



**Committee Name: Council Council**

**Committee Date: 20/07/2021 21/07/2021**

**Report Title: Annual Report of the Audit Committee 2020-21**

<b>Committee chair</b>	Councillor Price
<b>Report from:</b>	Executive director of corporate and commercial services
<b>Wards:</b>	All Wards
<b>OPEN PUBLIC ITEM</b>	

### **Purpose**

This report presents the Annual Report of the Audit Committee 2020-21 appended at Appendix A to council.

### **Recommendation:**

That council receives the Annual Report of the Audit Committee 2020-21.

### **Policy Framework**

The Council has three corporate priorities, which are:

- People living well
- Great neighbourhoods, housing and environment
- Inclusive economy

This report meets the all the above corporate priorities

This report addresses a healthy organisation strategic action in the Corporate Plan

This report helps to meet requirement as set out in the terms of reference for the audit committee in the council's constitution.

This report helps to meet securing the council's finances objective of the COVID-19 Recovery Plan

## 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 attached annual report of the audit committee 2020-21 was considered by members of the audit committee at their meeting on 13 July 2021.

4. The report sets out the work of the audit committee over the last financial year.

- 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**

- This report has been written in consultation with the chair and vice chair of the committee and based on discussions minuted at meetings of the committee. The report is subject to approval by the audit committee at its meeting on 13 July and comments from the committee will be reported to council on 20 July.

### **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 2019-22 and Budget.

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

### **Legal**

- There are no legal implications arising from this report. The annual report of the committee is considered to be good practice and is reflected in the council's constitution.

### **Statutory Considerations**

<b>Consideration:</b>	<b>Details of any implications and proposed measures to address:</b>
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

## Risk Management

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

## Other Options Considered

9. This report is for information and consolidates information set out in minutes to the audit committee held on 14 July 2020, 24 November 2020 and 9 March 2021.

## Reasons for the decision/recommendation

10. To provide an annual report to council.

## Tracking Information

Governance Check	Name	Date Considered
Relevant Executive Director	Hannah Simpson	09/07/21
Legal opinion	Katrina Hulatt	09/07/21
Chief Finance Officer (or Deputy)	Hannah Simpson	09/07/21
Monitoring Officer (or Deputy)	Katrina Hulatt	09/07/21

## Background papers:

Minutes and reports to the audit committee meetings.

## Appendices:

**A Annual Report of the Audit Committee 2020-21**

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

## Contact Officer:

Contact: Jackie Rodger, senior committee officer

Telephone number: 01603 989547

Email address: [jackierodger@norwich.gov.uk](mailto:jackierodger@norwich.gov.uk)

**Annual Report of the Audit Committee 2020-21**

**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 2020-21.

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 2020-21. 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 2020-21 were:-  
  
Councillor Ben Price (chair)  
Councillor Keith Driver (vice chair)  
Councillor Adam Giles  
Councillor Laura McCartney-Gray  
Councillor Martin Peek  
Councillor Martin Schmierer  
Councillor Ian Stutely  
Councillor James Wright  
  
Councillor Jane Sarmezey acted as a substitute member on the committee on at the audit committees held on 14 July 2020 and 24 November 2020.
4. Councillor Paul Kendrick, cabinet member for resources, attended all meetings of the committee.
5. The key officers who supported the audit committee were:  
  
Annabel Scholes, executive director of corporate and commercial services (S151 officer) (chief finance officer)  
Hannah Simpson, head of finance, audit and risk  
Stephen Evans, chief executive officer  
Gavin Jones, interim audit manager (to end of March 2021)
6. The engagement team of the external auditors (Ernst & Young LLP) is led by Mark Hodgson, with Mark Russell, who was covering for the council's external audit manager in 2020. Alison Riglar is currently the external audit manager for the council. 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 three times during the civic year 2020-2021 as follows:
  - 14 July 2020
  - 24 November 2020
  - 9 March 2021
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 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. Training by an external facilitator was provided in October 2020 and focused on the member's roles on the audit committee. Five committee members and three other members of the council attended. Officers also gave a detailed presentation on the financial statements to members at an informal session on 23 November 2020, which helped members with their understanding of the accounts.
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. There have been a number of changes implemented to improve the council's corporate governance and control environment this year.
13. 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. These include the development of a leadership programme to ensure the authority has the necessary skill sets, such as performance management, and establishing service review boards to oversee performance and review audit recommendations. This will improve the information available to report to the committee, particularly in relation to contract management. The council has also established a shareholders' panel to receive quarterly performance reports from the council's wholly owned companies, NCSL and NRL. The committee will review the effectiveness of these measures once these have been embedded throughout the organisation.
14. 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.

