

Report to Council
26 June 2018
Report of Director of business services
Subject Annual audit committee report 2017-18

Item

8

Purpose

To present of the annual audit committee report 2017-18 to council.

Recommendation

To receive the annual audit committee report 2017-18

Corporate and service priorities

The report helps to meet the corporate priority value for money services

Financial implications

The report has no direct financial consequences

Ward/s: All Wards

Chair of audit committee: Councillor Price

Cabinet member: Councillor Kendrick, resources

Contact officers

Anton Bull, director of business services 01603 212326

Karen Watling, chief finance officer 01603 212440

Jackie Rodger, senior committee officer 01603 212033

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 annual report of the audit committee 2017-18 summarises the work of the committee over the past financial year. Following discussion, the committee approved the report at its meeting on 12 June 2018..
4. 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

Committee:	Council
Committee date:	26 June 2018
Director / Head of service	Director of business services
Report subject:	Annual audit committee report 2017-18
Date assessed:	15 June 2018
Description:	Report summarises the activities of the audit committee in the previous civic year

	Impact			
Economic (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
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"/>	
Social (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
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"/>	
(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
Issues

Annual Report of the Audit Committee 2017-18

Introduction

This is the third annual report of the audit committee and advises the council of the work of the audit committee for the period of the civic year 2017-18.

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 2017-18. The committee met five times during this period. The committee held an extraordinary meeting on 26 September 2017 because the original meeting date was too early in the month for the external audit to be completed. The meeting in January 2018 was not convened following consultation with the chair and the vice chair.
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. Article 17 was reviewed and reissued in July 2014. A copy of Article 17 is appended to this report as Appendix A. The production of an annual report by the committee is good practice.
3. The members on the committee in 2017-18 were:-

Councillor Ben Price (chair)
Councillor Keith Driver (vice chair)
Councillor Bert Bremner (until September 2017)
Councillor Ed Coleshill (replacing Councillor Bremner in September 2017)
Councillor Beth Jones
Councillor Judith Lubbock
Councillor Marion Maxwell
Councillor Martin Schmierer
4. In accordance with good practice, no members of the committee were members of cabinet or the chair of scrutiny committee. Councillor Paul Kendrick, cabinet member for resources attended 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)
Jonathan Tully, principal audit manager (LGSS) to December 2017
Magen Powell, principal auditor (LGSS), replacing Jonathan Tully
Neil Hunter, head of internal audit and risk management (LGSS).
Duncan Wilkinson, chief internal auditor (LGSS)
Laura McGillivray, chief executive

The committee would like to express its gratitude to Jonathan Tully who as principal audit manager who has been invaluable in his support to the chair and members of the committee and to congratulate him on his promotion.
6. The engagement team of the external auditors (Ernst & Young LLP) is led by Mark Hodgson and was supported by David Riglar until the closure of the 2016-17 accounts. In line with good practice, Sappho Powell has been appointed as the external audit manager for the 2017-18 accounts and going forward. The external auditors attend meetings of the audit committee to present their reports and answer members' questions. Ernst & Young LLP was reappointed as the council's local auditor with effect from April 2018.
7. The committee monitors the fees paid by the council to the external auditors to ensure value for money.

8. 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 provide information briefings for audit committees 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 by CIPFA.

Statement of accounts and annual governance statement

9. For the fourth year running the council's Statement of accounts (2016-17) was approved by the statutory deadline of 30 September 2017. The accounts received an unqualified opinion from the external auditors. The statement of accounts and the external audit results report were considered at the extraordinary meeting on 26 September 2017. The external auditors had been unable to provide papers to the scheduled meeting on 5 September 2017. This was due to a delay in the progress of the audit but also due to the meeting date being scheduled too early in the month for the external audit work to be completed.
10. The committee had the opportunity to comment on the draft unaudited accounts at its meeting on 20 June 2017. Members were advised that actions would be taken in future to ensure there was a better explanation between the key figures in the outturn position. During discussion members considered works to recover bad debt related to housing benefit; the use of right to buy receipts within the three year deadline imposed by government, and the assessment of pension liability.
11. The statement of accounts and audit results report 2016-17 were considered at an extraordinary meeting on 26 September 2017. There was one unadjusted error relating to notional interest on Decent Homes Loans that was not material and would be adjusted in the following year's statement of accounts.
12. Members have been concerned that the new deadlines for the closure of accounts were achievable and were pleased that the finance team closed the 2016-2017 accounts by 31 May 2017 which bodes well for meeting the earlier deadlines in 2018. The chief finance officer assured members at the meeting on 26 September 2017 that there was also a closure of accounts project plan in place which would ensure that advertisement and arrangements for the public inspection period of the account complies with the Account and Audit Regulations 2015. The external auditor confirmed that it would be a challenge to ensure that the audit was completed by the end of July. The audit would be streamlined and focused, with a toolkit to test working papers. It is appreciated that meeting the new targets is more difficult for district councils than larger unitary authorities, with teams of dedicated teams working on the preparation. The chair requested that officers and external audit advised him immediately if there were any problems with achieving the deadlines.

