

# Audit Committee Annual Report 2016/17

June 2017





## **Introduction from Co-opted Chair of Audit Committee**

It is now almost four years since I was appointed into the independent role of co-opted Chair of North Tyneside Council's Audit Committee. In that time I have enjoyed learning about the Council, and comparing the challenges it faces with those which I encountered during my career in the financial sector. The scale and breadth of what the Council does continues to impress, and the speed with which the local government environment is changing is sobering.

At the end of 2015/16 and continuing throughout 2016/17, I thought it would be useful to take a step back and consider what the Audit Committee has achieved; and how the Audit Committee might evolve to support the organisation as it faces the challenges ahead. To this end I led a review of the effectiveness of the Audit Committee arrangements within North Tyneside, engaging with a range of stakeholders of the Committee. I believe strongly that any organisation can only work at optimum effectiveness if it is assessing, in a helpful, business focused way, if it is achieving what it set out to do. A strong governance process involving an effective Audit Committee should be a cornerstone of the organisation's success, and a genuine source of assurance to Cabinet.

This report summarises the outcomes of that review of the Audit Committee, which concluded that Audit Committee could be positioned to better support the organisation. The review recommended that Audit Committee should maintain stronger links to the wider organisation and in particular to the Senior Leadership Team and to Cabinet. I am pleased to be able to report that these links have begun to be developed during 2016/17, including regular meetings with the Chief Executive, Deputy Chief Executive and key members of the Senior Leadership Team. The development of this inaugural report to Cabinet also helps to address this recommendation from the review.

The report also highlights some of the other main assurance and governance matters considered by Audit Committee during the last year, which may be of particular interest to Cabinet.

On behalf of the Audit Committee, I am pleased to introduce this inaugural Annual Report. Audit Committee trusts that this first Annual Report will be helpful to Cabinet and in turn, that Cabinet's views can be used to help us focus the Committee's resources as we provide a vital assurance link for the organisation. The Audit Committee is well placed to support North Tyneside Council by constructively, but comprehensively, challenging what it is that the Authority is delivering for its residents, businesses and all those who live or work within the borough.

**Kevin Robinson**  
**Co-opted Chair of Audit Committee**

# Role of Audit Committee

Audit committees in local government have 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 on Audit Committees in Local Authorities. This sets out six main principles which CIPFA recommends should be evident in a good local authority audit committee.

The six principles are:

- 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.
- 3** **The core functions of an audit committee are 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, and demonstrate how governance supports the achievements of the authority's objectives.
  - In relation to the authority's internal audit functions:
    - oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework.
  - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
  - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
  - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
  - Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.

- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

**4 Audit committees can also support their authorities by undertaking a wider role in other areas including:**

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Providing oversight of other public reports, such as the annual report.

**5 Although no single model of audit committee is prescribed, all should:**

- Act as the principal non-executive, advisory function supporting those charged with governance.
- In local authorities, be independent of both the executive and the scrutiny functions.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies.
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.
- Report regularly on their work, and at least annually report an assessment of their performance.

**6 Good audit committees are characterised by:**

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.

## **Review of North Tyneside's Audit Committee**

Using CIPFA's Position Statement as a foundation for a review of the Audit Committee, existing arrangements were compared with CIPFA's stated best practice. Importantly, the review also focused on active engagement with existing Audit Committee members (those serving as part of the Committee at the time of the review) and other important stakeholders. These stakeholders included the Cabinet Member for Finance and Resources, the External Auditor, the Chief Executive, Deputy Chief Executive and a number of key officers.

Arrangements within North Tyneside were also compared with several regional local authority neighbours, and with identified 'good practice' examples in other sectors nationally.

## **Summary of Key Findings from the Review, and Progress Made during 2016/17**

The review concluded that:

- The Audit Committee has the potential to be a real 'force for good' in North Tyneside Council. It is uniquely placed to provide an assurance overview, drawing from the whole range of activities that the Authority is engaged in, and all outcomes which the Council hopes to deliver for the people of North Tyneside. The Audit Committee is a source of constructive challenge on where the organisation is maximising opportunities, and where there is scope to manage risks more effectively.
- At the time of the review the Committee felt isolated in its operation. At that juncture there was limited interaction with the Senior Leadership Team, as the management board of the organisation; and without a formal link to Cabinet, or to other committees. As such, the Audit Committee was felt to have inputs but no measurable outputs or outcomes, which could limit its effectiveness.

