



NORWICH City Council

Committee Name: Council

Committee Date: 22/11/2022

Report Title: Annual Report of the Audit Committee 2021-2022

Committee chair Councillor Price

Report from: Executive director of corporate and commercial services

Wards: All Wards

OPEN PUBLIC ITEM

Purpose

This report presents the Annual Report of the Audit Committee 2021-2022, appended to this report at Appendix A, to council.

Recommendation:

It is recommended that council receives the Annual Report of the Audit Committee 2021-2022.

Policy Framework

The Council has five corporate priorities, which are:

- People live independently and well in a diverse and safe city.
- Norwich is a sustainable and healthy city.
- Norwich has the infrastructure and housing it needs to be a successful city.
- The city has an inclusive economy in which residents have equal opportunity to flourish.
- Norwich City Council is in good shape to serve the city.

This report meets the corporate priority to ensure Norwich City Council is in good shape to serve the city.

Report Details

1. On 11 March 2014, the audit committee resolved to approve new procedures for the audit committee in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. The CIPFA guidance says that:

“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.”
2. The guidance goes on to set out that the core functions of the audit committee are to:
 - a) 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.
 - b) In relation to the authority’s internal audit functions:
 - i) oversee its independence, objectivity, performance and professionalism;
 - ii) support the effectiveness of the internal audit process;
 - iii) promote the effective use of internal audit within the assurance framework.
 - c) 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.
 - d) 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.
 - e) Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control
3. The council delegates authority to the audit committee to undertake a range of functions on its behalf, including approval of the Annual Statement of Accounts and Annual Governance Statement. It is therefore important the council ensures that the audit committee is discharging its role effectively.
4. The attached annual report of the audit committee 2021-2022 was considered by members of the audit committee at their meeting on 12 July 2022. The

report has been amended slightly to reflect that the member training scheduled for 11 July has been postponed to 3 October.

5. The report sets out the work of the audit committee over the last financial year, providing assurance to council on the work undertaken by the committee.
6. The report concludes that the committee has been effective in undertaking the functions set out in its terms of reference, in accordance with the council's procedure rules and the Accounts and Audit Regulations 2015.

Consultation

7. This report has been written in consultation with the chair and vice chair of the committee and based on discussions recorded in the minutes of meetings of the committee. At its meeting on 12 July 2022, the committee approved the report and recommends it to council.

Implications

Financial and Resources

Any decision to reduce or increase resources or alternatively increase income must be made within the context of the council's stated priorities, as set out in its Corporate Plan and Budget.

8. There are no proposals in this report that would reduce or increase resources.

Legal

9. The role of the audit committee is an important part of the council's arrangements to ensure proper administration of its financial affairs under s.151 of the Local Government Act 1972. The annual report of the committee is considered to be good practice as identified by the Chartered Institute for Public Finance and Accountancy and is reflected in the council's constitution.

Statutory Considerations

Consideration:	Details of any implications and proposed measures to address:
Equality and Diversity	No implications arising from this report
Health, Social and Economic Impact	No implications arising from this report
Crime and Disorder	No implications arising from this report
Children and Adults Safeguarding	No implications arising from this report

Environmental Impact	No implications arising from this report
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Risk Management

Risk	Consequence	Controls Required
Include operational, financial, compliance, security, legal, political or reputational risks to the council	None	None

Other Options Considered

10. This report is for information and consolidates information set out in minutes to the audit committee held on

Reasons for the decision/recommendation

11. To provide an annual report to council.

Background papers:

12. Minutes and reports to the audit committee meetings held from April 2021 to May 2022.

Appendices:

A Annual Report of the Audit Committee 2021-2022

B Extract from the Council's Constitution – Audit committee terms of reference

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Annual Report of the Audit Committee 2021-22

Introduction

This is the annual report of the audit committee and advises the council of the work of the audit committee for the period of the civic year 2021-22.

Councillor Ben Price
Chair, audit committee

Councillor Keith Driver
Vice-chair, audit committee

Background

1. This report covers the work of the audit committee for the financial and civic year 2021-22. The production of an annual report by the committee is considered good practice.
2. The council established an audit committee in 2007. The terms of reference were considered and revised as part of the Constitution Review 2021. The committee exercises its powers, within the policy framework of the council and the corporate plan, as specified in the terms of reference.
3. The members of the audit committee in 2021-22 were:-

Councillor Ben Price (chair)
Councillor Keith Driver (vice chair)
Councillor Adam Giles
Councillor Ash Haynes
Councillor Martin Peek
Councillor Mike Sands
Councillor Ian Stutely
Councillor James Wright
4. Councillor Paul Kendrick, cabinet member for resources, attended all meetings of the committee.
5. The key officers who support the audit committee during this period were:

