



Audit committee

15:00 to 16:50

9 March 2021

Present: Councillors Price (chair), Driver (vice chair), McCartney-Gray, Giles, Schmierer, Stutely (from item 5, below) and Wright

Also present: Councillor Kendrick, cabinet member for resources

Apologies: Councillor Peek

1. Public questions/petitions

There were no public questions or petitions received.

2. Declarations of interest

None.

3. Minutes

RESOLVED to approve the accuracy of the minutes of the meeting held on 24 November 2020.

4. Annual Audit Letter 2019-20

The external auditor presented the report and explained that the annual audit letter summarised the key messages from the 2019-20 audit. The audit had been signed and concluded on 12 January 2021. The committee had considered the audit results report at its November meeting. The inspection period had been re-advertised and no further matters had arisen following this or from the residual external audit work. All assets were within an acceptable range. The chair had been informed of this before he had signed off the accounts, in consultation with the interim director of resources. The audit letter did not present anything new but was more public facing and could be published on the website

In reply to a member's question, the external auditor confirmed that as part of their procedures on the council as a going concern, external audit did review and challenge officers' analysis on the potential risk from Covid-19. This work was primarily focused on the liquidity of the council, ie, its cash position and the ability to pay staff and provide services on going services. External audit was satisfied with the officers' assessment and the disclosure note in the financial statements setting out that assessment.

RESOLVED to note the Annual Audit Letter 2019-20.

5. External audit plan 2020-21 - discussion on development of the external audit plan

(Councillor Stutely joined the meeting during this item.)

The external auditor explained that a draft external audit plan had not been expected at this meeting but that the purpose of this item was as a key discussion point for the committee to raise any audit risks that it considered should be included in the external audit plan. He would expect the plan to include the “big ticket items” audit risks, such as in previous years: management override of the controls to gain a better financial reporting: property, plant and equipment evaluation because of the size on the balance sheet, and pension liability because of the size on the balance sheet. The external auditors expected to discuss with officers the impact of Covid on the council’s activities and how it translated into the council’s year end set of accounts, particularly around grant funding and provisions for bad debts which were expected to increase.

The committee then considered its input into the external audit. The chair referred to the internal audit manager’s reports on audit reviews that had received a limited assurance around policies and procedures, and considered that there was a level of risk because policies had not been updated or there was not a procedure for a set review period. If the council had not been robust about this it raised questions about the capital spending on the Housing Revenue Account (HRA) and procurement to ensure that the council’s tenants got the best value for money.

The chair also said that the internal audit review had provided a limited assurance around the waste management contract. The council had done some good work but issues around monitoring and assessing performance of contracts as a result but it did raise concerns as to whether there were greater risks around a wider set of contracts. He said that he would also raise this later in the meeting under the agenda item on the internal audit plan.

The chair also considered that there had been improvements to the governance arrangements around the Norwich Regeneration Company Limited but this was also an area of focus given that there would be another wholly owned company, Norwich Company Services Limited (NCSL), and the insourcing of joint ventures into the council, with a potential risk to the council.

In reply to a member’s question relating to the inability of the audit team to verify documents in person this year, the external auditor confirmed that he would not have signed off any document unless he had sufficient assurance. It had not been possible this year to conduct the audit on site and hand over documents. There had been extra meetings on Teams. It was only right to identify this to members of the committee. Remote verification would no doubt form part of external audits going forward.

The external auditor confirmed that all the matters raised were ones that he had anticipated. It would be appropriate to discuss these issues with the interim director of resources and the finance business partner, and consider whether any or all

would lead to a material misstatement in the financial documents or a risk to the external auditor's value for money considerations, as part of the planning process.

(Later in the meeting, the chair suggested that the medium term financial strategy should also be considered for inclusion in the external audit plan.)

RESOLVED to note:

- (1) the discussion on the contents of the external audit plan 2020-21;
- (2) that the external auditor will present the external audit plan 2020-21 to the next meeting of the committee.

6. Internal Audit Update

The interim audit manager presented the report on the progress of the audit plan. Following the publication of the report, two cases of suspected fraud had been identified and reported to the relevant authorities for review. He confirmed that contract management had been added as a new risk on the risk register. It was too soon to say there was a problem across the council but the chair was correct in saying that contract management should be kept under review. He referred to Appendix A, Information security and GDPR, and updated members on the update of the information asset register (IRA) and confirmed that outstanding returns from asset owners had now been received and would be cleared by the next meeting of the committee. Members were advised that the recommendations following the contract management, housing repairs and responsive maintenance internal audit review were in progress and would be reviewed in April or May next year when the recommendations were due to have been implemented.

During discussion the interim audit manager answered questions on the work that was required of the council in relation to fraudulent claims for business support grants and how the council would go about this. Members were advised that the most effective source of assurance was likely to be through the National Fraud Initiative (NFI) data. In terms of risk assessments, the council provided monthly returns to central government on the grants approved against each scheme. Each application underwent standard checks. The council had received additional funding to complete this work. The revenues and benefits operations manager explained that all data was sent to the NFI. Any data matches were expected to be received through the portal used for single person council tax fraud. It was not possible to anticipate how many cases of fraud to expect. New burdens funding had been received from the government to do this work. The challenge was to ensure that fraud checks were undertaken by officers with the appropriate skill sets.