Significant steps have now been taken during 2016/17 to increase the interaction between the Audit Committee Chair and Senior Leadership Team members, with a programme of regular briefings now established for the Chair. Together with the introduction of Audit Committee's annual report to Cabinet, it is hoped that this will further help to improve the Audit Committee's visibility, effectiveness and usefulness within the Authority.

- Attendance at the Committee had historically been variable, but this has been much improved during 2016/17. Elected members attending the Audit Committee are clearly very knowledgeable and the Committee has engaged in intelligent debate on a number of key governance matters. It is to the credit of the members on the Committee that this debate has transcended any political discussion. Relevant senior officers have attended the Committee during 2016/17, and the effectiveness of the Committee will be enhanced if this approach continues and develops further. The Audit Committee should be viewed both by senior officers and members as an important and relevant

part of the governance structure, and the regular attendance of such key stakeholders will help reflect this.

- The reports prepared by Internal Audit, and support of the Committee by the Internal Audit team, have been the main source of information and support to the Audit Committee (and in particular, to the co-opted Chair and Deputy Chair) to date. The work is professional, of a consistently high standard and welcomed by the Committee; but the Committee would benefit from a greater variety of input from a range of other contributors throughout each municipal year. This is an area highlighted for further development in the next section.
- The Audit Committee's Terms of Reference broadly reflect the professional guidance issued by the Chartered Institute of Public Finance and Accountancy, and it is positive that a work programme (reflecting the Terms of Reference) is normally prepared and agreed in advance of each municipal year. Greater engagement could perhaps be effected if the Senior Leadership Team, Cabinet and Audit Committee members had more say in the topics to be considered at the commencement of, and during, each year; and if there was scope to commission work or studies by the Audit Committee. A sub-group of Audit Committee members, supported by officers as appropriate, would seem to be an effective way of managing the delivery of such commissioned studies and the potential for this approach will be explored further this year.

## Areas Recommended for Further Development

To build on the findings from the review and progress made to date, the following areas have been highlighted for further action during 2017/18.

- Cabinet: Greater interaction at the commencement of each municipal year between Audit Committee and Cabinet, regarding the Audit Committee's work programme, to ensure that this is optimising the assurance provided to the organisation and reflecting the needs of Cabinet.

This Annual Report is intended to commence the development of a structured dialogue between Audit Committee and Cabinet, whereby Cabinet's views can be reflected in the Audit Committee's workplan. It is proposed that specific consultation with Cabinet will be undertaken in advance of the 2018/19 year and preparation of Audit Committee's workplan for that year.

- Member Development Programme: A development programme for Audit Committee members, but also for non-members of Audit Committee to raise awareness on what the Committee's role is, and its remit, would be beneficial.

Now that membership of Audit Committee for 2017/18 has been confirmed, the best way of developing and delivering such a Programme is being explored. This will involve the Authority's Senior Leadership Team, the Head of Finance and both Internal and External Audit.

- Work Programme: Greater involvement of Audit Committee members in agreeing the work programme for the Committee would be helpful in securing a greater level of engagement and making the subject matters covered by the Committee more 'live' to those involved in the debate. This matter was discussed at the last meeting of Audit Committee in May 2017, and will be progressed further during 2017/18 and reflected in the development of the new formal work programme by March 2018.
- Attendance at Audit Committee Meetings: where appropriate, attendance by appropriate Senior Leadership Team members at the Committee is welcome and expected. As the new work programme is developed, arrangements to invite appropriate members of the Senior Leadership Team to attend relevant meetings of Audit Committee will be identified in order that the relevant Heads of Service can plan accordingly.

It would also improve the scope for debate and challenge on key risk matters if the Cabinet member risk owner could be present for such risks, on a rolling basis, for consideration of key risk matters.

