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Chelmsford City Council

**18<sup>th</sup> December 2024**

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## **Audit and Risk Committee Annual Report 2023/24**

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Report by:

Audit and Risk Committee

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Officer Contact:

Elizabeth Brooks, Audit Services Manager, [elizabeth.brooks@chelmsford.gov.uk](mailto:elizabeth.brooks@chelmsford.gov.uk)

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### **Purpose**

This report summarises the work that the Audit and Risk Committee has undertaken during 2023/24 in line with CIPFA's Position Statement for Audit Committees 2022.

### **Recommendations**

The Council is requested to note the content of the 2023/24 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 2023/24 is attached for Committee to note and agree.

**List of appendices:** Appendix 1 - Audit and Risk Committee Annual Report 2023/24

**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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## **Audit and Risk Committee Annual Report 2023-24**

### **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 2023/24.

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 2023/24 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 service representatives on request.

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 2024**

## 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, 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, 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**

- 2.1. There were four meetings of the Committee during 2023/24 (June 2023, September 2023, December 2023 and March 2024). Membership of the Committee for 2023/24 is attached at Appendix A.
- 2.2. The work programme is based around the Committee's Terms of Reference (see Appendix C), 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 2023/24 is attached at Appendix B to the report.
- 2.3. 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 service representatives on request.
- 2.4. In June 2023, the Committee received a report outlining the revised Terms of Reference for Audit & Risk Committee and actions to be considered to ensure that the Committee was operating in line with the recently published CIPFA Audit Committees Position Statement. The notable changes included considering reports on the effectiveness of financial management arrangements in compliance to the CIPFA's Financial Management Code (see 3.5 below), providing free and unfettered access to the audit committee chair for the external auditors which was noted has always been available, and for a conclusion on the compliance with the CIPFA Position Statement to be included in the annual report (see 2.6).
- 2.5. Other best practice actions recommended included:
- Recruitment of co-opted Independent Members to gain independent support and expertise. To this end, Audit and Risk Committee recruited two external members acting in an independent capacity during 2023/24.
  - Consideration of training to fulfil their role in the Committee, which was facilitated by circulation of a training needs self-assessment during 2023. Officers are now progressing options for training provision.
  - Undertaking an effectiveness self-assessment which will be issued to Members by Officers in 2024.
- 2.6. The Committee operated under its Terms of Reference in line with the CIPFA Position Statement. 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 can be accessed from: [Committees and Panels - Chelmsford City Council](#).

### **3. Governance Risk and Control**

#### **Risk Management**

- 3.1. In June 2023, Audit and Risk Committee received the Spring/Summer 2023 Risk Management Report. The report summarised the current position for the Council's Principal Risks, reviewed risk management activity for 2022/23, and outlined immediate priorities for the risk management function.
- 3.2. In March 2024, the Committee received a further Risk Management Report, which summarised the current position for the Council's Principal Risks and outlined proposed risk management activity for 2024/25. Members were given an overview of the work in the last year including identifying and managing risks to achieve certain objectives. The Committee were also shown a demonstration of the Council's Lighthouse module.

#### **Countering Fraud and Corruption**

- 3.3. In September 2023, the Committee received a report updating them on the Counter Fraud Action Plan with the work undertaken since the last update in March 2023 including:
  - Undertaking a role-based Bribery and Corruption risk assessment to help develop training and awareness activities for new and existing staff and Members to underpin understanding of anti-fraud and corruption responsibilities.
  - The plans for rolling out the new training modules which will also provide a good opportunity to publicise the Council's refreshed suite of Counter Fraud documents and remind all Members and Officers of their role and responsibility in preventing, detecting and reporting any suspected theft, fraud, bribery or corruption, which forms a key part of the Council's Counter Fraud and Corruption Strategy.
  - The development of an NFI operations protocol outlining the roles and responsibilities across services for partaking in NFI exercises and investigating matches.
  - Review of Safer Recruitment procedures to ensure they mitigate fraud and corruption risks.
- 3.4. Committee also received detailed confidential updates during the year regarding a recent audit investigation.