Annabel Scholes, executive director of corporate and commercial services (S151 officer) (chief finance officer)
Hannah Simpson, head of finance, audit and risk
Neville Murton, interim head of finance, audit and risk
Faye Haywood, internal audit manager
Leah Mickleborough, head of legal and procurement
6. The engagement team of the external auditors (Ernst & Young LLP) is led by Mark Hodgson, the external audit manager for the council. The external auditors have an open invitation to attend meetings of the audit committee to present their reports and answer members' questions. The external auditors attended meetings in July 2021 and May 2022.
7. The committee monitors the fees paid by the council to the external auditors to ensure value for money.
8. The committee met five times during the civic year 2021-22 as follows:
 - 13 July 2021
 - 21 September 2021
 - 18 January 2022
 - 8 March 2022
 - 17 May 2022 (extraordinary meeting)
9. The information contained in this report is drawn from the minutes and reports considered at committee meetings held during the year. Agendas, reports and minutes for the meetings are available on the council's website:

<https://cmis.norwich.gov.uk/live/Meetingscalendar.aspx>

10. The committee last received training from an external facilitator in October 2020. Members will have an opportunity to attend an introductory training session for members of the audit committee on 3 October 2022 (rescheduled from 11 July 2022.)
11. This report sets out the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose, under the following headings:
 - (a) Corporate governance
 - (b) Internal and external audit
 - (c) Statement of accounts
 - (d) Referral powers and accountability arrangements

Corporate governance

12. The committee welcomes the changes that the corporate leadership team has made to strengthen governance arrangements within the council and in relation to its wholly owned companies.
13. The committee is advised by the chief finance officer, internal and external audit. In line with CIPFA/SOLACE good practice, the council's constitution adopted in March 2021, has provision for the council to appoint up to two independent non-voting co-opted members to the audit committee whose "skill, knowledge, qualification and experience relevant to the role of the committee" to assist members. The council is currently in the process of appointing an independent person to the committee.

Corporate risk management policy, strategy and register

14. The council's constitution adopted in March 2021, formalises the committee's request to receive a report on the council's risk management policy, strategy and register twice a year. This provides the committee assurance about the risk appetite of the council and an opportunity to ask questions on the application of scores to risks.
15. The committee considered changes to the Risk Management and Strategy at its September meeting, prior to its approval at cabinet in October 2021. The committee welcomed the opportunity to review the policy and strategy and appreciated the shift in the culture of the council that it represented, with risk management being considered at individual and service levels and risks being addressed before serious problems occurred. The relaunch of this strategy ensured that risk management is embedded throughout the organisation. Members commended the officers for the clarity of the document and the inclusion of the assessment of risk and scoring matrix.
16. The committee considered the risk register at its meetings in September 2021, where it was noted that the overall level of risk had not changed, and in March 2022. Following discussion at the September meeting, the committee asked for further consideration of the impact of Brexit, where the concern is that the

impact has not been fully realised, climate change as a separate risk on the risk register and inclusion of risks relating to the end of the furlough scheme and cuts in universal credit under the appropriate risk. Some members of the committee were disappointed that climate change remains an overarching rather than a separate risk on the register. The committee also expressed an interest for further information on the ASB team recruitment and training and looks forward to the risk level being reduced as actions are implemented in the coming year.

Anti-Fraud and Corruption policy and strategy - Application

17. An important function of the committee is to ensure the adequacy of the council's anti-fraud and corruption policy and strategy and the effectiveness of their application.
18. The committee receives an Annual report on Audit Risk and Fraud each year. The annual report for 2020-21 was considered at the July meeting. Members are updated on Anti-Fraud and Corruption measures as part of the quarterly internal audit reports. Significant issues are flagged up to the committee with every quarterly internal audit report. The committee monitors and questions progress on addressing the recommendations.
19. Work of internal audit including counter fraud activity 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. In addition, the committee receives the report on risk management and the risk register twice a year. This allows committee members to challenge the risk appetite of the authority for example, areas where fraud could potentially be a high risk.
20. During the pandemic, the council administered business support grants on behalf of the government. There is a national picture of these grants being open to fraud due to the timescales and lack of government guidance at the time to get grants out to support businesses. An internal audit of the revenues and benefits service has been conducted and the audit recommendations agreed. The council has a duty to ensure that checks are in place and £40,000 has been written off. Members appreciate the work of the team in supporting local businesses and ensuring that businesses had access to grants available. However, it has requested information on how the authority performed when benchmarked against other authorities and the outcome of the National Fraud Initiative in relation to the administration of business support grants.
21. Internal audit reviewed the council's whistleblowing policy and minor amendments relating to change of personnel were agreed by the committee at its meeting on 21 September 2021. The committee received assurance that the policy was fit for purpose.