### **Corporate risk management policy, strategy and register**

15. 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.

16. On 24 November 2020, the committee considered the risk management report prior to its consideration at cabinet on 16 December 2020. Members were advised of the governance arrangements that the chief executive officer and corporate leadership team (CLT) had implemented to ensure that risk management was a priority of the organisation. This included a thorough review of corporate risks and the monitoring of sets of risk registers within each directorate, quarterly meetings of a CLT risk assurance group, and consideration of risk management by the cabinet as part of a quarterly performance report. Testing for corporate ownership of risk and performance was an important part of the recruitment to the restructured senior management team (implemented in April 2021) and indicates the authority's commitment going forward. Members of the committee appreciated the format of the risk register which they considered was easy to understand.
17. Members were assured that the Covid-19 risk level was informed through the work of the council on a number of forums, including the University of East Anglia, the police and Public Health England, and at leadership and chief executive officer level with the other councils across the county. It was fundamental to the work of the council and its delivery of services and assessment of the Covid-19 risk level would be kept under constant review. Members also sought reassurance that the scores given to the council's commercial activities and wholly owned companies were appropriate and reflected the council's position. Recommendations from internal audit in relation to the wholly owned company, Norwich Regeneration Limited (NRL), had been fully implemented and the council, as shareholder, had received information on the commercial and financial position of the company.
18. The chief executive officer had requested a thorough review of the corporate risk register. It will take more than one year to embed in service plans. Members also noted that risk management was an important part of the Annual Governance Statement and that members would therefore receive updates on progress as part of this document.

### **Anti-Fraud and Corruption policy and strategy - Application**

19. 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.
20. The committee sought assurance that the council's administration of business support grants had the correct balance of due diligence and speed in application. In March 2020, the government advice had been to allocate grants to businesses as quickly as possible whilst government guidance was still being issued. Lessons had been learned and local authorities had been in a stronger position to mitigate fraud in the second tranche of business support grant allocation. The council did conduct its usual basic checks. It performed well in national league tables for issuing business support grants and had been the best performing local authority in Norfolk.
21. Members noted at the November committee meeting that overpayments of business support grants, due to office error and officers' unfamiliarity with the new system, had been recovered by deducting the sum when the claimant made an application for a further grant. If this had not been the case the claimant would have been invoiced for the overpayment and if not paid, would



be liable for prosecution. The five overpayments had been made in the first tranche and early on in the lockdown when there was pressure from government to pay people entitled to a grant as soon as possible. All standard checks had been made. Four of the five overpayments had been picked up by the claimants' banks.

22. The revenues and benefits team is part of a network with other local authorities and shares good practice and information with colleagues, including awareness of national alerts of fraudulent activity. The council is part of the National Fraud Initiative and data matching will potentially identify further fraudulent claims. The government has provided a new burdens grant to underwrite business support grants that were subject to fraud, provided local authorities can demonstrate due diligence and had a risk assessment and a post assurance plan in place. The council reported on the administration of the grants to central government and could increase more rigour to the process in line with government guidance.