#### **CIPFA Financial Management Code Assessment**

- 3.5. In December 2023, the Committee received a report regarding an update of the CIPFA Financial Management Code (FM Code) and the Council's self-assessment since September 2022. It was found that the Council was compliant with the FM Code and that the improvement process would remain continuous. Members were also informed of the underlying principles of the code including accountability and transparency. They were also reminded of the areas covered by the standards. Members heard that there would always be room to improve financial

management and there were three reassessment points to be considered which were the capital projects; counter-fraud work; and the capital revenue processes.

#### **4. Financial and Governance Reporting**

- 4.1. The Audit and Risk Committee received a report from the Accountancy Services Manager in June 2023 on the provisional revenue outturn position for 2022/23. 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 2022/23, updated the Committee on the approved Capital Schemes and variations in cost which had been identified at outturn and to date.
- 4.2. 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 2022/23 jointly with Governance Committee in June 2023. Progress on outstanding governance issues from 2022/23 were noted along with areas identified for 2023/24, such as Counter Fraud, Cyber Security, Records Management and Constitution/Policy Alignment.
- 4.3. In September 2023, the Committee received a presentation from officers on the Unaudited Accounts for 2022/23. It was noted that these had been published in July 2023 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.
- 4.4. In March 2024, Committee approved the Accounting Policies which would be used in completing the 2023/24 Statement of Accounts in line with Code of Practice on Local Authority Accounting in the United Kingdom.

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

##### **Internal Audit**

- 5.1. The original audit plan for 2023/24 was approved by Audit and Risk Committee in March 2023. A change of approach was adopted in 2023 where instead of a full twelve-month plan, a 6-month rolling plan is now produced to ensure Internal Audit continue to be aligned to reviewing the highest risks in the Council. The updated plan outlining the suggested areas for review from October to March 2024 was therefore presented to Committee in September 2023.
- 5.2. 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 2022/23 which provided an overall annual opinion of "moderate" assurance (June 2023)
  - Interim Annual Report 2023/24 (December 2023)
- 5.3. In line with Public Sector Internal Audit Standards, the Audit and Risk Committee approved the Internal Audit Charter in March 2024.



- 5.4. Committee also received detailed confidential updates during the year regarding a recent audit investigation.

### External Audit

- 5.5. In June 2023, Committee received a report from the S151 officer regarding an update on the backlog of external audit assessments nationally and at the Council, and BDO's assurance that the delays are not due to any failing of the Council. The Committee were informed that there are national discussions on how to tackle this issue, however, there was no certainty on when the accounts for 2021/22 or 2022/23 would be completed. The report noted that the Council is to have a new auditor Ernst and Young for 2023/24.
- 5.6. In September 2023, the Committee received and noted the letter from the Parliamentary Under-Secretary of State, Lee Rowley MP. The officers identified key positive actions to be developed by Government to ensure audit delays were managed effectively, which included that the accounts to be more focused on local government risks; change statutory deadlines for publication; allowing Auditors the option not to audit sections of account; produce Value for Money assessments for outstanding years; Financial Reporting Council to increase emphasis on the timelines, and; improve external auditor capacity. It was however noted that as the audits were delayed by so much, they would be limited in the value they could add.
- 5.7. In December 2023, the Committee were advised of the continuing delays regarding external audits with only 1% of the audits for 2022/23 being completed nationally. It was reiterated that the reasons given by external auditors for not meeting the deadlines were audit-firms problems with resourcing and capacity. It was also advised that there are ongoing discussions in Government to provide a complete reset of the whole system nationally. It was perceived that the accounts from the previous years could be disregarded, effectively enabling some years accounts never to be audited.
- 5.8. In March 2024, the Committee heard details on a report containing the Government's proposals to clear the nationwide backlog of external audits. Members were advised that as per December 2023, there were 771 overdue external audits, representing in most cases 2 years of accounts remaining unaudited. The Council's audits of 2021/22 and 2022/23 by BDO have not yet started. It was emphasised that this was not a reflection of the Council's financial management. Members were advised that backstops would be put in place by legalisation, requiring auditors to offer an opinion by set date on accounts each year, even if the auditor had not completed the audit. There are different types of audit opinions that could arise as external auditors would be required by statute to report no matter the progress. This included disclaimed; partially disclaimed; complete; and, qualified. It was also advised that BDO would sign off the rest of their audits by September 2024 on the basis of a disclaimed opinion reflecting they would undertake no in-depth audit work in the remaining period of their contract. EY was anticipated to sign off the 2023/24 accounts by the end of May 2025 on a partially disclaimed basis, due to the lack of audit work by BDO. The Council welcomed the proposed changes and consultation from the government as there was a realistic view of the time it would take to clear the national backlog (2028). However, there were some concerns, including the matter of the pension funds and the wording of the disclaimer. There were also changes to the Value for Money assessments that officers welcomed, including that it would become a higher priority for the Auditor, and it would be more focused on the health of the Council's finances.

