

**Report to** Council  
23 July 2019  
**Report of** Director of business services  
**Subject** Annual audit committee report 2018-19

**Item**

**6**

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**Purpose**

To consider of the annual audit committee report 2018-19 to council.

**Recommendation**

To receive the annual audit committee report 2018-19.

**Corporate and service priorities**

The report helps to meet the corporate priority inclusive economy.

**Financial implications**

There are no direct financial implications arising from this report on the work of the audit committee.

**Ward/s:** All Wards

**Audit committee chair:** Councillor Price

**Contact officers**

Anton Bull, director of business services 01603 212326

Karen Watling, chief finance officer 01603 212440

**Background documents**

None

## Report

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 attached annual report of the audit committee 2018-19 was considered by members of the audit committee at their meeting on 11 June 2019.
4. The report sets out the work of the audit committee over the last financial year.
5. 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.

## Integrated impact assessment



**NORWICH**  
City Council

### Report author to complete

<b>Committee:</b>	Council
<b>Committee date:</b>	23 July 2019
<b>Director / Head of service</b>	Director of business services
<b>Report subject:</b>	Annual report of the audit committee 2018-19
<b>Date assessed:</b>	3 July 2019

	Impact			
<b>Economic</b> (please add an 'x' as appropriate)	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
Finance (value for money)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Financial inclusion	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Social</b> (please add an 'x' as appropriate)	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
Safeguarding children and adults	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

Recommendations from impact assessment

Positive

Negative

Neutral

The report itself has a neutral impact in that it informs council of the work of a committee

Issues

**Annual Report of the Audit Committee 2018-19**

**Introduction**

This is the fourth annual report of the audit committee and advises the council of the work of the audit committee for the period of the civic year 2018-19.

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 2018-19.
2. The council established an audit committee in 2007. Article 17, Audit committee, of the council's constitution sets out the terms of reference and procedures for the committee. A copy of Article 17 is appended to this report as Appendix A. The production of an annual report by the committee is considered to be good practice.
3. The members on the committee in 2019-20 were:-  
  
Councillor Ben Price (chair)  
Councillor Keith Driver (vice chair)  
Councillor Ed Coleshill  
Councillor David Fullman  
Councillor Emma Hampton  
Councillor Judith Lubbock  
Councillor Jo Smith  
Councillor Ian Stutely
4. Councillor Paul Kendrick, cabinet member for resources, attended all meetings of the committee.
5. The key officers who supported the audit committee were:  
  
Karen Watling, chief finance officer and S151 officer  
Hannah Simpson, strategic business partner (Deputy S151 officer)  
Magen Powell, principal auditor (LGSS)  
Neil Hunter, head of internal audit and risk management (LGSS)  
Duncan Wilkinson, chief internal auditor (LGSS)  
Laura McGillivray, chief executive  
Anton Bull, director of business services
6. The engagement team of the external auditors (Ernst & Young LLP) is led by Mark Hodgson, with Sappho Powell, as the council's external audit manager. The external auditors attend meetings of the audit committee to present their reports and answer members' questions.
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 2018-19 as follows:
  - 12 June 2018
  - 24 July 2018
  - 16 October 2018
  - 22 January 2019
  - 12 March 2019.
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:



10. The committee requests training as required. Training is not restricted to committee members and there is an open invitation for all members of the council to attend. The external auditors also host briefing sessions for members of local government audit committees in Cambridge and provide briefing notes which are circulated to members of the committee. The chair and vice chair have taken opportunities to attend briefing and networking sessions arranged by the external auditors for local government audit committee members and CIPFA and other external training courses.

### **Work of the committee**

11. As set out in the committee's terms of reference, the committee:
  - (a) considers and approves the annual statement of accounts;
  - (b) ensures that the financial management of the council is adequate and effective;
  - (c) reviews the council's system of internal control and agrees the annual governance statement for inclusion in the statement of accounts;
  - (d) ensures that the council has an adequate and effective internal audit function;
  - (e) makes recommendations to cabinet or council on matters within the remit of the committee.
12. The work programme for the committee is cyclical and follows a similar pattern as previous years. The work programme for the forthcoming civic year 2019-20 is attached to this report at Appendix B.

### **Annual Statement of Accounts**

13. The chair signed off the Annual Statement of Accounts on 24 July 2018, having considered it in detail at the committee's June meeting. The external auditors' opinion, as set out in the public facing Annual Audit Letter 2017-18, and reported to the committee at its meeting on 16 October 2018, was that the signing off of the Statement of Accounts for 2017-18 by the new deadline of 31 July 2018 was a significant achievement by all concerned.
14. The external auditors identified that the council's commercial activity was a significant risk due to the council's increasing activity in this area. The council's increasing reliance on income from fees and charges, commercial activities and reserves to provide council services rather than total reliance on council tax, business rates and government grants against a background of uncertainty of public funding, business rates and the effect of Brexit to the national economy is an increased risk which has been considered and raised at several meetings over the year. Members have sought reassurance about the level of reserves identified in the medium term financial strategy to protect the council from risks and to ensure that services could continue.

