

**Report to**    Audit committee  
                  12 June 2018  
**Report of**    Director of business services  
**Subject**      Annual Audit Committee Report 2017-18

**Item**

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**Purpose**

To comment on the draft Annual audit committee report 2017-18

**Recommendation**

That the committee approves the content of the annual audit committee report and recommends that council adopts it.

**Corporate and service priorities**

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

**Financial implications**

This report has no direct financial consequences.

**Ward/s:** All

**Chair, audit committee:** Councillor Price

**Contact officers**

Anton Bull, director of business services

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**Background documents**

None

## **Report**

1. On 11 March 2014, the audit committee resolved to approve new procedures for the audit committee in line with CIPFA guidance. In line with good practice the committee agreed to produce an annual report for council.
2. The attached annual report of the audit committee 2017-18 gives an opportunity for members of the committee to consider and comment on the report before it is presented to full council on 24 July 2018
3. The report sets out the work of the audit committee over the last financial year. 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.

## APPENDIX 1

### 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

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## 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.



## 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.