**Additional Governance and Assurance Reports to Committee**

- 5.9. **Corporate Health and Safety Annual Report** – In September 2023, the Committee received a report updating them on Health and Safety in 2022/23. Members were informed about progress with training, accidents, performance in comparison to other years and the recent audits.
- 5.10. **Procurement Update** – in December 2023, the Committee received the annual procurement report summarising the procurement & sourcing activities as a scheduled report on the delivery of procurement services in line with the work programme. The report also provided an overview of the changes on the new Procurement Bill that would have on procurement activity.

**Membership of Audit and Risk Committee 2023/24**

Councillor Nora Walsh – Chair  
Councillor Ian Grundy – Vice Chair  
Councillor Nicola Bugbee  
Councillor Dan Clark  
Councillor Natacha Dudley  
Councillor Kieron Franks  
Councillor Barry Knight (to June 2023)  
Councillor James Raven  
Councillor Andrew Sosin  
Councillor Roy Whitehead (from September 2023)

**Independent Persons**

Chris Groves (from September 2023)  
Jeannine Hoeckx (from December 2023)

**June 2023**

- **Joint with Governance Committee**
  - Review of the Local Code of Corporate Governance and Annual Governance Statement 2022/23
  
- **Audit & Risk Committee**
  - External Audit Update
  - Revenue Monitoring Report
  - Capital Monitoring Report
  - Risk Management Report
  - Internal Audit Annual Report 2022/23
  - Audit and Risk Committee Annual Report 2022/23
  - Audit and Risk Committee Terms of Reference and Compliance with new CIPFA Audit Committees Position Statement

**September 2023**

- External Audit Update
- Draft 2022/23 Statement of Accounts
- Health and Safety Annual Report 2022/23
- Internal Audit Plan September 2023 to March 2024
- Counter Fraud Strategy Action Plan Update

**December 2023**

- External Audit Update
- CIPFA Financial Management Code Assessment
- Internal Audit Interim Report 2023/24
- Procurement Update
- Confidential Audit Investigation Update

**March 2024**

- External Audit Update
- Risk Management Report
- Internal Audit Plan 2024 and Charter
- Account Policies for the 2023/24 Statement of Accounts
- Confidential Audit Investigation Update

## Audit and Risk Committee

### Terms of Reference

#### Statement of Purpose

Our Audit and Risk Committee is a key component of Chelmsford City Council's corporate governance. It provides an independent and high-level focus on the adequacy of governance, risk and control arrangements. Its role in ensuring there is sufficient assurance over governance, risk and control gives greater confidence to all those charged with governance that those arrangements are effective.

The committee has oversight of both internal and external audit, together with the financial and governance reports, helping to ensure there are adequate arrangements in place for both internal challenge and public accountability.

#### Governance, risk and control

1. To review the council's corporate governance arrangements against the good governance framework, including the ethical framework, and consider the local code of governance.
2. To monitor the effective development and operation of risk management in the council.
3. To monitor progress in addressing risk-related issues reported to the committee.
4. To consider reports on the effectiveness of internal controls and monitor the implementation of agreed actions.
5. To consider reports on the effectiveness of financial management arrangements, including compliance with CIPFA's Financial Management Code.
6. To consider the council's arrangements to secure value for money and review assurances and assessments on the effectiveness of these arrangements.
7. To review the assessment of fraud risks and potential harm to the council from fraud and corruption.
8. To monitor the counter fraud strategy, actions and resources.
9. To review the governance and assurance arrangements for significant partnerships or collaborations.

