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Chelmsford City Council

**25<sup>th</sup> July 2023**

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## **Audit and Risk Committee Annual Report 2022/23**

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Report by:

Audit and Risk Committee

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Officer Contact:

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### **Purpose**

This report summarises the work that the Audit and Risk Committee has undertaken during 2022/23 in line with CIPFA's Position Statement for Audit Committees 2022.

### **Recommendations**

The Council is requested to note the content of the 2022/23 Annual Report of the Committee.

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## **1. Introduction**

- 1.1. Audit Committees are a key component of the Council's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The Committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.
- 1.2. In Chelmsford, the Audit and Risk Committee has been delegated governance responsibilities but remains accountable to Full Council. The Committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.
- 1.3. The CIPFA Position Statement for Audit Committees 2022 outlines the core functions of the Audit Committee and advises how Audit Committees should demonstrate their independence and effectiveness. Part of this includes reporting regularly on their work, and at least annually reporting an assessment of their performance.

## 2. Conclusion

The Audit and Risk Committee Annual Report 2022/23 is attached for Committee to note and agree.

List of appendices: Appendix 1 - Audit and Risk Committee Annual Report 2022/23

Background papers: None

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### Corporate Implications

#### Legal/Constitutional:

The Council has a duty to maintain an effective internal provision to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance (Regulation 5 (Part 1) of the Accounts and Audit Regulations 2015). Various guidance emphasises the importance of the Audit Committee, including:

- Delivering Good Governance in Local Government: Framework
- Public Sector Internal Audit Standards
- the Code of Practice on Managing the Risk of Fraud and Corruption.

#### Financial:

Failure to have appropriate risk management arrangements puts the Council financial management in a weakened position and therefore increases the risk of failing to deliver Our Chelmsford Our Plan.

#### Potential impact on climate change and the environment:

None

#### Contribution toward achieving a net zero carbon position by 2030:

None

#### Personnel:

None

#### Risk Management:

The role of the Audit and Risk Committee in relation to risk management covers: assurance over the governance of risk, including leadership, integration of risk management into wider governance arrangements and the top level ownership and accountability for risks; keeping up to date with the risk profile and the effectiveness of risk management actions and; monitoring the effectiveness of risk management arrangements and supporting the development and embedding of good practice in risk management.

#### Equality and Diversity:

None

#### Health and Safety:

None

Digital:

None

Other:

None

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**Consultees:** Councillor Walsh, Chair of the Audit and Risk Committee

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**Relevant Policies and Strategies:** None

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## Appendix 1

### **Audit and Risk Committee Annual Report 2022/23**

#### **Introduction from the Chair of Audit and Risk Committee**

I am pleased to present the Annual Report of the Audit and Risk Committee which outlines the Committee's work and achievements for 2022/23.

I hope that this Annual Report helps to demonstrate to the City's residents and the Council's other stakeholders the role that is carried out by the Audit and Risk Committee and the contribution that it makes to the Council's overall governance. All meetings are open to members of the public.

To provide ongoing assurance over the Council's risk management, governance and internal control arrangements, the Committee has been supported during 2022/23 by the Audit Services Manager, the Accountancy Services Manager (S151 Officer), the Procurement and Risk Services Manager, and the Public Health and Protection Services Manager, as well as representatives from the Council's External Auditors.

I would like to express my thanks to those officers and Members who have supported the work of this Committee by presenting and discussing reports.

**Cllr Nora Walsh**

**June 2023**

## 1. Overview

1.1. Audit Committees are a key component of the Council's governance framework. Their purpose is to provide an independent and high-level focus on the adequacy of governance, risk and control arrangements. The Committee's role in ensuring that there is sufficient assurance over governance risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

1.2. In Chelmsford, the Audit and Risk Committee has been delegated some governance responsibilities but remains accountable to Full Council. The Committee has oversight of both internal and external audit together with the financial and governance reports, helping to ensure that there are adequate arrangements in place for both internal challenge and public accountability.

1.3. As outlined in CIPFA Position Statement for Audit Committees 2022, the core functions of the Audit Committee are to provide oversight of a range of core governance and accountability arrangements, responses to the recommendations of assurance providers and helping to ensure robust arrangements are maintained.