### **Annual Governance Statement 2019-20**

23. The Annual Governance Statement (AGS) 2019-20 when published included the recommendations from the committee to include headings and narrative text on Brexit and Future partnership working under Section 6, Governance and Issues. Members noted that Brexit had been identified on the corporate risk register but in terms of governance there had been no specific reference. The committee considered that a no-deal Brexit would be a considerable threat to the management of capital programmes, business rates and funding. The AGS is a customer/resident facing document and the committee's view is that Brexit should receive the same clarity as the Covid-19 recovery plan. Members also considered that additional text was required to provide assurance on the governance arrangements for the council's new partnership arrangements, such as Norwich East, to ensure value for money and ensure that these projects were accountable, specifically given that public and private funding would be involved.
24. Members welcomed the revised format of the AGS with the inclusion of an action plan of key governance issues. The action plan contains details of the responsible officer and an expected due date, and actions are reported to the committee until the action is cleared, making it more transparent and easier for members to monitor.

### **Internal and external audit**

#### **Internal audit**

25. The committee receives regular reports from internal audit and monitors the internal audit plan. The interim internal audit manager headed up the audit team and implemented a risk approach to audit rather than the compliance approach in previous years. The advantage of this approach is that key financial systems are audited over a three year term or based on risk if there was a system approach and had the benefit that it was flexible and could respond to emergencies, such as a cybersecurity. Members of the internal audit team underwent training to acquire new skills for this approach. Members also received assurance from the external auditor who endorsed a risk-based approach as appropriate and used by other authorities.

26. The committee was disappointed that the chief internal auditor's (LGSS) conclusion of the Annual Audit Report on Internal Audit and Fraud 2019-20 was an opinion of satisfactory assurance on the internal control environment; a change from good in the previous year (2018-19). The report highlighted the key areas for the change in the assurance level: NRL, the contract management audit review and the corporate risk register. The key financial systems were assessed as substantial.
27. The committee has monitored the progress of the actions taken to address the issues raised by internal audit where a limited assurance has been received by inviting the relevant senior managers to attend and answer members' questions. On 24 November 2020, the committee received reports on the management responses to internal audit reviews for Norwich Regeneration Company Limited (NRL) and contract management (housing repairs and responsive maintenance) and had an opportunity to question the senior managers. The audits would be reviewed again in April/May 2022 when the required actions were due to be implemented. The committee also considered the outcome of the internal audit review of waste management at its March meeting and were concerned about the "passive management" of this contract.
28. The outcome of these audits has led to concern about the performance of other contracts and to seek assurance that there are mechanisms in place to monitor and improve contract performance particularly as the council is bringing joint ventures in house and ensure that contracts provide value for money for our residents. The committee shares the interim audit manager's view that contract management should be kept under review. Members noted that the interim audit manager had provided a consultancy role to support the business relationship and procurement manager and team with contract compliance and that a driving up performance from the supply chain board had been established, which would oversee the council's contracts and address the issues identified in the audit review when contracts were granted or subject to renewal. The management of the contracts is the issue rather than the procurement procedures.
29. The committee approved the internal work plan for 2021-22 at its March meeting. The plan is drawn up by the corporate leadership team and changes to the plan are reported to the committee. The committee's role is to monitor the plan and make recommendations to cabinet and the chief finance officer. A request from the chair to take a more active role in the allocation of the work plan was refuted by the leader of the council at the constitution working party as this role lies with the corporate leadership team in line with the council's corporate plan and its priorities and risk management to manage internal audit. Additional days have been added to the plan this year to compensate days lost due to the pandemic. There is some contingency in the plan and the allocation of days is flexible and will depend on the delivery of the internal audit function which has been reviewed.
30. Members endorsed the internal audit plan. The chair commented that he would like to see more audit work on contract management but that he welcomed the reviews of the asset management and procurement strategies, and the audit approach and improved competencies in the team, as set out in the report.

