

**Report to** Audit committee  
14 July 2020  
**Report of** Director of resources  
**Subject** Annual Audit Committee Report 2019-20

Item

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**Purpose**

To comment on the draft annual audit committee report 2019-20

**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 helps to meet all the corporate priorities

**Ward/s:** All

**Chair, audit committee:** Councillor Price

**Contact officers**

Anton Bull, director of resources

01603 212326

Hannah Simpson, chief finance officer

01603 212440

Jackie Rodger, senior committee officer

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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 2019-20 gives an opportunity for members of the committee to consider and comment on the report before it is presented to full council on 21 July 2020.
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.

**Annual Report of the Audit Committee 2019-20**

**Introduction**

This is the fifth annual report of the audit committee and advises the council of the work of the audit committee for the period of the civic year 2019-20.

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 2019-20.
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 Adam Giles  
Councillor Laura McCartney-Gray  
Councillor Martin Peek  
Councillor Martin Schmierer (replaced Councillor Youssef in March 2020)  
Councillor Ian Stutely  
Councillor James Wright<sup>1</sup>  
Councillor Nanette Youssef (to March 2020)

The following members acted as substitutes on the committee during the period covered by this report: Councillors Oliver, Maxwell, Ryan and Sarmezey.

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 (to December 2019)  
Hannah Simpson, strategic business partner (Deputy S151 officer) and chief finance officer and S151 officer (from January 2020)  
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 officer (to December 2019), Stephen Evans, chief executive officer (from January 2020)  
Anton Bull, director of resources

6. The engagement team of the external auditors (Ernst & Young LLP) is led by Mark Hodgson, with Mark Russell, 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.

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<sup>1</sup> Councillor Judith Lubbock was appointed to the committee in 2019-20, but due to a change in guidance, Councillor Wright, as chair of scrutiny committee, could be a member of the audit committee: he therefore substituted for Councillor Lubbock at the first meeting of the civic year and became a member of the committee subsequently.

8. The committee met five times during the civic year 2019-2020 as follows:
- 11 June 2019
  - 23 July 2019
  - 15 October 2019
  - 21 January 2020
  - 10 March 2020
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. 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) undertakes the council's financial responsibilities in the manner set out in the:
    - (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) considers and approves the annual statement of accounts;
  - (c) ensures that the financial management of the council is adequate and effective;
  - (d) reviews the council's system of internal control and agrees the annual governance statement for inclusion in the statement of accounts;
  - (e) ensures that the council has an adequate and effective internal audit function;
  - (f) makes recommendations to cabinet or council on any matter within the remit of the committee.
12. The work programme for the committee is cyclical and in 2019-20 followed a similar pattern as in previous years.

## **Council's Financial Responsibilities**

12. The audit committee undertakes the council's financial responsibilities as set out in the Accounts and Audit Regulations 2015.
13. The committee considered the unaudited financial statements at its meeting on 11 June 2019 and noted its appreciation to the then strategic finance business partner and deputy S151 officer and team for their achievement in submitting the Statement of Accounts by 31 May 2019. The committee approved the statement of accounts at its meeting on 23 July 2019, subject to delegating to the chief finance officer, in consultation with the chair, the signing of the accounts by 31 July 2019. The external auditor said that the finance team had submitted a robust set of financial statements and that the outstanding issues were a reflection of the tight timescale between the closure of the accounts and the completion of the external audit by the publication date. Members noted that the committee meeting to sign off the statement of accounts should be held in the last week of July in future years, however, commenting that this would fall within the school holidays.
14. At its meeting on 10 March, the committee considered an oral report from the external audit manager in which he explained that the external auditors have worked extensively with chief finance officers and audit committee chairs to develop a phasing profile for its portfolio of local authority audits running from mid-May to October 2020, and ensuring that all accounts would be signed off by September/October 2020. External audit was also in the process of discussing an increase in fees with the chief finance officer to ensure that a fair fee was paid to reflect the level of work and assurance provided by the external audit process. Following discussion on the pressure of external auditors to complete local authority audits by the statutory deadline, the committee resolved to ask the chair and cabinet to write to the Minister of State for Housing, Communities and Local Government to express concern over the inability of audit firms to deliver external audits to local authorities by 31 July and at the proposed increase in fees for these audits, having noted that the Public Sector Audit Appointments was aware of this position.
15. Subsequently, in the light of the global pandemic and The Accounts and Audit (Coronavirus) (Amendment) Regulations 2020 coming into effect, which has delayed the publication of financial statements relating to the financial year 2019-2020 from 31 July to "not later than 30 November", the chair has taken the view that the action to write a letter to the government minister regarding the delivery of external audits by the publication date is not appropriate at present, but that the committee should continue to monitor the situation regarding external audit's ability to complete the audit by the statutory deadline and to consider further the revised fees at the committee's next meeting.
16. The committee's proposed schedule and work plan for 2020-21 is attached to this report at appendix B.