#### Governance reporting

10. To review the AGS prior to approval and consider whether it properly reflects the risk environment and supporting assurances, including the head of internal audit's annual opinion.
11. To consider whether the annual evaluation for the AGS fairly concludes that governance arrangements are fit for purpose, supporting the achievement of the authority's objectives.

#### Financial reporting

12. To monitor the arrangements and preparations for financial reporting to ensure that statutory requirements and professional standards can be met.
13. To review the annual statement of accounts. Specifically, to consider whether appropriate accounting policies have been followed and whether there are concerns

arising from the financial statements or from the audit that need to be brought to the attention of the council.

14. To consider the external auditor's report to those charged with governance on issues arising from the audit of the accounts.

### **Arrangements for audit and assurance**

15. To consider the council's framework of assurance and ensure that it adequately addresses the risks and priorities of the council.

### **External audit**

16. To support the independence of external audit through consideration of the external auditor's annual assessment of its independence and review of any issues raised by PSAA or the authority's auditor panel as appropriate.
17. To consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
18. To consider specific reports as agreed with the external auditor.
19. To comment on the scope and depth of external audit work and to ensure it gives value for money.
20. To consider additional commissions of work from external audit.
21. To advise and recommend on the effectiveness of relationships between external and internal audit and other inspection agencies or relevant bodies
22. To provide free and unfettered access to the audit committee chair for the auditors, including the opportunity for a private meeting with the committee.

### **Internal audit**

23. To approve the internal audit charter.
24. To review proposals made in relation to the appointment of external providers of internal audit services and to make recommendations.
25. To approve the risk-based internal audit plan, including internal audit's resource requirements, the approach to using other sources of assurance and any work required to place reliance upon those other sources.
26. To approve significant interim changes to the risk-based internal audit plan and resource requirements.
27. To make appropriate enquiries of both management and the head of internal audit to determine if there are any inappropriate scope or resource limitations.
28. To consider any impairments to the independence or objectivity of the head of internal audit arising from additional roles or responsibilities outside of internal auditing and to approve and periodically review safeguards to limit such impairments.
29. To consider reports from the head of internal audit on internal audit's performance during the year, including the performance of external providers of internal audit services. These will include:
  - updates on the work of internal audit, including key findings, issues of concern and action in hand as a result of internal audit work
  - regular reports on the results of the QAIP

- reports on instances where the internal audit function does not conform to the PSIAS and LGAN, considering whether the non-conformance is significant enough that it must be included in the AGS.

30. To consider the head of internal audit's annual report, including:

- the statement of the level of conformance with the PSIAS and LGAN and the results of the QAIP that support the statement (these will indicate the reliability of the conclusions of internal audit)
- the opinion on the overall adequacy and effectiveness of the council's framework of governance, risk management and control, together with the summary of the work supporting the opinion (these will assist the committee in reviewing the AGS).

31. To consider summaries of specific internal audit reports as requested.

32. To receive reports outlining the action taken where the head of internal audit has concluded that management has accepted a level of risk that may be unacceptable to the authority or there are concerns about progress with the implementation of agreed actions.

33. To contribute to the QAIP and in particular to the external quality assessment of internal audit that takes place at least once every five years.

34. To consider a report on the effectiveness of internal audit to support the AGS as required to do so by the accounts and audit regulations.

35. To provide free and unfettered access to the audit committee chair for the head of internal audit, including the opportunity for a private meeting with the committee.

### **Accountability arrangements**

36. To report to those charged with governance on the committee's findings, conclusions and recommendations concerning the adequacy and effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.

37. To report to full council on a regular basis on the committee's performance in relation to the terms of reference and the effectiveness of the committee in meeting its purpose.

38. To publish an annual report on the work of the committee, including a conclusion on the compliance with the CIPFA Position Statement.