



Audit committee

16:30 to 18:55

21 March 2023

Present: Councillors Price (chair), Driver (vice chair), Haynes, Kidman, Sands (M), Stutely (to end of item 7 below) and Wright (to end of item 7 below), and David Harwood (independent person)

Also present: Councillor Kendrick, cabinet member for resources
(Councillors Giles also attended the meeting as an observer.)

Apologies: Councillor Everett

1. Public questions and petitions

There were no public questions or petitions.

2. Declarations of interest

Councillor Stutely declared an other interest as a director of Norwich Regeneration Limited (NRL) / Lion Homes Limited, which could be part of discussions on Item 6 (below), Strategic and Annual Internal Audit Plans 2023/24.

3. Minutes

RESOLVED to approve the accuracy of the minutes of the meeting held on 29 November 2022.

4. Risk Management Update

The Interim Head of Internal Finance, Audit and Risk presented the report. The report covered risks reported for Quarter 3 to cabinet in February, and therefore some of the information would now be out of date. Members were reminded that their responsibilities differed from cabinet members, who were the owners of the risk register, and that theirs was as an oversight capacity to provide assurance on the governance of risks. The committee needed to be up to date with the council's risk profile and review the effectiveness of risk management options taken, and to support good risk management practice.

The chair said that the exempt appendix would be considered later in the meeting.

A member commented that CORP 20, Cost of Living Crisis was "static" yet listening to the news it would suggest that it was increasing. The Head of Legal and Procurement pointed out that the residual risk score had remained "static" at the highest score of 20 in Q2 and Q3, but the likelihood of the residual risk had increased to 5. Mitigation of this risk was influenced by external factors. Scrutiny committee had considered debt recovery and support recently.

During discussion, a member commented that the residual risk for Anglia Square remained at 12 despite an increase in mitigation being put in place. The Head of Internal Audit noted that in some cases the risk was reviewed rather than the impact. The Head of Legal and Procurement said that the risk register was also monitored by each directorate and the Corporate Leadership Team, where scores were changed as the risks were managed. In some cases, external actions were being taken that affected scores.

The committee then considered each of the corporate risks set out in Appendix 1 of the report, and commented on the following risks:

- **CORP07 Cybersecurity & CORP08 Data Protection Compliance**
In reply to a member's comment, the Head of Legal and Procurement confirmed that the council provided training on cybersecurity and data protection for members. Personal information collected from CCTV was treated as any other information that came under the Data Protection Act 2018, and that if an organisation mishandled information, it could be fined by the Information Commissioner. There were specific actions on the register as part of the council's antifraud activities and review.
- **CORP12 Contract Management - Governance**
The chair referred to the inadequate service level agreements, key performance indicators and tenders that had led to poor service delivery from external contractors in the past. The governance arrangements should identify triggers to make contract managers aware of issues to avoid a reoccurrence.
- **CORP13 The Council's approach to waste and recycling becomes financially, environmentally and contractually unsustainable**
During discussion members commented that waste and recycling bins were not returned to where they came from or emptied properly and that this should be raised with Biffa to ensure that its staff were informed. During discussion, a member suggested that it should be raised with the cabinet member for environmental services.

The Head of Internal Audit confirmed that there would be an internal audit of the Biffa Contract in 2023/24.
- **CORP14 Health and Safety and Compliance in Council Homes and Buildings**
The chair commented on the statement that the council had the resources and competencies and skills to manage the transfer of the service, and asked whether the interim senior team would remain in place until the recruitment of permanent staff in the 22/23 cycle. The Head of Legal and Procurement confirmed that the departure of the chief executive had put a different perspective on senior officer recruitment at this time but that interim arrangements were in place for the Corporate Leadership Team.
- **CORP15 Failure to draw down £15m of Housing Infrastructure Fund (HIF) money previously secured from Homes England and under contract to assist the delivery of Anglia Square leading to failure for successful redevelopment of this key city centre site**

In reply to a member's question, the Head of Legal and Procurement said that she did not consider that there would be a delay to determining the revised planning application for Anglia Square despite this risk. The chair pointed that due to inflation the funding of £15m had diminished by £1.5m.

