publish an annual report on the work of the committee.	Annual Audit Committee Report			SEP	
<b>PSIAS Duty of the Board</b>					
1. Approve the Internal Audit Charter	Annual IA Report			SEP	
2. Approve the risk-based internal audit plan, including internal audit's resource requirements, including any significant changes, the approach to using other sources of assurance and any work required to place reliance upon those other sources.	Annual IA Report			SEP	
3. Approve decisions relating to the appointment and removal of the Chief Audit Executive	[If required the S151 Officer will provide a report]	Not applicable in 2020/21			
4. Receive an annual confirmation from the Chief Audit Executive with regard to the organisational independence of the internal audit activity	Annual IA Report			SEP	
5. Make appropriate enquiries of the management and the Chief Audit Executive to determine whether there are inappropriate scope or resource limitations	Annual IA Report			SEP	
6. The Chair to provide feedback for the Chief Audit Executive's performance appraisal	Annual Audit Committee Report			SEP	
7. Provide free and unfettered access to the Audit Committee Chair for the head of internal audit, including the opportunity for a private meeting with the committee.	Annual IA Report			SEP	
8. 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.	Annual IA Report			SEP	
9. Approve significant additional consulting services agreed during the year and not already included in the audit plan, before the engagement is accepted	IA Progress Reports		FEB	SEP	

Description	Report	Meeting			
10. Contribute to the QAIP and in particular, to oversee the external quality assessment of internal audit that takes place at least once every five years.	Annual IA Report			SEP	
11. Receive the results of the Quality Assurance and Improvement Programme from the Chief Audit Executive	Annual IA Report			SEP	
12. Receive communications from the Chief Audit Executive on internal audit's audit plan and resource requirements including the approach to using other sources of assurance, the impact of any resource limitations and other matters	Annual IA Report				
13. Receive communications from the Chief Audit Executive on the internal audit activity's purpose, authority, responsibility and performance relative to its plan. Reporting must also include significant risk exposures and control issues, including fraud risks, governance issues and other matters needed or requested by senior management and the board.	Annual IA Report			SEP	
14. 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.	Annual IA Report		FEB		

## **Appendix B – List of Reports to Audit Committee by Date**

### 26 Jun 2020

Independent Inquiry into Child Sexual Abuse  
Report of the Corporate Director for People

Children’s Integrated Services Ofsted Focussed Visit  
and Improvement Programme  
Report of the Corporate Director for People

Audit Committee Terms of Reference and Annual  
Work Programme  
Report of the Director of Strategic Finance

External Audit Plan Update  
Report of the External Auditor

### 31 Jul 2020

Budget Update  
Report of the Strategic Director of Finance

Treasury Management 2019/20 Annual Report  
Report of the Strategic Director of Finance

Statement of Accounts 2018/19  
Report of the Strategic Director of Finance

External Audit report 2018/19  
Report of the External Auditor

Annual Governance Statement 2018/19  
Report of the Interim Chief Executive

Risk Management and Corporate Risk Register Update  
Report of the Interim Chief Executive

Work Programme  
Report of the Director of Strategic Finance

### 25 Sep 2020

Draft Statement of Accounts 2019/20  
Update by the Head of Strategic Finance

Draft Annual Governance Statement 2019/20  
Report of the Chief Executive

External Audit Reports

Public Interest Report  
Report of the Director of Legal and Governance

Audit Committee Annual Report 2019/2020  
Report of the Chair of the Audit Committee

Internal Audit Annual Report 2019/20  
Report of the Head of Audit and Risk

Customer Experience/Complaints and Ombudsman Annual  
Assurance 2020  
Report of the Director of HR & Customer

East Midlands Shared Services Annual Report 2019/20  
Report of the Head of East Midlands Shared Services

### 30 Nov 2020

Update on Report in the Public Interest Action Plan

MHCLG Non Statutory Review

Presentation by the Strategic Advisor on Companies

External Audit update

Audit Committee Working Groups

Companies Risk Management Review  
Report of the Strategic Director of Finance

### 18 Dec2020

'No Deal' Brexit Planning (End of the EU Transition Period)

Report in the Public Interest - Appointment of Councillor Directors  
Report of the Director of Legal and Governance

### 26 Feb 2021

Local Government Ombudsman's Report in the Public Interest  
following Investigation Reference 18 018 188  
Report of the Corporate Director for People

Treasury Management Strategy 2021/22 & Capital and Investment  
Strategy 2021/22, and Treasury Management  
Report of the Strategic Director of Finance

Review of Accounting Policies 2020/21  
Report of the Strategic Director of Finance

Audit Committee Terms of Reference  
Report of the Strategic Director of Finance

External Audit Update  
Verbal update from Grant Thornton, External Auditors

Internal Audit Progress Report Q1-Q3 2020/21  
Report of the Strategic Director of Finance

Control Environment and key risks for City Council controlled companies

### 26 Mar 2021

Recovery and Improvement Plan Implementation – Process and  
Controls  
Report of the Strategic Director of Finance

Statement of Accounts 2018/19 and Addendum to Annual  
Governance Statement  
Report of the Strategic Director of Finance

Annual Governance Statement - Process for Producing 2020/21  
Statement  
Report of the Strategic Director of Finance

Risk Management and Corporate Risk Register Update  
Report of the Chief Executive and Strategic Director for Resources

Information Compliance Annual Assurance Report  
Report of the Director of Legal and Governance

### 28 May 2021

Annual Audit Letter 2018/19  
Report from Grant Thornton , External Auditors

External Audit Update 2019/20  
Verbal update from Grant Thornton , External Auditors

Annual Report of Health & Safety  
Report of the Director of Legal & Governance

Covid-19 and Emergency Planning  
Report of the Director of Legal & Governance

Culture & Ethics

Report of the Interim Corporate Director Finance & Resources

HR Annual Assurance

Report of the Interim Corporate Director Finance & Resources

Report of the Strategic Director of Finance

Audit Committee Terms of Reference

Report of the Interim Corporate Director Finance & Resources

Companies Governance Update

Report of the Interim Corporate Director Finance & Resources