## External Audit

31. External auditors attend meetings of the committee when presenting reports and participate in meetings to answer members' questions and provide assurance where appropriate.
32. Members have an opportunity to comment on the external audit plan. The committee agreed the external audit plan for the accounts for 2019-20 at its meeting in June 2020. The plan sets out the external audit approach and scope for conducting the audit of the council's financial statements and highlights the key audit and value for money risks and audit strategy for those risks. The audit process provides a true and fair view of the council's financial statements at the end of the financial year.
33. The committee discussed the external audit plan for the financial statements (2020-21) with the external auditor and officers at the March meeting. External audit expected the plan to include the "big ticket items" audit risks, such as in previous years: management override of the controls to gain a better financial reporting; property, plant and equipment evaluation because of the size on the balance sheet, and pension liability because of the size on the balance sheet. The external auditors also expect to discuss with officers the impact of Covid on the council's activities and how it translates into the council's year end set of accounts, particularly around grant funding and provisions for bad debts which were expected to increase.
34. The committee suggested that the following items should be included in the planning process of external audit plan, subject to an assessment of any or all would lead to a material misstatement in the financial documents or a risk to the external auditor's value for money considerations, as part of the planning process:
  - a) The policies and procedures;
  - b) Contract management;
  - c) Governance arrangements for the council's wholly owned companies and insourcing joint ventures;
  - d) Medium term financial strategy.

The external audit plan 2020-21 is subject to consideration at the July meeting.

35. The Public Sector Audit Appointments (PSAA) is the regulator that sets the fees for external audit and these have not been reviewed them for several years. External audit maintain that the level of tests and assurances required from the local authority audits, particularly due to the increase in commercial activity, have increased and the level of fees is considered to be not sustainable to cover the costs of the audits. A joint letter from all the Norfolk councils was sent to the PSAA requesting clarification of what was considered an appropriate increase and seeking guidance to inform the discussions of individual councils with the external auditors.
36. The committee at its March 2020 meeting had resolved to write to the PSAA and Secretary of State, Department of Housing, Communities and Local Government. The chair explained that because of Covid-19 the deadlines for the publication of accounts had changed, and following consultation with the vice chair, cabinet members and CLT, the action had not been taken. Following

a resolution on 14 July 2020, the chair and cabinet member for resources wrote to the PSAA and Secretary of State and were pleased to receive confirmation that the PSAA was liaising between the external auditors and councils on this issue.

37. The committee continues to be assured of the quality of the external audit. The external auditors are subject to regulation by the Financial Reporting Council. Ernst & Young had been the top performers in its assessment.
38. It had not been possible this year to conduct audits on site and hand over documents. The external auditor confirmed that he would not have signed off any document unless he had sufficient assurance. Remote verification would no doubt form part of external audits going forward.
39. Before the pandemic external audit was facing challenges around timetabling audits, which has been exacerbated by the continuing Covid-19 restrictions. The accounts for 2019-20 had finally been signed off on 21 January 2021 and this year's accounts will not be signed off by 30 September due to pressures on external audit. This is a national problem for external auditors and was raised under the Redmond Review.

### **Statement of accounts**

40. The committee considers the draft financial statements before publication and submission to external audit. On 14 July 2020, the committee noted that it was a credit to the finance team and budget managers that the that the draft accounts had been submitted in July, well in advance of the revised deadline of 31 August 2020. The committee had a lengthy discussion on the financial statements at this meeting. There is no requirement for the committee to approve the unaudited accounts but this gives an opportunity for members to understand the process.
41. The committee had an opportunity to attend an informal presentation on the audited accounts prior to the committee meeting. This was a useful session for members and helped their understanding.
42. On 24 November 2020, the committee considered *The Statement of Accounts and Audit Results Report 2019-20* the committee approved the statement of accounts 2019-20 subject to the completion of any outstanding audit work; and, if any outstanding audit work gives rise to a material adjustment to the accounts, to delegate approval of the statement of accounts, as amended/adjusted in line with audit findings, to the chief finance officer, in consultation with the chair (or vice chair) of the committee, and to delegate the signing off of the accounts to the chief finance officer in consultation with the chair. The accounts were signed off on 21 January 2021. The inspection period had been re-advertised and no further matters had arisen following this or from the residual external audit work. All assets were within an acceptable range. The chair also signed the letter of management representation.
43. The external auditor gave an unqualified opinion on the accounts and the value for money opinion. This opinion was confirmed in the Annual Audit Letter 2019-20 (audit committee, 9 March 2021).

## **Referral Powers and Accountability Arrangements**

44. 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.
45. 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.