

Report to Audit committee
 23 June 2015
Report of Chief finance officer
Subject Annual audit committee report 2014-15

Item

7

Purpose

To comment on the the draft Annual audit committee report 2014-15.

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 Neale

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 2014-15 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 2015.

Annual report of the audit committee 2014-15

Introduction

This is the second annual report of the audit committee and advises the council of the work of the audit committee for the period 2014 to 2015.

Councillor Paul Neale
Chair, audit committee

Background

1. This report covers the work of the audit committee for the financial and civic year 2014 to 2015. 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 2014 to 2015 were:

Councillor Paul Neale (chair)
Councillor James Wright (vice chair)
Councillor Andrew Boswell
Councillor James 'Bert' Bremner
Councillor Gail Harris
Councillor Paul Kendrick
Councillor Stephen Little
Councillor Alan Waters

Councillor Keith Driver attended two meetings as a substitute for Councillor Bremner.

4. The key officers that support the audit committee are:

Justine Hartley, chief finance officer
Philippa Dransfield, chief accountant and deputy S151 officer
Steve Dowson, internal audit manager (LGSS)
Laura McGillivray, chief executive

The committee was also supported by Jonathan Idle, head of internal audit and risk management (LGSS) who has now left the service, and has been replaced by Neil Hunter and by Andy Rush, fraud team leader, until the transfer of Housing Benefit fraud responsibilities and the associated staff to the DWP at the end of March 2015.

5. The committee has regular training sessions. This included training on the Statement of accounts, governance arrangements and the housing revenue account. The training was held in the half hour before the formal business of the committee. 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.
6. The external auditors (Ernst & Young) attend meetings of the audit committee and answer members' questions. The engagement team is led by Rob Murray, who has significant experience of Norwich City Council, supported by David Riglar who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the finance team. To meet regulatory requirements and ensure a smooth rotation plan for future years, Mark Hodgson

will be replacing Rob Murray in 2015-16. The committee monitors the fees paid by the council to the external auditors to ensure value for money. The committee has expressed concern that the council had to pay an additional £12,000 fees for the 2013-14 accounts because of a complex enquiry from a member of the public. It is hoped that this is a one off occurrence and that it was due to a particular set of circumstances.

Statement of accounts and annual governance statement

7. For the second year running the council's Statement of accounts 2013-14 was approved by the statutory deadline of 30 September 2014 and received an unqualified opinion from the external auditors.
8. The committee considered the draft statement of accounts 2013-14 and annual governance statement at its meeting on 22 July 2014 and made further comments at its September meeting.
9. During discussion, the committee considered that it is important that the Statement of accounts is easily understood by members of the public and therefore asked for explanatory text to be inserted. Members also considered that acronyms should only be used if the name is given first in full.
10. There was also some lively debate and an exchange of views regarding whether the statement regarding air quality should be deleted from the Statement of accounts as some members considered that the proposed Northern distributor road (NDR), a key feature of the Norwich area transportation strategy (NATS), would increase carbon emissions from transport in the city and county in the future, a view that was rejected by other members. The committee concluded that references in the Statement of accounts are a neutral record of the council's position at a given moment of time and that there was evidence of the council's commitment to improve air quality and reduce carbon emissions is set out in the corporate plan.
11. The annual governance statement follows guidance on good practice. Members discussed the content of the annual governance statement 2013-14 in detail. The committee considered whether there should be specific reference to the revenues and benefits service in the annual governance statement. There had been significant issues arising from the service which had been considered in detail by both the audit and scrutiny committees. The external auditors had taken the view that a specific reference in the previous year's annual governance statement was not required and therefore the same view was taken for 2013-14. The committee also considered how the involvement of opposition members was reflected in the annual governance statement. Members noted that the various committees of the council were mentioned and that it was implicit that members from the opposition groups contributed to the work of the council. The practice of the council to elect the chairs of the scrutiny and audit committees from the minority groups was also noted.
12. A supplementary report, comprising the council's response to the external auditors' audit results report was circulated at the September meeting. The chief finance officer explained that it was not possible to circulate the response at an earlier stage until the accounts had been audited and therefore the officers cannot prepare the response until they have received the external auditors' report. The response must be included in the letter of representation. It was

hoped that in future years the council could receive the external auditors' audit results report earlier to allow for the council response to be included with the audit committee agenda papers.

Risk management

13. The committee reviews the corporate register throughout the year and notes any changes to the corporate risk 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.
14. The committee has had considerable discussion about what should be included on the corporate risk register. Cabinet proposes the corporate plan to the council for adoption and discussion on policy is outside the remit of the audit committee. The council addresses climate change through its policies and strategies, but Green group members consider that climate change should be listed as a risk in its own right.
15. The instability of local government funding from central government means that there is a high residual risk for public sector funding which can change and be adverse to the council's delivery of its corporate policies. The council takes steps to limit these risks but it is noted that cuts in public sector funding affecting its major partners may result in increased costs to the council, for instance in health and social care.
16. The committee has been concerned that the council needs a fixed asset register and has been assured it that it will be part of the new financial system that will be procured in the next financial year.

Internal audit and fraud team

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. In January 2015 the committee endorsed an amendment to the audit plan to include income generation and joint ventures on the plan.
18. The committee has been briefed on the audit process and is aware that each audit is followed up by a review to check that agreed actions arising from the audit are completed and report back to committee. The committee may also call managers to account for non-compliance with agreed actions arising from the internal audit. This would give a strong message to managers throughout the authority. However the rate of compliance is good and the committee has not found it necessary to invite managers to attend the committee. A letter was written on the committee's behalf to the responsible manager of the Norman Centre, only for it to be reported at the next meeting that all of the agreed actions had already been implemented, and therefore it was not necessary for her to attend the committee meeting.
19. An increase in resources to deal with the backlog in processing claims led to more benefit cases being identified for investigation. Many of the cases were due to customers not informing the authority of a change of circumstances.

20. The draft internal audit plan for 2015-16 was considered at the March meeting. The audit of core systems will not take as long as in previous years. It is also noted that the internal audit team can call on resources in the wider team within LGSS if required. Members have an opportunity to challenge the allocation of resources for audits and ask questions.
21. The external auditors seek confirmation from the chair each year requesting confirmation of the council's management processes and arrangements. The chair has responded to this letter and copies have been circulated to members of the committee.

Transfer of housing benefit fraud work to the Department of Work and Pensions (DWP)

22. On 1 April 2015, housing benefit fraud work transferred to the DWP. The committee received regular updates on the arrangements for the transfer of the council's benefit fraud work and meetings were attended by Andy Rush, the fraud team leader (LGSS), who answered members' questions.
23. Members considered that it was regrettable that the skilled investigative staff within the fraud team will be lost to the council. In September 2014, the committee noted that the fraud team had already exceeded its key performance indicator (based on the running costs of the fraud team) by £14,000.
24. The internal audit team will cover the residual fraud work following the transfer of the fraud team to DWP. Also LGSS has created a counter fraud team and has appointed two new counter fraud managers to cover fraud investigative support across the shared service following the transfer. There will be a service level agreement between the council and the DWP for benefit fraud work.
25. The committee would like to record its gratitude to the internal fraud team for the contribution it made to the council.

Conclusion

26. 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.