1.4. The specific responsibilities include:

- **Maintenance of governance, risk and control arrangements**

- Support a comprehensive understanding of governance across the organisation and among all those charged with governance, fulfilling the principles of good governance.
- Consider the effectiveness of the authority's risk management arrangements. It should understand the risk profile of the organisation and seek assurances that active arrangements are in place on risk-related issues, for both the body and its collaborative arrangements.
- Monitor the effectiveness of the system of internal control, including arrangements for financial management, ensuring value for money, supporting standards and ethics and managing the authority's exposure to the risks of fraud and corruption.

- **Financial and governance reporting**

- Be satisfied that the authority's accountability statements, including the annual governance statement, properly reflect the risk environment, and any actions required to improve it, and demonstrate how governance supports the achievement of the authority's objectives.
- Support the maintenance of effective arrangements for financial reporting and review the statutory statements of account and any reports that accompany them.

- **Establishing appropriate and effective arrangements for audit and assurance**

- Consider the arrangements in place to secure adequate assurance across the body's full range of operations and collaborations with other entities.
- In relation to the authority's internal audit functions:
  - oversee its independence, objectivity, performance and conformance to professional standards

- support effective arrangements for internal audit
- promote the effective use of internal audit within the assurance framework.
- Consider the opinion, reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control, and monitor management action in response to the issues raised by external audit.
- Contribute to the operation of efficient and effective external audit arrangements, supporting the independence of auditors and promoting audit quality.
- Support effective relationships between all providers of assurance, audits and inspections, and the organisation, encouraging openness to challenge, review and accountability.

1.5. In addition to the CIPFA Position Statement for Audit Committees 2022, various associated guidance also emphasises the importance of the Audit Committee, including:

- CIPFA's Delivering Good Governance in Local Government Framework
- The Public Sector Internal Audit Standards (PSIAS)
- CIPFA's Code of Practice on Managing the Risk of Fraud and Corruption

## **2. Membership and Committee Administration**

- 1.1. There were four meetings of the Committee during 2022/23 (June 2022, September 2022, December 2022 and March 2023).
- 1.2. Membership of the Committee for 2022/23 is attached at Appendix A. The Audit and Risk Committee did not have any external Members acting in an independent capacity in 2022/23.
- 1.3. The work programme is based around the Committee's Terms of Reference, along with items requested during the year, and is reviewed at each Committee meeting. A list of the items that have been considered by the Committee during 2022/23 is attached at Appendix B to the report.
- 1.4. The Committee was supported by the Audit Services Manager, the Accountancy Services Manager (S151 Officer), the Procurement and Risk Services Manager, and the Public Health and Protection Services Manager, as well as External Audit (BDO).
- 1.5. The Committee operated under the Terms of Reference which was in line with CIPFA guidance: Audit Committees (2018). The agendas for the Committee's meetings are published on the Council's website not later than five clear days before the date of each meeting. The minutes of each meeting are also published on the website as soon as possible after each meeting has taken place. The agendas for meetings may be accessed from: [Committees and Panels - Chelmsford City Council](#).

## **2. Governance Risk and Control**

### **Risk Management**

2.1. In June 2022, Audit and Risk Committee received the Spring/Summer 2022 Risk Management Report. The report outlined the progress made in implementing the Council's risk management framework and summarised the Council's Principal Risks. Key outcomes were also noted such as:

- new corporate risk reporting formats placing greater emphasis on risk treatment, Fraud Risk and Control Assessment bringing together Risk and Internal Audit
- six-monthly compliance reporting cycle for Fire Risk Assessment and Health & Safety audit actions using T1
- Our Chelmsford, Our Plan Action Plan Climate and Ecological Emergency Action Plan progress reported annually to Overview and Scrutiny Committee
- Health and Wellbeing Strategy Action Plan progress reported quarterly to LiveWell Chelmsford

2.2. In December 2022, the Committee received a further Risk Management Report, updating the Principal Risk position and discussed the Principal Risks of:

- Income and Financial Position,
- Theatre Refurbishment and Rebranding
- Enterprise Resource Planning.

### **Countering Fraud and Corruption**

2.3. In December 2022, the Committee received a report detailing the Council's new Counter Fraud and Corruption Strategy which included key principles such as acknowledging the responsibility for countering fraud and corruption, identification of fraud and corruption risks, provision of resources to implement the strategy and the action to be taken in response to fraud and corruption.

2.4. The 2023 Strategy had been developed in line with best practice, such as CIPFA's Managing the Risk of Fraud and Fighting Fraud and Corruption Locally checklist. Supplementing the strategy was an action plan which set out how it would be delivered.

