

## **Annual Report of the Audit Committee 2013-14**

This report covers the work of the Audit Committee in the year ended 31 March 2014. It sets out to demonstrate the impact of the work of the Audit Committee and how it adds value.

The Audit Committee was established in 2007. Due to a review of Audit Committee Procedures in March 2014 it will, from now on, report to Full Council. As this is the first such report of the Council, I thought it appropriate to include some general remarks about how the Audit Committee functions. I hope to draw out issues of corporate significance and of wider interest to members while also including some pointers for areas of focus over the coming year(s).

## **Review and Approval of Annual Statement of Accounts**

As the Audit Committee, we are charged with reviewing the Statement of Accounts every year, for which members receive training. Members are able to highlight any figures or statements they consider worthy of challenge by, for instance, drawing on their own experience or making comparisons with the figures for the previous year. Members also check that the accounts are understandable and the explanation behind the figures sufficiently informative.

Encouragingly, members' questioning had also previously picked up the one material adjustment to the primary, or core, statements made during the external audit process (grant income in the cash flow statement). Importantly, though, this relatively low level of material error in the accounts represented a considerable overall improvement on most previous years.

Including by email, over 40 queries on the accounts were relayed to officers by members, all of which either received a satisfactory explanation or, in some cases, resulted in adjustments/amendments.

It is always worth highlighting that the introductory section of the Statement of Accounts gives a useful overview (including non-financial aspects) of the Council in the previous year, reading similarly to an annual report, and should be an important source of reference for all members.

One major advance for this year was that, not only did the Council again successfully meet the deadline of 30 June 2013 for signing off the audited draft Statement of Accounts for 2012-13, but were able to sign off the audited version by the deadline of 30 September 2013; a not insignificant challenge for any Council. This is indicative of the overall path of improvement which I have experienced as Chair of Audit over the last 6 years and for which all staff involved deserve recognition and congratulation.

## **Internal Audit**

In respect of monitoring Internal Audit's key role in reducing the potential for fraud and error, scrutiny of Internal Audit reports and the Internal Audit Plan by the Committee allows Members to highlight any areas of concern from their own knowledge, experience and assessment of the information provided.

The work of internal audit was reported to every meeting throughout the year. Each time this included a schedule of significant issues with response and implementation dates for any required action. The Committee monitors and questions progress on addressing the recommendations. As an example, in July 2013, delay in implementing the policies and procedures recommended for Accounts Payable was questioned by the Committee and we received adequate assurance that the work could be undertaken.

Although there has been some slippage of internal audit work this year, the Audit Committee has received assurance that the “remaining audits should all be scoped and started in the current year, with time allowed in next year’s plan for completion”. The Committee provides scrutiny on the overall progress of the plan and questions progress on specific areas. For instance, in the meeting of March 2014 the Committee enquired about audit of outsourcing arrangements and was informed that discussions with NPS Norwich have been had concerning this.

As regards error, both the internal audit and grant certification (see under external reports below) process have identified housing and council tax benefits as areas of high risk, although this year a marked reduction in the rate of error has been noted. The Committee scrutinises progress on minimising the error rate and, for instance, following questions at the March meeting, it was agreed that future Internal Audit reports would contain a breakdown to explain if housing benefit overpayments were caused by either customer or officer error.

The Audit Committee reviewed the Internal Audit and Counter Fraud Plans for 2014-15 and was satisfied that the proposed plan, if sufficiently completed, will take adequate account of areas of high risk, including the risk of fraud.

### **Prevention of Fraud and Corruption**

Most aspects of the Audit Committee’s work, which are covered in this report, very much relate to the prevention of fraud. For instance, our review of Internal Audit Plans for the year, as well as ongoing monitoring of internal audit, seeks to ensure that systems of internal control are sufficient to preclude the possibility of funds being misappropriated without detection.

More specifically, the work of the Council’s fraud team, including successful prosecutions and National Fraud Initiative activity, is also reported to every meeting. Benefit fraud is a particular area of significant risk, which takes up a large proportion of the Fraud Team’s work, and it has been a consistent source of questioning for the committee over the year.

As reported to the Committee, up to 26.2.14 this financial year there were 772 (*last year: 641*) benefit cases referred to the fraud team and 121 (*last year: 480*) investigated up to 31.1.14. This resulted in 34 (*last year: 55*) prosecutions up to 26.2.14. It’s important for the year(s) ahead that the Audit Committee continues to keep a close eye on benefit fraud, ensure that resources are in place for referrals to be sufficiently investigated and, where possible, to work closely with the Scrutiny Committee who have also had a particular focus on benefits.

The Audit Committee receives assurance that Council policies on conduct, security, personnel matters and whistleblowing are adequately communicated to its employees. Fraud awareness training for staff is also reported to the Committee.

A letter on how the Audit Committee gains assurance that the operation of management processes and arrangements are sufficient to prevent fraud, corruption and error is written annually by the Chair of the Audit Committee to the external auditors.

### **Risk Management**

The Committee reviewed the Corporate Risk Register in July 2013 and this year a new risk management policy and strategy was put in place which we reviewed in November 2013. Members also benefited from an informal training session on risk management.