## **Financial Management of the Council**

15. The external auditors seek confirmation from the chair each year requesting confirmation of the council's management processes and arrangements. Councillor Price, as chair of the committee, responded to this letter and copies of the letter will be made available to members of the committee.

## **Reviews the council's system of internal control and agrees the annual governance statement for inclusion in the annual statement of accounts**

16. The committee received the annual internal audit opinion for 2017-18 at its meeting on 12 June 2018. The chief internal auditor's opinion on the basis of the audit work undertaken during 2017-18 was to award a good level of assurance and this was consistent with the previous years. This report formed part of the evidence for the Annual Governance Statement submitted with the statement of accounts 2017-18. The chair and members of the committee were satisfied that the internal audit team had conducted their work with due diligence.

## **Ensures that the council has an adequate and effective internal audit function**

17. The committee agrees the internal audit work plan at its March meeting for the forthcoming financial year and monitors the performance of the internal audit team at each meeting.
18. Following the meeting held on 24 July 2018, the chief executive and corporate leadership team agreed that the chair and any interested members of the committee wanting further details of internal audits may have access to internal audit's reports to managers.

## **Makes recommendations to cabinet or council on matters within the remit of the committee**

19. The committee receives and comments on the corporate risk register on an annual basis. A review of the corporate risk register is currently underway and the committee has asked that it receives regular updates during this process.
20. At its meeting on 22 January 2019, the audit committee considered the draft Risk Based Verification Policy and recommended it to cabinet because, on the evidence from other councils where it had been implemented, it was considered to be beneficial to both the council and its customers. Cabinet adopted the policy in February 2019.
21. The chair requested that an internal audit report on Norwich Regeneration Limited was taken as an urgent item at the meeting of the committee on 12 March 2019, to enable members to ask questions of the cabinet members and officers concerned. The committee was satisfied that the actions had been agreed and would be reviewed by internal audit in 6 months' time.

22. On 12 March 2019, the committee also considered the report of internal audit on a whistleblow referral.

### **Conclusion**

23. 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.

## ARTICLE 17 – AUDIT COMMITTEE

### Membership

1. Membership of the audit committee shall comprise 8 members appointed by council.
2. The chair of the committee shall be elected by council and the vice-chair shall be appointed by the committee.

### Terms of reference

3. The audit committee shall -
  - (a) undertake the council's financial responsibilities in the manner set out:
    - (i) in the council's audit committee procedure rules as produced from time to time by the chief finance officer; and
    - (ii) in the Accounts and Audit Regulations 2015;
  - (b) consider and approve the annual statement of accounts;
  - (c) ensure that the financial management of the council is adequate and effective;
  - (d) ensure that the council has a sound system of internal control which facilitates the effective exercise of the council's functions and which includes arrangements for the management of risk;
  - (e) review annually the council's system of internal control and agree an Annual Governance Statement for inclusion in the statement of accounts;
  - (f) ensure that the council has an adequate and effective internal audit function;
  - (g) have power to make recommendations to cabinet or council on any matter within its remit.

## **AUDIT COMMITTEE PROCEDURE RULES**

The audit committee will carry out its terms of reference in accordance with the following:

### ***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 on the risk environment 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 AGS 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.

### ***Referred powers***

22. Consider and make recommendations 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.

## Work Plan for the Audit Committee 2019-20

Please note that the schedule of meetings listed below follows a broad pattern. Risk Management procedures and regular reports from Internal Audit will be covered in all meetings.	
June/July	The items scheduled for this meeting focus on the draft annual accounts.
September	The items scheduled for this meeting are centred around the final sign off of the audited annual accounts.
November	The items scheduled for this meeting reflect completion of the year's cycle.
January	The items scheduled for this meeting principally reflect the planning of the internal and external audit cycles.
March	The items scheduled for this meeting reflect the progress that has been made on the interim audit and the year end accounts procedures.

Date of committee <b>Deadline for reports*</b>	Suggested Items		
	Regular Items	Notes	Pre-Committee training (if required)
<b>Tue 11 Jun 19</b> <b>Deadline</b> <b>Fri 31 May 19</b>	Draft annual governance statement Draft statement of accounts 2018-19 Annual report on internal audit and fraud 2018-19 Annual report of the audit committee 2018-19		
<b>Tue 23 Jul 19</b> <b>Deadline</b> <b>Fri 12 Jul 19</b>	Annual governance statement 2018-19 - approval Audited statement of accounts 2018-19 – approval Audit results report 2018-19  Internal audit quarter 1 update		
<b>Tue 15 Oct 19</b> <b>Deadline</b> <b>Fri 4 Oct 19</b>	Annual audit letter 2018-19 Risk management report Internal audit quarter 2 update 2019-20		
<b>Tue 21 Jan 20</b> <b>Deadline</b> <b>Fri 10 Jan 20</b>	Internal audit quarter 3 update 2019-20 External audit plan 2019-20 Certification of claims and returns annual report 2019-20		
<b>Tue 10 Mar 20</b> <b>Deadline</b> <b>Fri 28 Feb 20</b>	Draft internal audit plan 2019-20 Corporate risk management report Annual Governance Statement - early draft		