2.5. An update on the actions taken in relation to the Counter Fraud Strategy Action Plan was provided to Committee in March 2023, including:

- updating the Council's Fraud Risk Register
- producing a revised Fraud Response Plan
- reviewing the Whistleblowing Policy
- developing and refreshing training and awareness activities for employees.

- 2.6. With regards to updating the Council's Fraud Risk Register, it was noted by the Committee that the overall Principal Risk of fraud was broken down to 20 different risk areas that were susceptible to fraud based on consideration of CIPFA's annual Counter Fraud and Corruption Tracker adapted for the Council. Risks identified had been assessed to calculate a more accurate rating. The adequacy of controls in place would be reviewed, supported by independent assurance from internal audit, and highlight where further mitigation would be required. There is also an anti-bribery and corruption risk assessment in the process of being developed.
- 2.7. Regarding anti-fraud training, the Committee was informed that this training would be rolled out to all Council members and officers including temporary and agency workers.
- 2.8. Committee also received a detailed update regarding two recent fraud investigations.

### CIPFA Financial Management Code Assessment

- 2.9. In September 2022, the Committee received an update informing them of the requirements of the Financial Management Code and the Council's self-assessment of compliance against it. The Committee noted that the Council continued to be materially compliant with the Financial Management Code but some areas has been identified where minor improvements were required and some actions were arising from the assessment.

### 3. Financial and Governance Reporting

- 3.1. The Audit and Risk Committee received a report from the Accountancy Services Manager in June 2022 on the provisional revenue outturn position for 2021/22. The report included a list of key material variations that made up the overspend, the amount and the cause of each variation, and the actions recommended to manage each variation. For each affected service, action or variance, the report identified associated risks. Committee also received a report which detailed the capital expenditure incurred in 2021/22, updated the Committee on the approved Capital Schemes and variations in cost which had been identified at outturn and to date.
- 3.2. The Council's Annual Governance Statement (AGS) forms part of the Council's Statement of Accounts and its purpose is to provide assurance regarding the Council's governance arrangements and the extent to which the Council complies with its Local Code of Corporate Governance. The Audit and Risk Committee reviewed the Annual Governance Statement for 2021/22 jointly with Governance Committee in June 2022. Progress on outstanding governance issues from 2021/22 were noted along with areas identified for 2022/23, such as:
  - Financial Rules
  - Cyber Security
  - Financial Management Code Action Plan
  - Member Code of Conduct
  - Community Governance Review
- 3.3. The Chair of the Audit and Risk Committee signed the 2020/21 Statement of Accounts on 9th March 2023 (see further detail below re External Audit). The Committee are still awaiting the Annual Audit Letter to summarise any issues



arising from the work they had carried out in respect of the year ended 31st March 2021.

- 3.4. In September 2022, the Committee received a presentation from officers on the Unaudited Accounts for 2021/22. It was noted that these had been published in July 2022 and the presentation covered the role of the Committee in reviewing the accounts, the core statements and some of the key items for consideration, including the role of the Audit and Risk Committee, deadlines for the year, what determines the format of the accounts, the statutory entries, the main chapters in the accounts, S151 officer's key messages and key risks.
- 3.5. In March 2023, Committee approved the Accounting Policies which would be used in completing the 2022/23 Statement of Accounts in line with Code of Practice on Local Authority Accounting in the United Kingdom 2022/23.

#### **4. Establishing appropriate and effective arrangements for audit and assurance**

##### **Internal Audit**

- 4.1. The original audit plan for 202/23 was approved by Audit and Risk Committee in March 2022.
- 4.2. During 2022/23, Audit and Risk Committee received several reports from Internal Audit, updating them on Internal Audit progress against the plan and high-risk issues identified. This included:
  - Internal Audit Annual Report 2021/22 which provided an overall annual opinion of "moderate" assurance (June 2022)
  - Interim Annual Report 2022/23 (December 2022)
- 4.3. In December 2022, Committee approved the Internal Audit Strategy 2023-24.
- 4.4. In line with Public Sector Internal Audit Standards, the Audit and Risk Committee approved the Internal Audit Charter in March 2023.