Annual Governance Statement 2020-21

22. The Accounts and Audit Regulations 2015 requires the council to produce an Annual Governance Statement (AGS). It summarises the extent to which the council complies with its Code of Corporate Governance and details, as appropriate, any significant actions needed to improve the governance arrangements in the year ahead.
23. In addition, as part of the Annual Governance Statement process key officers within the council are asked for a specific assurance as to the extent to which key policies and procedures have been complied within their area for 2020/21.
24. At its meeting on 13 July 2021, the audit committee agreed that the draft Annual Governance Statement was consistent with the committee's own perspective on internal control within the council, plus the governance issues and actions. Members welcomed the inclusion of the action plan which showed the council's performance and direction of travel and noted that it would continue to be updated during the year. The committee also noted that it was a front facing document that showed the council's direction of travel.
25. Since the original AGS was considered by the committee two further issues have arisen: the decision to self-refer to the Regulator of Social Housing, and the subsequent publication of a Regulatory Notice; and the identification and inclusion of statutory equalities objectives. Both these issues have now been added to the AGS. The committee voted unanimously to confirm that the Annual Governance Statement was consistent with the committee's own perspective on internal control within the council, plus governance issues and actions. It was prudent to amend the AGS and gratitude to the committee for raising concerns about contract management and the corporate leadership team for identifying the issue and taking the appropriate action was recorded. The AGS is a public document that shows the council's governance and risk management structure to be robust.

Internal and external audit

Internal audit

26. The council receives an annual audit opinion from the chief internal auditor on an annual basis which is timed to inform the Annual Governance Statement. The committee received the interim audit manager's annual audit opinion as reasonable in July 2021 and noted that this opinion was caveated by the ongoing work on risk management by the corporate leadership team across the council. Members noted that the council had identified a need to strengthen competencies and make improvements in the way in which contracts are managed effectively to drive out efficiencies and service improvements. This will continue to be an area of audit focus given recent limited assurance opinions for the management of a couple of large contracts. This reflects the committee's concerns about contract management and policies and procedures.
27. The council has entered a contract with South Norfolk District Council and a consortium for the provision of internal audit services. A report to the committee in July 2021 sets out the arrangements for the short term and long term provision of internal audit services for the council.

28. The committee receives regular reports from internal audit and monitors the internal audit plan. The council has moved to a risk-based approach assessed against the council's risk management register and prioritised areas identified as a risk. The internal audit manager assured members that the internal audit coverage would be sufficient to provide an audit opinion. Members have an opportunity to monitor the progress against the work programme. Due to the new arrangements the internal audit plan for 2021-22 started later in the year and therefore greater prioritisation was required this year. Reasons for deferring audit work were considered at the January 2022 meeting. There is some concern from members that there has been an overall reduction in the number of audit "days". Members have been assured that future internal audit work plans will provide justification or reasons for audit work to be delivered or prioritised and will cover a 3 year rolling programme.
29. As well as receiving quarterly updates, the committee also receives updates which track internal audit recommendations that are either medium or high priority and have gone past the due date. This provides the committee with an opportunity to monitor the progress against actions or seek an explanation where implementation of recommendations has been delayed or why actions have not been agreed by management.

External Audit

30. External auditors attend meetings of the committee when presenting reports and participate in meetings to answer members' questions and provide assurance where appropriate.
31. Members have an opportunity to comment on the external audit plan. The committee agreed the external audit plan for the accounts for 2021-22 at its July meeting. An addendum to the plan relating to VFM risk assessment was received at the March 2022 meeting.
32. Before the pandemic external audit was facing challenges around timetabling audits, which has been exacerbated by the pandemic. The accounts for 2019-20 had finally been signed off on 21 January 2021.
33. Members have expressed their frustration on the further delay this year which meant that the accounts for 2020-21 were eventually signed off in May 2022 due to pressures on external audit. This situation does not appear to be resolved with a late audit planned for late 2022. This impacts on the council's resources so late in the financial cycle, particularly in relation to budget preparation and year end close down. This is a national problem for external auditors and was raised under the Redmond Review.
34. The committee made recommendations to council on the process for the appointment of external auditors for the five-year period 2023-28. Members noted that there were benefits from being part of a national scheme for the procurement, including economies of scale that would provide the best deal for the council.

