

**Report to** Council  
18 July 2017  
**Report of** Director of business services  
**Subject** Annual audit committee report 2016-17

**Item**

**7**

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**Purpose**

To present of the annual audit committee report 2016-17 to council.

**Recommendation**

To receive the annual audit committee report 2016-17

**Corporate and service priorities**

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

**Financial implications**

The report has no direct financial consequences

**Ward/s:** All Wards

**Chair of audit committee:** Councillor Price

**Cabinet member:** Councillor Kendrick, resources

**Contact officers**

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 Chartered Institute of Public Finance and Accountancy (CIPFA) guidance. The CIPFA guidance says that:

“The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.”

2. The guidance goes on to set out that the core functions of the audit committee are to:

- a) Be satisfied that the authority’s assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority’s objectives.
- b) In relation to the authority’s internal audit functions:
  - i) oversee its independence, objectivity, performance and professionalism
  - ii) support the effectiveness of the internal audit process
  - iii) promote the effective use of internal audit within the assurance framework.
- c) Consider the effectiveness of the authority’s risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
- d) Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority’s exposure to the risks of fraud and corruption.
- e) Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control

3. The annual report of the audit committee 2016-17 summarises the work of the committee over the past financial year. Following discussion, the committee approved the report at its meeting on 20 June 2017.
4. The report concludes that the committee has been effective in undertaking the functions set out in its terms of reference, in accordance with the council’s procedure rules and the Accounts and Audit Regulations 2015.

## Integrated impact assessment



**NORWICH**  
City Council

### Report author to complete

<b>Committee:</b>	Council
<b>Committee date:</b>	18 July 2017
<b>Director / Head of service</b>	Director of business services
<b>Report subject:</b>	Annual audit committee report 2016-17
<b>Date assessed:</b>	6 July 2017
<b>Description:</b>	Report summarises the activities of the audit committee in the previous civic year

	Impact			
<b>Economic</b> (please add an 'x' as appropriate)	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
Finance (value for money)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Other departments and services e.g. office facilities, customer contact	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
ICT services	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Economic development	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Financial inclusion	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<b>Social</b> (please add an 'x' as appropriate)	<b>Neutral</b>	<b>Positive</b>	<b>Negative</b>	<b>Comments</b>
Safeguarding children and adults	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
<u>S17 crime and disorder act 1998</u>	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human Rights Act 1998	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health and well being	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

	Impact			
Equality and diversity (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Relations between groups (cohesion)	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Eliminating discrimination & harassment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Advancing equality of opportunity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Environmental (please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Transportation	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Natural and built environment	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Waste minimisation & resource use	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Pollution	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Sustainable procurement	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Energy and climate change	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
(Please add an 'x' as appropriate)	Neutral	Positive	Negative	Comments
Risk management	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	

<b>Recommendations from impact assessment</b>
<b>Positive</b>
<b>Negative</b>
<b>Neutral</b>
<b>Issues</b>

**Annual report of the audit committee 2016-17**

**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 2016-17

Councillor Ben Price  
Chair, audit committee

Councillor James Wright  
Vice chair, audit committee

## **Background**

1. This report covers the work of the audit committee for the financial and civic year 2016 to 2017. The committee met five times during this period.
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 2016-17 were:-

Councillor Ben Price (chair)  
Councillor James Wright (vice chair)  
Councillor Keith Driver  
Councillor Gail Harris  
Councillor Beth Jones  
Councillor Paul Kendrick  
Councillor Martin Schmierer  
Councillor Mike Stonard

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

Justine Hartley, chief finance officer and S151 officer  
Philippa Dransfield, chief accountant and deputy S151 officer  
Jonathan Tully, principal audit manager (LGSS)  
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 Justine Hartley who as chief finance officer and S151 officer who has been invaluable in her support to the chair and members of the committee and to wish her well in the future.