- **CORP16 Implementation of the Election Act**

During discussion members voiced their dissatisfaction at the requirement for voter identification and expressed confidence that officers had a process in place. Members also noted that postal votes offered an option for voters without identification. Councillor Kendrick said that elections came within his portfolio and that the council had been proactive in its communications and produced a good leaflet dealing with this issue. The Head of Legal and Procurement set out the extensive ways in which the council was communicating about the changes.

- **CORP17 Failure to Deliver Acceptable Levels of Performance in Regulatory Services**

Councillor Stutely, chair of licensing committee, said that he was satisfied that the improvements were in progress. He considered that the next time the committee considered the risk register the backlog in processing taxi drivers' licences would be cleared. Another member commented on a landlord waiting for certification of 3 HMO properties. The committee noted that agency staff have been brought in to address these backlogs.

- **CORP21 Equality Impacts Due to Climate Change**

During discussion, the Head of Legal and Procurement advised members that the various work strands to address the climate and environment emergency that the council was undertaking had been reported to the climate and environment emergency executive panel (14 February 2023). The chair expressed his concern regarding the urgency to address this and said that there needed to be investment in the private and public sectors and from government. It was the council's role to coordinate the process. In reply to a question, the External Auditor said that under financial reporting external audit would expect where a council identified climate risk a budget process would follow. The committee commented on the cabinet's scheme to retrofit council houses and noted that resources were needed to help reduce carbon emissions in private households.

During discussion, members commented on the process for escalating risks. The Independent Person asked whether there was a mechanism for risk targets to be referred to cabinet or this committee, and what was considered an acceptable risk. The Head of Legal and Procurement explained the process and confirmed that the corporate risks were reviewed regularly. She pointed out that there was an element of subjectivity. The chair said that the committee considered the risk register twice a year and that it would be useful to provide more information on the process that cabinet undertook in scoring the risks and mitigation that was either selected or rejected. The Head of Internal Audit commented that the risk register had improved and that she considered that it worked well for the cabinet, bringing to its attention any new risks and the high priority corporate risks.

Councillor Kendrick, cabinet member for resources, was invited to comment and referred to the areas where the residual risk score was red and pointed out that there were clear deadlines set out on the register for actions to be completed or reviewed.

The council was working to ensure the delivery of the improvements under CORP14 Health and Safety and Compliance in Council Homes and Buildings and there were clear deadlines to review or update the cabinet on the progress. The council was working closely with Anglian Water and other local authorities to address Nutrient Neutrality so that Homes England would extend the £15m Housing Infrastructure Fund to assist with the delivery of Anglia Square. He considered that the following risks were outside the control of the cabinet and required actions from central government: CORP20 Cost of Living Crisis, CORP21 Equality Impacts to Climate Change and CORP23 Impact on Economic Downturn on Key Council Suppliers government.

RESOLVED to note the risk management report.

5. Internal Audit Progress Update 2022/23

The Head of Internal Audit introduced the appended report and drew members' attention to paragraph 4.4 containing the list of reports issued by Internal Audit that been issued a reasonable assurance, and the appendices. Internal audit had also issued position statements on NC2321 Planned Housing Maintenance (paragraph 4.7) and NC2305 Elections (paragraph 4.8) and was engaged in an investigation which would be reported to the next progress update.

The chair referred to the actions arising from the audit of NC2321 Planned Housing Maintenance and said that he considered that these were fundamental and noted that it included the development of service KPIs, including targets and escalation processes. The Head of Internal Audit confirmed that these controls would be tested during the next assurance audit.

In reply to a question the Head of Legal and Procurement confirmed that an annual fraud plan would be reported to the committee at a future meeting. She also advised members that good progress was being made with the development of the Annual Governance Statement (AGS) and that consideration was being given on how to present the draft AGS to members, so that they have a good understanding of the process. Members were advised that each service area provided an assurance statement and raised concerns.