Aspects of risk questioned by members included:

- Partnership working and the potential failure of third party businesses contracted to carry out work for the Council: Members were informed of various measures to mitigate against these risks, such as applying due diligence to large contracts, although it was pointed out that companies' own risk arrangements were often subject to commercial confidentiality.
- Long term risk: Risk was defined as "Factors, events or circumstances that may prevent or detract from the achievement of the Council's corporate priorities and service plan objectives". Members were advised that the Council's corporate priorities responded to long-term risk which impacted on current priorities. How long term risk is reflected, ie concerning a period longer than that covered by the Corporate priorities, is an area I consider worthy of particular interest moving forward.

### **Review of Corporate Governance Framework**

Systems of internal control and corporate governance are assessed as part of the review of the Annual Governance Statement (AGS) and this is presented as a separate report alongside the approval of the accounts.

As described previously at Council, the AGS is pretty much a description of how the Council works and I would encourage all members to read it now that the draft accounts have been issued (in which it is included).

Areas questioned by members included: the responsibility of Heads of Service to review their own service; assurance that recommendations in the previous year's AGS had been adequately implemented; governance arrangements of key partners, such as NORSE, and how these impact on the Council's own arrangements; and contract management of Citywide Services.

### **Reports from External Auditors**

The Committee received the following reports from Ernst & Young (E&Y), our external auditors:

### **Audit Results Report (ISA 260) 2012-13 (Reported to 24.9.13 meeting)**

This presents the external auditor's opinion on the financial statements and also forms a conclusion on the arrangements that the Authority has in place to secure, economy, efficiency and effectiveness in its use of resources.

We were pleased to be informed that the Auditors were to issue an unqualified opinion on the Authority's financial statements for 2012-13 and an unqualified value for money conclusion. This means that, in the Auditor's opinion: the financial statements fairly represent the financial position and performance of the Authority; there are sufficiently robust systems and processes in place to manage financial risks and opportunities; and the Council is sufficiently effective in prioritising resources within tight budgets.

The main outstanding area of concern relates to how Property, Plant and Equipment (Fixed Assets) are accounted for. This has been a consistent issue for as long as I have been Chair of Audit. An important function of the Audit Committee is to check that recommendations from external audit are implemented effectively and according to timetable. In a subsequent meeting, following member questioning, the Audit Committee was informed that: "The council was in the process of reviewing its financial management system and looking at various options, which included replacing it with another system that could produce the fixed asset register and was more suited to the size of the council." (*from minutes 19.11.13*) A report has recently gone to Cabinet on the Replacement Finance System and the Committee will continue to monitor progress on this issue, with a specific report if necessary.

It is worth noting that, overall, the number of recommendations and outstanding areas of concern resulting from external audit has decreased dramatically, particularly over the last two years.

At the 24.9.14 meeting the Annual Audit Letter, which attests to the accuracy of the financial statements and outlines the Authority's responsibilities in respect of the audit, was approved as part of this report.

### **Certification of Claims and Returns Annual Report 2012-13 (Reported to 11.3.14 meeting)**

As an authority which runs the Government's housing and council tax benefits scheme, Norwich City Council claims subsidies from the Department of Work and Pensions (DWP) towards the cost of benefits paid. E&Y, as our external auditors, undertake testing work to "give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions." This year, some errors were identified and extended testing carried out. Subsequently, E&Y issued a qualification letter for housing and council tax benefits which listed issues of concern and officers were asked to carry out further work. This is an area which the Audit Committee needs to

continue to closely monitor and ensure that any remaining issues identified by Internal Audit are acted on.

E&Y carried out similar work for the National Non-Domestic Rates return and the Pooling of Housing Capital Receipts and, in those cases, no qualification letter was necessary.

### **(External) Audit Plan 2013-14 (Reported to 11.3.14 meeting)**

Among the issues raised by members, was the uncertainty surrounding Business Rate Retention (BRR) and the Council's provision for successful claims following appeals to the Valuation Office. The Chief Financial Officer will be working closely with the external auditors on this issue and I would suggest that the Audit Committee remain aware of progress.

The approach and scope of the external audit was agreed.

### **Auditor's Fee (Final figure reported as part of the above item)**

Subject to review by the Audit Commission, they were set to be £145,925 Audit Fee (*last year: £206,087*) and £50,422 (*last year: £100,236*) for Certification of Claims and Returns (see below).

Although higher than the originally planned fee, they still represent a considerable saving from the previous year and we are hoping for further savings in the coming year if the Council's finance-related performance continues to improve.

### **Closing Remarks**

As reported earlier, I have been lucky to witness substantial improvement in Norwich's financial and internal control systems over my 6 years as Chair. For this, the officers must of course take the lion's share of the credit and I would like to personally thank all those involved, including over the last year: Caroline Ryba, Philippa Dransfield, Steve Dowson, Steve Tinkler and Mark Smith. I would also like to thank all at Ernst and Young, Committee Officer Jackie Rodger and all Members of the Committee. Finally, I would like to wish the new Chief Financial Officer and Chair of Audit the best of luck and I have every confidence that the present path of improvement can be maintained.

**Cllr Stephen Little**  
**Chair of Audit Committee, 2008-14**