## **Annual Statement of Accounts**

17. The chair signed off the Annual Statement of Accounts on 23 July 2019, the committee having considered it in detail at the June meeting. The external auditors' unqualified opinion, as set out in the public facing Annual Audit Letter 2018-19, was considered to be an "excellent outcome" and the proposed fees were in line with those set out in the external audit plan. The external auditor referred to the conclusions of his report and confirmed that the Group Accounts process had been completed and that no issues had arisen that needed to be brought to the attention of the committee and confirmed that he considered that the proper governance arrangements for Norwich Regeneration Ltd were in place.
18. The committee discussed the increasing pressure that the council is to meet the £7 million funding gap between income and expenditure, as highlighted by the external auditor. The committee noted that the council was in a position to use its reserves as planned (Medium Term Financial Strategy, approved at council, February 2019) and that the reserves would remain above the approved minimum level. It was noted that the council had maintained its services through income generation and efficiencies, but with the uncertainty of external public funding, councillors would need to make tough decisions in future years.
19. When considering the draft unaudited Statement of Accounts in June 2019, the committee asked that a full reference to the CIPFA financial stress indicators should be included in the narrative of future years' statements of accounts.

## **Financial Management of the Council**

20. 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**

21. The committee received the annual internal audit opinion for 2018-19 at its meeting on 11 June 2019. The chief internal auditor's opinion on the basis of the audit work undertaken during 2018-19 was to award a good level of assurance and this was consistent with that of the previous year. This report formed part of the evidence for the Annual Governance Statement submitted with the statement of accounts 2018-19. The chair and members of the committee were satisfied that the internal audit team had conducted their work with due diligence and agreed that the Annual Governance Statement was consistent with the committee's perspective on internal control within the council and the governance issues and actions.
22. At the meeting on 11 June 2019, the committee's attention was drawn to the fact that out of 13 heads of service only 8 had completed self-assurance statements for their services as requested by internal audit for the Annual Governance Statement. This had not been a problem in previous years and the committee

resolved to ask the chief executive to advise the heads of service with outstanding self-assurance statements to complete them as soon as possible. The committee also resolved to note that the chair of the committee would like members of the committee the opportunity to comment on the appearance of the Annual Governance Statement at an early stage.

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

23. 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. The chair and any interested members of the audit committee may have access to internal audit's reports to managers.
24. The internal audit work plan needs to be flexible so that if necessary, resources can be reallocated to a higher risk item if required. At its meeting on 15 October 2019 the committee resolved to ask that the chair and vice chair were informed of changes to the audit plan when decisions were made so that they could better understand the process and ensure that the committee functioned well.
25. The committee considered the Internal Audit Plan 2020-21 at its meeting on 10 March 2020 and that the plan would be reviewed when the internal audit manager was in post. A comparison with other authorities and allocation of resources for internal audit work had been included in response to a request from the committee. The committee acknowledges that the plan is a dynamic document and noted that this flexibility is particularly important in the context of the potential impact of the Coronavirus pandemic, but also in response to the climate and environment emergency, Brexit, changes to the stock exchange and the council's increased commercial activities, through its wholly owned company Norwich Regeneration Ltd,. The committee welcomed the number of days allocated for extra consultancy and advice work in reference to the return of joint ventures and that internal audit will be represented on the project board to provide advice and oversight.
26. The committee considered the council's risk register at its meetings in October, January and March. The committee asked that the committee considers the risk register at least twice a year and that members received training on the assessment of risks to understand the assessment process and the controls that mitigated risk. The committee noted that these are assessed on historical analysis and that therefore has some inherent weaknesses. Risks were also owned at the service and project level too. It was acknowledged that two risks were yet to be entered onto the risk register.



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

27. The committee made no recommendations to cabinet or council in the period covered by this report.
28. A working party comprising the following members of the committee met to agree a response to the “Independent Review into Arrangements in Place to Support the Transparency and Quality of Local Financial Reporting and External Audit in England (Redmond Review)”:

Councillor Price (chair)

Councillor Driver (vice chair)

Councillor Wright (committee member and chair of the scrutiny committee)

**Conclusion**

29. 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 2020-21**

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.

<b>Date of committee Deadline for reports*</b>	<b>Suggested Items</b>		
	<b>Regular Items</b>	<b>Notes</b>	<b>Pre-Committee training (if required)</b>
<b>14 Jul 20</b> <b>3 Jul 20</b>	Draft Annual Governance Statement 2019-20 Draft Statement of Accounts 2019-20 External audit plan 2019-20 Annual report of the audit committee 2019-20 Annual internal audit report (LGSS) 2019-20		No change in membership from end 2019-20
<b>24 Nov 20</b> <b>13 Nov 20</b>	Annual governance statement 2019-20 - approval Audited statement of accounts 2019-20 – approval Audit results report 2019-20 Internal audit quarters 1 and 2 update 2020-21 Internal audit report on contracts		Chair's request for internal audit report on contracts

### Work Plan for the Audit Committee 2020-21

Date of committee Deadline for reports*	Suggested Items		
	Regular Items	Notes	Pre-Committee training (if required)
<p><b>12 Jan 21</b></p> <p><b>4 Jan 21</b> (publication date agenda)</p>	<p>Annual audit letter 2019-20</p> <p>Risk management report</p> <p>Internal audit quarter 3 update 2020-21</p>		
<p><b>9 Mar 21</b></p> <p><b>26 Feb 21</b></p>	<p>External audit plan 2020-21 }                      Certification of claims and returns annual report 2019-20 }                      Draft internal audit plan 2021-22                      Corporate risk management report</p>		