The committee considered the outstanding actions arising from audit reviews in previous years. The Head of Internal Audit confirmed that the AGS would flag up actions that had not been completed from internal audit reviews where a limited assurance had been given. Members discussed how managers should be called to account where a recommendation had not been completed in the following 3-month cycle after a deadline. They expressed concern that failure to implement controls was detrimental to the council and put it at risk. Members also were concerned that actions might not be fully implemented.

In reply to a question from the vice chair, the Head of Internal Audit confirmed that internal audit plan coverage had been re-profiled to provide assurance over the council's key risks. She remained confident that what was left of the revised plan would be completed by the year end.

The chair moved and Councillor Sands seconded that the responsible officers or managers attended the committee and explained their reasons for not completing actions recommended by internal audit in the previous period (3 month cycle) of the

deadline agreed by managers and internal audit, with the caveat that managers could email the chair and vice chair providing reasons for mitigation not being put in place as agreed, and for the chair and vice chair to decide whether the officers needed to attend committee. On being put to the vote, with all members voting in favour, the motion was approved.

In reply to a member's question suggesting that the pandemic could have contributed to the backlog, the Head of Internal Audit acknowledged that other authorities were in a similar situation and to be pragmatic there should be a focus on the implementation of historical recommendations. Officers should discuss any recommendations that should be closed with internal audit.

The chair said that he expected that the outstanding actions relating to the audit of Buildings at Risk (Appendix 7) were completed. The Head of Legal and Procurement advised the committee that there had been significant changes to the procurement process and that actions had been postponed enabling assurance that the process was effective. The Head of Internal audit said that a revised due date of 30 April 2023 had been agreed and would enquire about a revised completion date if required.

RESOLVED, having reviewed the progress with delivery of the 2022/23 internal audit plan:

- (1) to note the report;
- (2) that officers or managers will be required to attend the committee where an action recommended by internal audit has not been completed within the previous 3 month cycle of the agreed deadline, with the caveat, that there is some leniency to officers and therefore the chair and vice chair may decide whether officers or managers are required to attend committee following the receipt of written reasons for the action not being implemented.

6. Strategic and Annual Internal Audit Plans 2023/24

The Head of Internal Audit introduced the report and explained that the Internal Audit Charter and Internal Audit Strategy were the same as the previous years and that Appendices 3 and 4 contained the strategic internal audit plan for the next 4 years.

The committee commented on the Internal Audit Plan. It was noted that members had concerns about the customer contact team and were informed that the internal audit review would be conducted over 12 days from April 2023 onwards. The Head of Internal Audit explained that as part of the audit review process, there was a good understanding of any concerns from discussions with heads of service and mapping out the corporate risks to the service. The plan provided a good idea of the work of internal audit in the year ahead but was subject to change if a corporate level priority or risk changed.

During discussion it was highlighted that Change Control and Patch Management had not been highlighted as a significant risk but could be considered more of a risk than starters movers leavers which had been added to the plan. The Head of Internal Audit confirmed Cyber Security was being covered in 2022/23 and would include

coverage on critical patches but that discussion with the service area had identified a need to review starters, movers and leavers.

The committee noted that there was no specific audit planned on the outcome of the Peer Review. However, audits of Corporate Governance and Norwich Regeneration Limited (Lion Homes (Norwich) Ltd) would cover outcomes from the exercise.

The committee also noted that days had been allocated to consider contract management and that this would include consideration of large contracts recently approved by cabinet. Issues relating to need for investment in the Halls would be considered under an audit of asset management.

The Head of Internal Audit noted members concern that the internal audit review of procurement paid attention to the wider social issues of procurement, including climate change.

RESOLVED to endorse:

- (1) the Internal Audit Charter;
- (2) the Internal Audit Strategy;
- (3) the Strategic Internal Audit Plans 2023/24 to 2026/27; and,
- (4) the Annual Internal Audit Plan 2023/24.

7. State of the Audit Landscape and Norwich Closure

(David Rigler, Partner Ernst & Young (External Auditor) attended the meeting for this item.)

The Interim Head of Finance presented the report. The report sets out the wider audit environment affecting both the private and public sectors and the impact that it has on the closure of accounts. During the presentation he highlighted the main issues in the council's response to the government consultation on the proposal to revert to the completion of audits 2022/23 by 30 September 2023, and local authorities meeting the deadline for submission of 31 May (as set out in paragraph 13 of the report).

