

**Report to** Audit committee  
28 June 2016  
**Report of** Chief finance officer  
**Subject** Annual audit committee report 2015-16

**Item**

**6**

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**Purpose**

To comment on the draft Annual audit committee report 2015-16

**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**

Justine Hartley, chief finance 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 2015-16 gives an opportunity for members of the committee to consider and comment on the report before it is presented to full council on 19 July 2016.
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 2011.

**Annual report of the audit committee 2015-16**

**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 2015 to 2016.

Councillor Ben Price  
Chair, audit committee

Councillor (To be confirmed)  
Vice chair, audit committee

## Background

1. This report covers the work of the audit committee for the financial and civic year 2015 to 2016. The committee met six times during this period. On 7 July 2015, there was an extraordinary meeting of the committee to consider the draft statement of accounts.
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 2015-16 were:-

Councillor Paul Neale (chair)  
Councillor James Wright (vice chair)  
Councillor Andrew Boswell  
Councillor David Bradford  
Councillor Keith Driver  
Councillor Gail Harris  
Councillor Lucy Howard  
Councillor Paul Kendrick

Councillor Jo Henderson substituted for Councillor Boswell for one meeting.

4. The key officers who supported the audit committee were:

Justine Hartley, chief finance officer  
Philippa Dransfield, chief accountant and deputy S151 officer  
Steve Dowson, internal audit manager (LGSS)  
Neil Hunter, head of internal audit and risk management (LGSS)  
Laura McGillivray, chief executive

The committee and officers will miss Steve Dowson who retired in March 2016. The committee would like to record its gratitude to him for his support and contribution to the work of the council and committee. A new Lead Auditor for Norwich City Council has recently taken up post within LGSS.

5. The external auditors (Ernst & Young) attend meetings of the audit committee and answer members' questions. The engagement team responsible for the audit of the 2015-16 accounts is led by Mark Hodgeson and supported by David Riglar, who is responsible for the day-to-day management of the external audit. Members of the committee and officers were sad to learn of the unexpected death of Rob Murray, former District Auditor and lead auditor of the city council's accounts for many years. Rob Murray handed over the lead to Mark Hodgeson at the completion of the 2014-15 accounts to meet regulatory requirements and ensure a smooth rotation for future years.
6. The committee monitors the fees paid by the council to the external auditors to ensure value for money. The committee was pleased to note continuing

reductions in audit fees with total fees for the 2014-15 accounts down from the equivalent fees for 2013-14.

7. The committee requests training as required. The committee had a session on Revenue and capital in September 2015. 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 discussed and considered by members at committee.

### **Statement of accounts and annual governance statement**

8. For the third year running the council's Statement of accounts (2014-15) was approved by the statutory deadline of 30 September 2015 with signature on 22 September 2015 and received an unqualified opinion from the external auditors.
9. The chief finance officer authorised the Statement of accounts 2014-15 for submission to the external auditors by the statutory deadline of 30 June 2015. It had been the intention to bring the unaudited Statement of accounts to the meeting of the committee on 23 June 2015. This was not possible and therefore it was necessary to convene an extraordinary meeting on 7 July 2015, to enable members the opportunity to comment on the unaudited accounts in line with good practice. This included detailed explanations of the various funds and accounts and information on the year on year differences from the previous year's accounts.
10. Members considered the draft annual governance statement on 23 June 2015. The committee noted the significant issues which had been listed in the external auditors' audit letter 2013-14. The committee also noted that cuts to public funding and the external auditors issuing qualified opinions on value for money to NHS trusts, meant that there was no room for complacency. The chair said that the council was aware of the risks to its financial position and service delivery caused by the uncertainty surrounding business rates and the new homes bonus. He pointed out that the external auditors acknowledged that the council had a "good track record" of delivering savings and meeting its budget. The committee noted that the council's corporate risk register was kept under constant review and that the risk score for public sector funding had been increased.
11. The annual governance statement 2014-2015 was approved at the meeting on 22 September 2015. The annual governance statement was signed off by the leader of the council and the chief executive on behalf of the council.

### **External audit**

12. At its meeting on 17 November 2015, the committee reviewed the annual audit letter 2014-15 from the external auditors. The letter advised members of the changes to accounting and auditing arrangements which could impact on the council's production of its financial statements. Looking ahead the main challenges were changes in accounting for highways network assets and the earlier deadline for the production and audit of the financial statements from 2017-18.

13. In accordance with best practice, the annual audit letter had also been circulated to all members of the council and published on the council's website by 31 October 2015.
14. The chair requested that the council's accounts were audited earlier going forwards. The external auditor said that he would ensure that his successor was aware of this request. He explained that councils would need to work to tighter deadlines in the future.
15. The committee agreed the approach and scope of the external audit plan 2015-16 at its meeting on 15 March 2016. Members commented on the financial statement risks which had been identified by the external auditors.

### **Risk management**

16. 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 managers' group of the key risks to achieving the council's objectives. Cabinet also reviews the corporate risk register every six months.

### **Internal audit**

17. The committee receives an annual internal audit opinion and regular 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. During 2015-16 discussions took place on the arrangements for fraud and counter-fraud work following the transfer of the fraud team to the Department of Work and Pensions on 1 April 2015. The committee considered the arrangements for liaison and joint working with the Department of Work and Pensions (DWP) and noted that the revenues and benefits team (LGSS) was still responsible for the identification of potential fraud which would then be passed to the DWP for investigation
18. On 15 March 2016 the committee agreed the internal audit plan for 2016-17. The focus of internal audit will be on large risks as well as an annual audit of all financial systems. The audit approach and control environment should mitigate the risk that anything went wrong. The internal audit plan would be regularly monitored by the chief finance officer, committee and external audit.
19. The external auditors seek confirmation from the chair each year requesting confirmation of the council's management processes and arrangements. Councillor Neale, the chair responded to this letter and copies have been circulated to members of the committee.

### **Conclusion**

20. 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 2011.

**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 2011;
  - (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.