## **Audit Committee Substantive Business – Key Highlights**

In addition to considering how we might improve Audit Committee's delivery of its role and remit, the Committee's business during 2016/17 also proceeded as planned and a number of interesting and important reports were received and discussed. A summary of reports received by the Committee is set out at Annex A. Key highlights from the Committee's work this year included:

### **Internal Audit**

#### *Annual Opinion*

The Chief Internal Auditor's Annual Opinion on the Framework of Governance, Risk Management and Control for 2016/17 was 'satisfactory'. This is a very positive outcome for the organisation. The opinion reflected that no 'no assurance' audit opinions, and no 'critical' audit recommendations, had been issued by Internal Audit during the year.

The opinion highlighted that the majority of the organisation's fundamental financial systems, and high value / high volume transactional systems, were amongst those awarded a 'significant assurance' audit opinion. This included the audits of Council Tax, Payroll, and Rent Assessment & Collection. The Authority's system for making payments through the national BACS system and arrangements in place throughout the authority for budget monitoring and control were also judged to be of a good standard. This provides assurance that these key systems bear appropriate levels of control.

In terms of the areas where a 'limited assurance' opinion was determined, Internal Audit drew attention to their audit of ICT Business Continuity and Disaster Recovery (DR). This reflected Internal Audit's assessment of the resilience of the Authority's secondary Disaster Recovery data centre, should business continuity / disaster



recovery plans need to be invoked. Although a 'limited assurance' audit opinion was issued with regard to the Authority's arrangements in this area, the Authority's ICT Service are aware of the issues and are fully accepting of Internal Audit's recommendations. A raft of measures aimed at strengthening controls is now in the process of being implemented within the Authority.

All other matters contained within the Chief Internal Auditor's annual report were discussed in detail by Audit Committee, with a number of intelligent and probing questions asked by Audit Committee members. Internal Audit has agreed to keep these areas under review and further updates will be brought back to Committee.

### *Perimeter Security*

Audit Committee receives regular summaries of the outcomes of Internal Audit's reports. These summaries highlight:

- the audit objectives of each audit assignment
- the number of high, medium and low priority recommendations made
- any areas of good practice in the area under audit
- key findings / issues identified from the audit, and recommendations
- a management comment on action taken in response to the audit recommendations made.

Audit Committee was keen to see a full Internal Audit report, in addition to the summaries normally reported. It was therefore agreed that the audit of Perimeter Security would be a good example for Audit Committee to consider. The request by Audit Committee to see the detail of this report preceded the national, well-publicised issues which subsequently occurred within the National Health Service relating to a ransomware virus in the Spring of 2017. However this matter occurring outside of the Authority highlighted how topical the issue of effective perimeter security is for any public sector body.

The audit sought to determine whether the organisation's systems of control provide adequate protection against the risks associated with virus / hacking attacks, and Internal Audit issued a 'moderate assurance' opinion in this regard. The audit found that there were a number of controls operating well to minimise the vulnerabilities that an external threat could exploit in an attempt to attack the corporate network. The corporate network is subject to independent inspection multiple times each year and the organisation successfully retained its Public Services Network (PSN) accreditation.

Audit Committee considered these issues and did also note that the audit identified several key issues that required additional strengthening. This included procedures relating to the use of de-supported software in respect of which 'patches' (to rectify vulnerabilities) are no longer issued by the manufacturer. Where such software is still in use, the organisation carries additional risk for an extended period. The audit highlighted that measures should be put in place to allow for planned migrations before software is de-supported in order to reduce unnecessary risk. It also recommended that a process to manage installation of patch updates for current software held on desktop devices be developed, and agreement of patching windows to ensure infrastructure is protected against malware attacks. Increased emphasis on perimeter security issues within ICT Security training would also be

beneficial. Audit Committee noted these matters and the action which was underway by management within the Authority to address these.

### **External Audit**

In the Annual Completion Report for 2015/16, the External Auditor provided an unqualified opinion on the accounts and arrangements in place to secure value for money within the Council. This is a very positive outcome and reflects well on the financial processes and financial governance procedures in place within the Authority.