Statement of accounts

35. The committee considers the draft financial statements before publication and submission to external audit. There is no requirement for the committee to approve the unaudited accounts but this gives an opportunity for members to understand the process.
36. The committee considered the draft Statement of Accounts (SoA) 2020-21 at its meeting on 13 July 2021. It is a credit to Hannah Simpson, head of finance, audit and risk, and the finance team that they worked tirelessly to produce the accounts to meet the statutory timeframe for the publication of the accounts in what had been a challenging year.
37. It was originally expected that the external audit of the accounts would be signed off at the committee's meeting in January 2022. The audited accounts were finally published on 17 May 2022.
38. The committee had an opportunity to attend an informal presentation on the audited accounts prior to the committee meeting in May 2022. This was a useful session for members and helps with their understanding, particularly given the delay in the completion of the external audit.

Referral Powers and Accountability Arrangements

39. The committee's discussions and recommendations relating to the effectiveness of the governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit, are recorded in the minutes of the meetings. Where appropriate the committee's recommendations on any of these matters are referred to cabinet or the chief finance officer, as set out in the terms of reference. Meetings are attended by the key officers and other members of the corporate leadership team and senior managers, internal and external audit, who contribute to the discussions and are accountable for ensuring that the committee's recommendations are given due consideration. The cabinet member for resources also attends all meetings of the audit committee.
40. The Chartered Institute of Public Finance and Accountancy (CIPFA) document on "audit committee's practical guidance for local authorities and police" sets out the guidance on the function and the operation of audit committees. It is therefore good practice to complete a regular self-assessment exercise against the checklist, to be satisfied that the committee is performing effectively. In addition, the Public Sector Internal Audit Standards also call for the committee to assess their remit and effectiveness, in relation to Purpose, Authority and Responsibility. The audit committee undertook its first self-assessment exercise, facilitated by the internal audit manager and as a result, actions have been identified to ensure full compliance with best practice. These actions were approved at the meeting in January 2022. It is intended that the committee will carry out the self-assessment exercise on an annual basis and monitor progress against actions as part of its work programme planning.
41. The committee has been effective in undertaking the functions set out in the terms of reference in accordance with the council's procedure rules and the Accounts and Audit Regulations 2015.

Audit Committee

Membership of the Audit Committee shall comprise 8 members appointed by the Council (excluding Cabinet members). Additionally, up to two independent non-voting co-opted members may be appointed on the basis of their skill, knowledge, qualification and experience relevant to the role of the committee.

The chair of the committee is elected by the council and the vice-chair is appointed by the committee.

Within the policies laid down by the council and within the Corporate Plan to exercise the following powers of the council:

Corporate governance

1. Review the effectiveness of internal control across the council and the adequacy of actions taken to address any weaknesses or control failures.
2. Consider the adequacy and effectiveness of the council's arrangements for the identification and management of the organisation's business risks; including the risk management policy, strategy and risk register.
3. Receive and consider regular reports at least twice a year on the risk environment, corporate risk register and associated management actions.
4. Review and ensure the adequacy of the council's anti-fraud and corruption policy and strategy and the effectiveness of their application.
5. Review and ensure that adequate arrangements are established and operating to deal with situations of suspected or actual fraud and corruption.
6. Review, consider and agree the Annual Governance Statement, including the adequacy of the corporate governance framework and improvement action plan contained within it.
7. Receive periodic updates on improvement actions taken.

Internal and external audit

8. Approve the internal audit charter.
9. Approve and monitor delivery of the internal audit strategy.
10. Consider, endorse and monitor delivery of the internal audit annual work programme, including any significant in-year changes to the programme or resource requirements.
11. Ensure adequate resourcing of the internal audit function, approving any significant additional consulting services requested from internal audit not already included in the internal audit annual work programme.
12. Receive and consider the annual internal audit report and opinion on behalf of the council.
13. Oversee the annual review of the effectiveness of the system of internal audit, to include the performance of the internal audit function, compliance with standards and delivery of improvement actions.
14. Contribute to the external quality assessment of internal audit that takes place every five years.
15. Commission work from internal and external audit and consider the resulting reports.

16. Comment on the scope and depth of external audit work and ensure it gives value for money.
17. 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.
18. Seek assurance that action has been taken to implement the recommendations arising from the findings of significant audit and inspection work.

Statement of accounts

19. Discuss the annual audit plan for the audit of the financial statements with external audit.
20. Consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
21. Review and approve the annual statement of accounts, including subsequent amendments on behalf of the council.

Referral powers

22. Make recommendations for due consideration on all matters described above. Recommendations relating to all paragraphs except 9-10 and 12-21 shall be made to the Cabinet and Chief Finance Officer. Recommendations relating to paragraphs 9-10 and 12-21 shall be made to the Chief Finance Officer.

Accountability arrangements

23. Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
24. Report to full council on the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose.