

Annual Report of the Audit and Risk Assurance Committee 2021/22



Introduction

Councillor Liam Preece
Chair of the Audit and Risk Assurance Committee



The Audit and Risk Assurance Committee here at Sandwell, as across local government, is a key component of a council's corporate governance framework. It provides an independent and high-level focus on the audit, risk management, assurance and reporting arrangements that underpin good governance and financial standards.

The purpose of the Committee is to provide independent assurance to the Council on the adequacy of the risk management framework and the internal control environment. It provides independent review of the governance, risk management and control frameworks and oversees the financial reporting and annual governance processes. It also oversees the work of both the internal and external auditors, helping to ensure that efficient and effective assurance arrangements are in place. The key benefits of the Committee can be seen as:

- increasing public confidence in the objectivity and fairness of financial and other reporting;
- reinforcing the importance and independence of internal and external audit and similar review processes;
- providing additional assurance through a process of independent review; and
- raising awareness of the need for internal control and the implementation of audit recommendations.

The Committee agrees a work programme for each year. It is based on (but not limited to) the following main sources of assurance:

- Annual Governance Statement - this is the statutory report which the Committee approves and forms part of the council's Statement of Accounts.
- Strategic Risk Register – detailing how and where the Committee can gain assurance that risks are being well managed.
- Internal Audit - the ongoing work of, and reports from the council's internal auditors.
- External Audit - the reports submitted to the Committee by the council's external auditors Grant Thornton

The year saw many challenges for the Council, with a number of external reviews identifying a range of issues that the Council needs to address. This included recommendations from our External Auditors following their Value for Money Governance Review, CIPFA's Financial Management Review, Internal Audit and the LGA's Corporate Peer Challenge.

Also, in March 2022 the Secretary of State for Levelling Up, Housing and Communities announced an intervention package and a set of Directions to ensure the Council was able to comply with its best value duty under Part 1 of the Local Government Act 1999. These Directions were in-part influenced by the Grant Thornton report following their Value for Money Governance Review.

The intervention package included the requirement for the development and implementation of an Improvement Plan within the first three months following the Directions notice and the appointment of two Commissioners.

In June 2022 the Council approved such an Improvement Plan that combined a series of actions to address the matters raised in the reviews referred to.

At our June 2022 meeting we received a detailed report on the Improvement Plan and accompanying risk register as a basis for our work planning in the year ahead. Along with our colleagues serving on other Council groups including Cabinet, the Governance and Constitution Review Committee and various Scrutiny Committees, a key part of this Committee's role over the coming year will be in maintaining oversight of the actions and implementation of the Improvement Plan.

Finally, I would like to place on record my thanks to the past members who served on the Committee during the year, along with our independent members, officers who provided ongoing support to the Committee, and our internal and external auditors. I also welcome my fellow new members to the Committee in what will certainly be a busy year ahead.

Thank you.

Councillor Liam Preece

Committee membership

Membership during the 2021/22 year	Membership for 2022/23
Councillor Manjit Gill (Chair)	Councillor Liam Preece (Chair)
Councillor Peter Allen	Councillor Jay Anandou
Councillor Jay Anandou	Councillor Aqeela Choudhry
Councillor Kacey Akpoteni	Councillor Luke Giles
Councillor Ahmad Bostan	Councillor Nicky Hinchliff
Councillor Zahir Hussain	Councillor Syeda Khatun MBE
Councillor Olwen Jones	Councillor Steve Melia
Mike Ager (Independent - Vice Chair)	Mike Ager (Independent - Vice Chair)
Jay Hussain (Independent)	Jay Hussain (Independent)

The Committee met on the following dates:

- 16 September 2021
- 18 November 2021
- 21 December 2021
- 11 January 2022
- 17 March 2022
- 28 June 2022
- 21 July 2022

Senior Officers from the council were also present as required, including the Chief Executive, Director of Finance/Section 151 Officer, Monitoring Officer, the Head of Finance, Head of Audit and where appropriate the External Auditors (Grant Thornton).

The Committee's business

During the 2021/22 year the Committee conducted the following business:

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| <ul style="list-style-type: none">• External Audit Report – Value for Money Governance Review and Implementation Plan• Council Improvement Plan (including the CIPFA Financial Management Model and LGA Corporate Peer Challenge Reports)• Improvement Plan Risk Register• Statement of Accounts 2019/20• External Auditors Findings Report 2019/20 and Update Action Plan• External Auditors Progress Report 2020/21 and Sector Updates• External Auditors Interim Annual Report 2020/21 | <ul style="list-style-type: none">• Internal Audit Annual Report 2021/22• Internal Audit Progress Reports• Internal Audit Plan 2022/23• Internal Audit Charter• Strategic Risk Register Updates• Strategic Risk – Towns Fund Programme• Strategic Risk – Partnerships and Contractors Service Delivery• Children's Services – Directorate Risk Register |
| <ul style="list-style-type: none">• Counter Fraud Updates• Fraud Risk Register• School Fraud Awareness Bulletin• Voluntary and Community Sector Grants Update• SEND Passenger Transport Contract• Local Government and Social Care Ombudsman Annual Report year end 2020 and 2021 | <ul style="list-style-type: none">• Constitution Review: Contract Procedure Rules and Land and Asset Disposal Protocol• Appointment of the External Auditor• CIPFA Audit Committee Updates• Committee Terms of Reference Review• Committee Work Programme• Cabinet Forward Plan |

The Committee's business was impacted by delays in the approval of the 2019/20 Statement of Accounts, and then the subsequent impact this has had on the preparation of the accounts for both 2020/21 and 2021/22. Therefore, at the time of writing, these elements of the normal committee cycle were yet to be completed.

Key Sources of Assurance

Risk Management

The Committee regularly received and reviewed the council's Strategic Risk Register, and assessed the assurance provided in order to demonstrate how risks were being mitigated. It did also, where deemed necessary, call-in individual risks for a more detailed review.

The work of our Internal Auditors

The Council's Internal Auditors gave the following opinion in their 2021/22 Annual Report:

"As a result of a number of key governance issues raised during the year, predominantly those detailed in the Grant Thornton Value for Money review with its accompanying statutory and key recommendations, and the action taken by the Government in appointing commissioners to the Council, Internal Audit are unable to provide reasonable assurance for 2021/22 that the Council had fully adequate and effective governance processes. However, from the work we have completed we are able to provide reasonable assurance that both risk management and internal control processes remain adequate.

During the year a number of activities and actions have been put in place as part of the Council's improvement journey, including an appointed Commissioner alongside a new Leadership Team, and a Single Improvement Plan pulling together the recommendations from a number of recent key independent and external reviews (including Grant Thornton's Value for Money Governance Review, CIPFA's Financial Management Review and the LGA's Corporate Peer Challenge) which should help ensure that in the year ahead, reasonable assurance regarding governance processes can be achieved".

The work of our External Auditors

As indicated above, the External Auditors noted weaknesses in the Council's financial sustainability and governance arrangements and with regards to improving economy, efficiency and effectiveness. These were detailed in both their Governance Value for Money Report and their Interim Annual Report and included a number of statutory, key and improvement recommendations, and these have been reported separately to the Committee. They did note that the Council had made a range of improvements to address these issues and that the Council was working closely with the Government commissioners, but that the ongoing actions in the Improvement Plan would take time to embed fully.

Counter Fraud

One of the roles of the Committee, is to review the assessment of fraud risks and potential harm to the council from fraud and corruption along with monitoring counter-fraud actions. We receive regular reports from the Counter Fraud team which provide us with updates on a range of fraud related activities including:

- Outcomes from tenancy fraud, subletting, right to buy and other investigations
- Fraud prosecutions
- The Cabinet Office's National Fraud Initiative exercise
- Covid-19 Grant and Support Payments
- The Council's Fraud Risk Register

Conclusion of the Audit and Risk Assurance Committee 2021/22

In what was a challenging year, a number of governance and associated issues were highlighted from a range of sources including Grant Thornton, CIPFA, the LGA and our internal auditors. We are committed to playing a key role and working with our colleagues, in ensuring that the recommendations in the Council's Improvement Plan are addressed in a meaningful and timely manner during the 2022/23 year.

The Committee's main achievements

While it has been a challenging year, the Committee believes its key achievements during the year were:

- Regular consideration and review of the council's strategic risk register.
- The 'calling-in' of key strategic risks for a more detailed review
- Continuing to maintain a good working relationship with the council's internal and external auditors.
- Raising the profile of internal control issues across the council and of the need to ensure that audit recommendations are implemented.
- Maintaining a detailed focus on the actions being taken to combat fraud.
- The continued attendance of our independent members, which in turn helps broaden the Committee's experience and independent viewpoint.

Audit and Risk Assurance Committee –Terms of Reference

Statement of purpose

Our Audit and Risk Assurance Committee is a key component of the 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.

The purpose of our Audit and Risk Assurance Committee is to provide independent assurance to the members of the adequacy of the risk management framework and the internal control environment. It provides independent review of the 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

To review the council's corporate governance arrangements against the good governance framework and consider annual governance reports and assurances.

To 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.

To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.

To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

To monitor the effective development and operation of risk management in the council.

To monitor progress in addressing risk-related issues reported to the committee.

To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.

To review the assessment of fraud risks and potential harm to the council from fraud and corruption.

To monitor the counter-fraud strategy, actions and resources.

To review the governance and assurance arrangements for significant partnerships or collaborations.

Internal Audit

To approve the internal audit charter.

To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.

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.

To approve significant interim changes to the risk-based internal audit plan and resource requirements.

To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.

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.

To 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. These will include:

- Updates on the work of internal audit including key findings, issues of concern and action in hand as a result of internal audit work;
- Regular reports on the results of the quality assurance and improvement programme;
- Reports on instances where the internal audit function does not conform to the Public Sector Internal Audit Standards and Local Government Application Note, considering whether the non-conformance is significant enough that it must be included in the annual governance statement.

To consider the head of internal audit's annual report:

- The statement of the level of conformance with the Public Sector Internal Audit Standards and Local Government Application Note and the results of the quality assurance and improvement programme that supports the statement - these will indicate the reliability of the conclusions of internal audit.
- 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 - these will assist the committee in reviewing the annual governance statement.

To consider summaries of specific internal audit reports as requested.

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.

To contribute to the quality assurance and improvement programme and in particular, to the external quality assessment of internal audit that takes place at least once every five years.

To consider a report on the effectiveness of internal audit to support the annual governance statement, where required to do so by the Accounts and Audit Regulations.

To 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.

External Audit

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 PSAA or the authority's auditor panel as appropriate.

To consider the external auditor's annual letter, relevant reports, and the report to those charged with governance.

To consider specific reports as agreed with the external auditor.

To comment on the scope and depth of external audit work and to ensure it gives value for money.

To commission work from internal and external audit.

To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies.

Financial Reporting

To receive detailed training in respect of the process associated with the preparation, sign off, audit and publication of the Council's Annual Statement of Accounts.

To 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.

To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

Accountability arrangements

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.

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.

To publish an annual report on the work of the Committee.