##### **External Audit**

- 4.5. In September 2022, the Committee were updated by the external auditors as to the progress they had made on the 2020/21 Statement of Accounts. Following an update in December 2022 where Committee were advised that there had been delays in signing off as a result of auditors seeking additional assurances, a further update was provided by the S151 Officer in March 2023 and the Committee noted that the 2020/21 accounts had been signed off on 9th March 2023.
- 4.6. In September 2022, Committee were advised that due to continuous resource pressures audit firms face nationally, Committee were advised that the audit of the 2021/22 accounts was unlikely to happen before July 2023. Members of the Committee and other Cabinet members who were present at the meeting, expressed their strong levels of disappointment at the continued and unacceptable delays, with the External Auditors responding to the specific concerns raised by Committee.
- 4.7. In September 2022, the Committee received an update on the contract for External Audit. The update detailed the proposals by the Public Sector Audit Appointments (PSAA) relating to setting the 2022/23 audit fee for their services.

- 4.8. In December 2022, Committee were advised that the Council had met with PSAA to raise the issue of delays formally and met with our auditor's liaison for local government audit who confirmed that BDO intend to send out letters to their clients setting out broad level of their approach to catching up with audits.
- 4.9. The Committee was updated regularly during the course of 2022/23 by the External Auditors and s151 Officer on the lateness of the external audit process locally and nationally and how the long delays have impact on the ability of the Committee to make judgements on financial risk and financial reporting.

### Additional Governance and Assurance Reports to Committee

- 4.10. **Modern Slavery** – in September 2022, the Committee received a report updating them on the work undertaken within the Council on Modern Slavery reduction and awareness. Members were informed that the action plan initially produced in September 2020 had been updated with one outstanding action. The Committee also heard that with the introduction of the Chelmsford Against Slavery Partnership, Modern Slavery would become business as usual for the Safer Chelmsford Partnership. It was noted that progress would be reported to the One Chelmsford Board and then in turn Overview and Scrutiny Committee. This therefore meant future updates would not be provided to the Audit and Risk Committee.
- 4.11. **Corporate Health and Safety Annual Report** – In September 2022, the Committee received a report updating them on Health and Safety in 2021/22. Members were informed about progress with training, accidents, performance in comparison to other years and the recent audits.
- 4.12. **Cyber Security** – In September 2022, the Committee received a presentation from the Council's Digital Services Manager and the Virtual Cyber Information Security Officer, following a request at a previous meeting. The Committee heard that a posture review had taken place in 2021 of the Council's Cyber Security position which led to a list of actions and an updated policy. The Committee were informed that positive progress continued to take place in the Council's cyber security efforts and would continue to be an area of focus for the Council.
- 4.13. **Procurement Update** – in December 2022, the Committee received a report regarding all formal procurement and sourcing activities alongside any cross functional working that had taken place. The report also informed members of new process, policies and practices introduced in the last 12 months and the planned activities for the next 12 months, along with the findings to date on social value feedback.

**Membership of Audit and Risk Committee 2022/23**

Councillor Nora Walsh – Chair

Councillor Malcolm Sismey – Vice Chair

Councillor Dan Clark

Council Wendy Daden

Councillor Natacha Dudley

Councillor Barry Knight

Councillor James Raven

Councillor Eleanor Sampson

Councillor Andrew Sosin

**Audit and Risk Committee Work Programme 2022/23****Appendix B****June 2022**

- **Joint with Governance Committee**
  - Review of the Local Code of Corporate Governance and Annual Governance Statement 2021/22
  
- **Audit & Risk Committee**
  - External Audit Update
  - Revenue Monitoring Report
  - Capital Monitoring Report
  - Internal Audit Annual Report 2021/22
  - Audit and Risk Committee Annual Report 2021/22 and Terms of Reference
  - Risk Management Report

**September 2022**

- Presentation on Cyber Security
- Modern Slavery Report
- Annual Health and Safety Report 2021/22
- CIPFA Financial Management Code Assessment
- External Audit Contract Update
- External Audit Update
- Presentation on the Unaudited Accounts 2021/22

**December 2022**

- Internal Audit Interim Report 2022/23
- Internal Audit Strategy 2023
- Risk Management Report
- Counter Fraud Strategy and Action Plan
- External Audit Update
- Procurement Update

**March 2023**

- External Audit Update
- Internal Audit Plan 2023 and Charter
- Counter Fraud Strategy Action Plan Update
- Account Policies for the 2022/23 Statement of Accounts
- Counter Fraud Investigations Update