The council had proposed in its response to the government consultation that the deadline for submission of accounts from local authorities should be moved to 30 June to ensure that post year checks were completed. He explained that this was justified as the further testing and quality review would improve the quality of the accounts and reduce the risk of transactions being mis-recorded necessitating time to fix minor errors that would have been picked up if a quality review was incorporated into the deadline. This unnecessarily early deadline was an inefficient use of resources for both the Council and External Audit. He confirmed that the finance team was on target for the revised deadline for submission of 31 May 2023.

The External Auditor said that the issues relating to local government audits were not specific to this council. An independent review of the sector had made 23 recommendations. The firm had contributed to all the consultations to influence the process going forward. His team was better resourced than it was 6 years ago when

it was hitting the deadlines. The current situation was not sustainable in the long term. There needed to be a year where every local authority delivered on time. In response to a suggestion that they should forget “2023” to catch up, the External Auditor said that whilst they were considering “out of the box” solutions, this would be a problem as each audit required a starting balance.

The chair said that he had confidence in external audit’s work and appreciated that the need to validate information for themselves. The council had two wholly owned companies and changes to the audit process were required. The External Auditor confirmed that comments had been provided to the consultations regarding financial statements and that it would be useful to get an understanding of what stakeholder groups report to councils and valuations of non-assets, to help shape the process going forward.

The External Auditor said that very few local authorities provided draft sets of accounts that did not require significant changes before being signed off. The chair said that it was unfair that other local authorities were penalised because of this and asked that the council was prioritised in the next cycle, so that it could be audited earlier in the year. The External Auditor said that he expected an improvement in the next 2 to 3 years but that there were still outstanding audits from other authorities from 2019/2020 and 2020/2021.

During discussion, the committee expressed its frustration and noted that the delay in the audit of the council’s accounts for 2021/22 would require the draft Annual General Statement 2021/2022 to be updated before it could be signed off.

RESOLVED to note the information contained within the report.

(Councillors Stutely and Wright left the meeting at this point.)

8. Review of Accounting Policies

The Interim Head of Finance presented the report. There were no changes to accounting policies or significant changes to accounting regulation affecting local government accounts for 2022/23. There would be a change from 1 April 2024 when the IFRS 16 Leases would be implemented. Members were advised that the only significant change to the accounting policies was an increase in the capital de minimis to £10k, which was considered more appropriate than £5k. This would be subject to review in future years as a capital de minimis of £100k was increasingly considered more typical in local government but there would be implications that needed to be worked through before such a major change took place.

In reply to a member’s question, the Interim Head of Finance explained that a beacon group was used for accounting purposes. A beacon group was based a group of housing with similar characteristics such as size, structure or type, for instance taking the number of 3 bed houses of a similar construction type and multiplying the value by the number of houses to provide an individual beacon group value, rather than valuing each house individually. This in turn would be aggregated to produce the value of the wider estate.

The chair commented that the papers had been circulated and the changes noted, and there being no objections to these changes, it was:

RESOLVED to approve the accounting policies for use in the preparation of the 2022/23 statement of accounts.

9. Audit Committee Self Assessment

The Head of Internal Audit introduced the report which had been the result of informal sessions held with members of the committee. She asked members to let her know if there were any changes that they considered should be made.

The chair said that it was important that as a team the committee had a range of skills. He considered that the report had accurately captured the discussions at the informal sessions.

RESOLVED having considered the January 2023 self-assessment checklist results at Appendix 1 to the report, agree that it is an accurate reflection of the discussion and actions required.

10. Work Programme

RESOLVED to note the report.

11. Exclusion of the Public

RESOLVED to exclude the public from the meeting during consideration of items 11* to 13* (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

12.* Risk Management Update – Exempt Appendix (paragraph 3)

RESOLVED to note that mitigation to address the risk contained in the Exempt Appendix is in progress.

13.*Cyber Security (paragraph 3)

RESOLVED to note that this item has been deferred for consideration at the next scheduled meeting of the committee.

CHAIR