External Audit

13. At its meeting on 14 November 2017, the committee reviewed the annual audit letter 2015-16 from the external auditors. The letter is the public facing document of the external auditors' findings on completion of the audit for 2016-17. A section of the report, "Focussing on your future" set out the actions for the earlier deadlines for production and audit of the financial statements from 2017-18.
14. In accordance with best practice, the annual audit letter was circulated to all members of the council and published on the council's website by 31 October 2017.
15. On 13 March 2018, the external auditor presented the Certification of Claims and Returns Annual Report 2016-17 to the committee. He confirmed that the fees were as predicted and pointed out that no materiality was allowed in relation to benefits. The chair commended the officers for their diligence in ensuring that transactions were correct. The vice chair said that it was important that people needing benefits received their full entitlement.
16. The external auditors presented their External Audit Plan 2017-18 to the committee in March. This report sets out how external audit will carry out the audit of the council's 2017-18 accounts. This is a robust audit plan and the level of materiality demonstrates that external audit is working well with the finance and internal audit teams. The external auditor explained that 2 per cent was standard and if material errors were found it could be dropped to 1 per cent. Members were advised that the annual audit letter included data where the whole population was tested. Additional work could be provided if necessary.
17. External audit is subject to review by the Public Sector Audit Appointments (PSAA)

Risk Management

18. The committee reviews the corporate risk register throughout the year and notes any changes to the register proposed by the corporate leadership team. The council's risk management processes are well embedded within the council, and members can be assured that the corporate risk register is kept up to date following regular review by the corporate leadership team and business management group of the key risks to achieving the council's objectives. Cabinet also reviews the corporate risk register annually and in the event of there being a change to risks which exceed the council's risk appetite.
19. The committee has noted that the residual risk for the council's housing investment strategy and public sector finance are above the council's risk appetite and that the council has put in place the controls that it can. There is continuing uncertainty surrounding public sector finances. Members were advised that the council's housing investment strategy had been re-profiled to take account of the one per cent rent cap imposed by the government and would ensure that spending meets the requirements of the thirty year plan. The committee has concerns about the long term financial implications regarding uncertain government policies. The council's Medium Term Financial Strategy seeks to mitigate the uncertainty of public sector finance which is outside the council's control.

20. Following the Grenfell Tower tragedy members sought reassurance that the council's emergency planning was reviewed in relation to tower block safety.
21. On 5 September 2018, Steve Day, head of IT (LGSS) facilitated a pre-meeting briefing at the members' request to help them understand the risks to the council's IT security from cyberattack and the measures that have been put in place.
22. At its meeting on 14 November 2017, members sought reassurance that interest rates would be incorporated into financial modelling. The committee is aware that the council, like many other authorities, is responding to government cuts to public sector funding by increasing its commercial activities and focus on income generation. Members have received assurance that the council's level of commercial activity is appropriate to the scale of the authority and it is based on a sound financial model. The council's ethos is to use new income from commercial activities to fund front line services. The retention of council services is particularly important as many residents are under financial pressure which would be exacerbated by rising interest rates.
23. Members are aware that the council's commercial activities and focus on income generation is greater than in previous years as a response to cuts to public sector funding and have expressed concern that this increases the potential risk to the council. The committee will need assurance that the governance arrangements are in place to protect the council against this risk.

Internal audit

24. The committee received the annual internal audit opinion for 2016-17 at its meeting on 20 June 2017 and receives reports on the progress against the audit plan report at each meeting. This gives the committee an opportunity to ask detailed questions and monitor progress. Members were reassured that the council had received good assurance on compliance and operated to Public Sector Internal Audit Standards.
25. On 15 March 2016 the committee agreed a new approach for the internal audit plan for 2016-17. This approach reviews the control environment for mitigating the risk that anything goes wrong. The internal audit plan is regularly monitored by the chief finance officer, audit committee and external audit. The number of days allocated to the plan for 2017-18 remained at the level which was finally agreed for 2016-17.
26. At the meeting on 14 November 2017, the chair welcomed that fees and charges had been included in the plan at the request of the committee. Members were advised that the work would include substantial testing around the transaction process. Members also considered the proposal to postpone the review of the NPS contract management and received assurance that the delay would not cause any significant risk. The audit would be picked up in the first part of the audit cycle to ensure that recommendations from a previous audit had been implemented. There was sufficient coverage from a previous audit to provide assurance for an audit opinion. The external auditor also gave assurance that an internal audit had not identified any significant risk.

27. A member of the committee raised the issue of the transformation project and the loss of skillsets and knowledge. This appears to be a shared concern when facing budget cuts whilst maintaining services. The local authority could take on trainees and encourage professional development to ensure that skills were transferred. The committee noted that the benefit of review the control environment was the removal of controls which did not affect risk and therefore reducing unnecessary bureaucracy.
28. The committee discussed the completion of the debt recovery audit assignment at its meeting on 13 March 2018 and noted that cabinet would be considering writing off irrecoverable national non domestic rate debt (14 March 2018). The recommendations from the audit should be in place by 31 July 2018. Members also considered the council's participation in the National Fraud Initiative (NFI) and commented that more information should be available about eligibility for single person council tax discount.
29. The committee approved the internal audit plan for Norwich City Council 2018-19 at the March meeting. It was noted that fees and charges appeared twice on the plan because the council had to agree a fees and charges policy and then it had to be audited after implementation. Members also sought clarification about procurement compliance and how the council could ensure that council leaseholders received value for money.
30. The plan is robust and the impact of any changes to the plan will be discussed in detail with the corporate leadership team. The plan covers a two year period and there is some flexibility to re-profile the plan in response to changing areas or risk. Members requested that it would be useful in future years to include the number of days allocated to an item so that comparisons could be made on a year on year basis. Audits not completed in 2017-18 will be carried over into 2018-19.
31. The external auditors seek confirmation from the chair each year requesting confirmation of the council's management processes and arrangements. Councillor Price, the chair responded to this letter and copies have been circulated to members of the committee.

Conclusion

32. 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.