The External Auditor's audit of grant claims was summarised in the Annual Grants Report presented to the March 2017 meeting of Audit Committee. The report provided a full analysis of the claims and returns which had been certified relating to 2015/16. The external auditor explained that a qualification letter had been issued in respect of one claim relating to Housing Benefit Subsidy, which was usual given the very exacting requirements of the certification process for this particular claim. Members of the Audit Committee sought clarification on how the Authority responded to such qualifications on certifications, and were assured that an action plan was put in place by the relevant management to manage risks associated with this claim.

### **Finance**

The Annual Statement of Accounts was received by the Committee, with an update on measures taken by the Head of Finance to ensure that the earlier deadline for completion of the accounts could be met in future. A review of the 2015/16 closedown process had been carried out to identify areas where lessons could be learned and improvements made, with an amended timetable produced.

The Annual Governance Statement, which explained how the Council delivered good governance and reviewed the effectiveness of its arrangements, was co-ordinated by the Head of Finance and considered in some detail by the Committee. Having reviewed the evidence underpinning the Annual Governance Statement, the Senior Leadership Team had taken the view that governance arrangements in operation were effective. Audit Committee considered the contents of the Annual Governance Statement in conjunction with the key strategic risks which are regularly reviewed by the Committee.

## **Future Work of Audit Committee: 2017/18 and Beyond**

Building on the work already undertaken and outlined in this report, some of the tasks required of Audit Committee in the coming year are already clear.

In addition to developing a new work programme for Audit Committee (which will reflect the outcomes of engagement with and aspirations of both Cabinet and the Senior Leadership Team as set out above), the terms of reference for Audit Committee will need to be updated to reflect CIPFA's recommended practice and Position Statement set out earlier in this report.

A further assessment of the Audit Committee's performance will also be undertaken, in accordance with CIPFA's recommendation that such a review takes place annually. An invitation will be extended to all serving Audit Committee members to participate as this worked very well during the last review. As with the previous review, outcomes will be reported to Cabinet and the Senior Leadership Team.

An appropriate skills development programme for Audit Committee members will be prepared in conjunction with the Authority's Organisational Development team. Consideration will also be given on how the role and remit of Audit Committee can be promulgated more widely, in order that there is greater clarity for officers and those elected members who do not serve (or have not yet served) on the Committee as to its purpose and rationale.

Audit Committee has also expressed an interest in learning more about the ways in which Internal and External Audit compile their respective audit plans, and how performance is monitored and managed. Reports will be brought to Audit Committee on these matters in due course. Under the Public Sector Internal Audit Standards, the Internal Audit service will be externally assessed during 2017/18. The form of this external assessment and its outcomes will be reported to Audit Committee and will form part of the Committee's work programme during the year.

## **Conclusion**

Audit Committee is pleased to present this first report to Cabinet, and hopes that this will give a flavour of some of the issues which have been considered over the last year. The Committee looks forward to developing its work programmes and in assuring and supporting Cabinet as the current year progresses.

**Summary of Reports considered by Audit Committee in 2016/17**

<b>Meeting Date</b>	<b>Governance Matters Considered</b>
25 May 2016	2015/16 Opinion on the Framework of Governance, Risk Management and Control Strategic Audit Plan 2015/16 – Final Monitoring Statement Key Outcomes from Internal Audit Reports issued between October 2015 and March 2016 External Audit Progress Report Annual Governance Statement 2015/16 Corporate Risk Management Summary Report
21 September 2016	2015/16 Audit Completion Report Highway Network Assets
30 November 2016	Internal Audit and Risk Management – Shared Service Update External Audit Annual Audit Letter 2015/16 External Audit - Audit Progress Report Annual Governance Statement Annual Statement of Accounts 2016/17 Strategic Audit Plan 2016/17 Interim Monitoring Statement Key Outcomes from Internal Audit reports issued during April to September 2016 Corporate Risk Management Report
29 March 2017	2015/16 Annual Grants Report 2016/17 Audit Strategy Memorandum External Audit Progress Report Accounting Policies for 2016/17 Strategic Audit Plan 2017/18