5. The engagement team of the external auditors (Ernst & Young) is led by Mark Hodgson and supported by David Riglar. They attend meetings of the audit committee to present their reports and answer members' questions.
6. The committee monitors the fees paid by the council to the external auditors to ensure value for money.
7. 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.

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

8. For the fourth year running the council's Statement of accounts (2015-2016) were approved by the statutory deadline of 30 September 2016 with signature on 22 September 2016. The accounts received an unqualified opinion from the external auditors.

9. The committee has an opportunity to comment on the unaudited accounts at its meeting on 28 June 2016 and on the accompanying Annual Governance Statement.
10. During discussion on the Annual Statement of Accounts, members sought clarification on the methodology used for the assessment of satisfaction with leisure and cultural facilities and the number of visitors to the city. The committee noted that there had been a review of all investment properties in this year rather than the rolling programme of revaluation of 20 per cent of the stock which had resulted in a greater surplus in the revenue accounts than previously. This resulted in a greater surplus in the revenue accounts than previously. The review was based on best use of the property which was not necessarily its current use, and based on rentable value of similar properties in the area. The full revaluation of all council dwellings, based on “beacons”, representative of the types of accommodation and to the Norwich standard (ie with upgraded kitchens, bathrooms and boilers), had created the largest surplus on Housing Revenue Account services since the valuation of the authority’s housing stock in 2009.
11. The committee also made several comments on the draft Annual Governance Statement which included consideration of the council’s partnership arrangements, how the council embedded its codes of conduct and standards within the organisation and at what point would audit opinions give rise to concern. Members were reassured with the council’s treasury management arrangements and that the chief accountant and finance team were safeguarding the council’s assets and provided good advice in response to market forces.

### **External Audit**

12. At its meeting on 22 November 2016, 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 2015-16.
13. The external auditors were commissioned by the council to review its Minimum Revenue Provision. The external auditors were able to provide this work at a significantly lower cost than another offer. The additional fee was approved by the Public Sector Audit Appointments (PSAA).
14. 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 2016.
15. Councillor Wright, vice chair, commented that in the six years that he had been on the committee the nature of the annual audit letter had been very different. He thanked the officers for the work that they had done in the intervening year to get to this point where the accounts received an unqualified opinion.
16. The committee considered the external auditors’ Audit Results Report at its meeting on 20 September 2016. Mark Hodgson thanked the chief finance officer and her team for a “good audit with very few issues”. He did recommend that management reviewed the current closedown timetable and the associated responsibilities for preparing the supporting records to the statement of

accounts and the need to factor in the earlier reporting deadlines in respect of the 2017-2018 financial statements. The committee was advised that there had been a delay in sending over supporting documents and that although the work had been completed due to an oversight it had not been forwarded to the external auditors. The chief finance officer confirmed that the finance team was aware of the earlier reporting deadlines and would ensure that they were prepared for it when closing down the accounts.

17. The external auditor presented the Certification of Claims and Returns Annual Report 2015-16 at the committee's January 2017 meeting. It was the first year that the council did not incur any additional fees. In previous years the external auditors have been required to conduct further work. The fee of £2,000 for the quality assurance on the capital pooling return was at the lower end of the approved range of fees. The external auditor explained the audit process for the housing benefits subsidy claim. No materiality was allowed and therefore any overpayment or underpayment was counted. The number of errors had been fewer than in previous years and there were no particular areas of concern. The council was therefore travelling in the right direction and he considered that it was no different from his other clients. Members were assured that the issues raised would be followed up with the revenues and benefits service and internal audit and that quality assurance was in place. Members expressed concern that under payments should be avoided to ensure that the council's residents were not adversely affected.
18. The external auditors presented their External Audit Plan 2016-17 to the committee in March. This report sets out how external audit will carry out the audit of the council's 2016-17 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. Concerns about the medium term financial statement apply to all local authorities and reflects the high state of flux where government policies are uncertain and subject to change. Members are concerned about the long term financial implications of this.

### **External Audit Appointment**

19. There is a statutory requirement for the council's Statement of Accounts to be audited. The Local Audit and Accountability Act 2014 closed down the Audit commission and introduced transitional arrangements until the conclusion of the 2017-18 audits. Ernst & Young LLP, the present external auditors' contract will therefore expire on 31 April 2018. The council must therefore appoint or reappoint a local auditor by 31 December 2017 to be in place by April 2018. The audit committee was unanimous in its recommendation to cabinet that the council opt-in to a sector led body to undertake the procurement of external audit on behalf of the council. This Public Sector Audit Appointments Ltd has been specified as the sector led appointing body under the Local Audit (Appointing Person) Regulations 2015.
20. The committee considered that an opt-in to a sector led body will be the most cost effective and efficient option. The advantages of being part of a wider collective outweighs the disadvantages of elected members having less opportunity for direct involvement in the appointment process other than through the Local Government Association and/or stakeholder representative groups.

### **Risk Management**

21. 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 annually and will review it if there is a change to the risks which exceed the council's risk appetite.
22. The audit committee expressed concern that about risk A8, housing investment strategy, and the key controls to work with registered social housing providers to deliver new social housing where spend by the council was not possible and to avoid the loss of funding. Development of social housing does not always go to plan and it is a balance of working with social housing providers to deliver schemes but there is a risk that the housing will not be delivered and funding will have to be repaid to central government. The corporate leadership team considered the discussion by the audit committee and increased the residual risk score for risk A8 to 20. Members considered that this reflected their concern and noted that government policy is beyond the control of the council.
23. The residual risk score for B1 public sector funding and A8 housing investment strategy remain beyond the council's risk appetite. The council has put in as many controls as it can to mitigate the risk which is due to external factors and therefore out of the control of the council. The uncertainty surrounding government policies and housing and public sector funding are a concern. However at a strategic level the risks have remained static and there are controls in place.
24. Members of the committee welcomed key controls to safeguard young people and vulnerable adults and ensuring that commitment to capital expenditure is not made until funding is in place.
25. Following the outcome of the EU referendum, the chair discussed his concerns about Brexit and the potential impact that this could have on the council's budget and ability to deliver services with the chief finance officer and internal audit officers.

### **Internal audit**

26. 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.
27. On 15 March 2016 the committee agreed a new approach for the internal audit plan for 2016-17. The focus of internal audit is now on large risks as well as an annual audit of all financial systems. The audit 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 was reduced for 2016-17 to 400. This was reviewed by the corporate leadership team and the committee during the year and it was considered that this had been too much of a reduction and seventy days were added back. The number of days for the 2017-2018 plan is 450 days.

28. 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 reprofile the plan in response to changing areas or risk.
29. The committee has an opportunity to comment on the content of the plan. At the meeting on 14 March 2017 the committee considered the chair's suggestion that the audits of fees and charges and waste management should be brought forward to ensure that opportunities for income generation were not lost. The committee then considered whether the potential loss of income was sufficient to remove other elements from the audit plan and it was considered that cabinet would review waste management fees and charges as part of its management functions.
30. The external auditors seek confirmation from the chair each year requesting confirmation of the council's management processes and arrangements. The chair responds to this letter on behalf of the committee.

### **Counter Fraud Policies**

31. The council's counter fraud policies have been updated, in line with good practice, and has introduced a new money laundering policy. The policies had not been updated since 2009 and it was appropriate for the audit committee to consider the three policies, Anti-fraud and corruption, Whistleblowing and Anti-money laundering policy. The committee approved the counter fraud policies for recommendation to cabinet at its meeting on 22 November 2017 after a briefing session facilitated by Paul Strangward, deputy head of internal audit (LGSS).
32. The committee noted the risks of potential fraud from external malware to individual fraud within the organisation. The policies communicate the culture of the council to its officers, members and people who interact with the council. Members are reassured that internal audit will review the effectiveness of the counter fraud policies as part of the council's internal controls by monitoring the key controls.

### **Conclusion**

33. 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 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.