A member commented on the waste management services contract audit review and asked whether the interim audit manager had the assurance from the recommendations that he had identified in Appendix B, and in relation to the joint ventures, were the policies and procedures in place to ensure that lessons from the audit review had been learned. The interim audit manager said that he was working closely with the business relationship and procurement manager to feed in audit themes into their work and to provide support to training materials on key competencies for officers on how they manage projects going forward. The joint venture work was important and there was a three-year programme to audit review

contract management when a contract went live. It would be an intrinsic part of how the council operated and there would be audit reviews of high value, high risk contracts each year.

A member expressed concern that waste management was a statutory function of the council, had been a long-term contract, and that the audit review had revealed that the incentivisation scheme had not been monitored or enforced properly. He sought confirmation that this would not be the case for other contracts particularly when the council brought the joint ventures in-house. The interim audit manager said that the council needed to ensure that there were mechanisms in place to ensure that contract performance was monitored and improved. The interim director of resources said that she would be heading up a driving up performance from the supply chain service review board which would address the issues identified in the audit review of contracts when contracts were issued in the future and, by planning ahead, ensure that existing contracts were brought in line when up for renewal. She would take into account members' concerns about contract performance when drawing up the scope of this service review board.

A member commented that at the next meeting a summary of the audit review on the council's compliance with the Equality Act 2010 would be considered and asked whether the committee could review progress on it again in 6 months' time. The chair suggested that she made a recommendation at the next meeting when the committee considered the report. The internal audit manager said that he would not usually publish the action plan but agreed it could be supplied to the member on request.

During discussion a member said that as a ward councillor he often received complaints from the residents of council dwellings on the standard of repairs. He noted the outcome of the audit review of housing repairs and responsive management and asked what progress was being made in relation to the review of the NNBL and Gasway data by 31 March 2021, and to ensure that both residents and the council, received a good service and value for money. The interim audit manager had reported the findings of this audit review in a detailed report at the last meeting of the committee. The issue had been the completion of the action plan which had been agreed in November. This would be followed up on a self-assessment basis to see that actions were in place against the agreed timescale. The interim director of people and neighbourhoods confirmed that the actions were progressing and would be reported to the audit team in April as required. A progress report would then be reported back to the committee as part of the internal audit report.

The chair thanked the interim audit manager for the report. He had concerns about contract management and had been surprised at the "passive management" of the waste management contract and the fact that the incentivisation scheme had been implemented in 2015 but issues had not become known in 6 years, even taking into account Covid as mitigation. The interim audit manager said that it was the nature of the incentivisation scheme. Most of it was upfront as an annual rebate and was a technical two tier scheme, with some of the rebates generated on further efficiency improvements and it could not be seen whether it had happened or was happening. The council would need to ensure that any incentive scheme for contracts going forward was robust. The difficulty with the waste management contract was that it was on service performance, unlike the NNRBL contract which was assessed on

profit and cost, and also the council was dealing with a third party. The interim director of people and neighbourhoods said that she would check out the technical detail of the incentive scheme for the waste management contract and let members know.

During discussion the chair said that performance and the accuracy of reports was a fundamental lesson but there had been audit reviews of three contract management areas which had raised concerns. He welcomed the approach of the corporate leadership team working with internal audit to ensure that there were checks and responsibilities assigned to individual officers and the improved governance arrangements. There did need to be more work to provide assurance on contract management across the council, particularly in relation to the HRA and value for money for residents. The interim audit manager said that directors had not identified contract management as a risk in their specific service areas. The business relationship and procurement manager had indicated that she would value consultancy time from internal audit working with her and her team to develop competencies. The approach would be thematic and it was not possible to look at each individual contract. There was a programme to review the large contracts. It would need to be kept under review but the level of coverage was in line with risk at this stage. Two of the largest contracts had now been audited. This was accompanied with a lot of work on performance management and improving governance arrangements across the council. The committee could review this when it had become established.

The interim director of resources outlined the governance arrangements that were being put in place and would help officers report to the committee to provide it with assurance. This included the development of a leadership programme to ensure that the authority had the necessary skill sets, of which performance management was key. A shareholder panel for the council's wholly owned companies, NCSL and NRL, was being established, which would meet quarterly and receive reports from the companies on finance, governance and health and safety. The driving up performance from the supply chain service review board would consider a review of the contract data base and focus on the performance of the key contracts. The performance and delivery board would also review audit recommendations, including on contracts.

The chair said that he was concerned around the spending on the HRA to improve council dwellings, which involved a lot of contractors and suggested that was an area of urgency to look at in terms of procurement and value for money. The committee had noted at the last meeting that the council did not have guidance in place to review policies and procedures and that the corporate governance group was reviewing these. He was concerned that the underlying policies were not in place for the procurement of services. The interim director of resources said that the governance group would be merged into the new performance and delivery board, which she would chair, and focused on delivery, to ensure that these linked to the council's policies and strategies. The group was working on its corporate planning cycle and its first key deliverable was to share with the authority what the key policies and strategies were and what the timelines to review these would be. The board had started at the top with the corporate plan agreed at cabinet and council, and the medium term financial strategy, which covered the capital spend, as part of the budget setting process. Project plans would include procurement timelines. There was a clear requirement from the council's contract procedures on how the

council could go to the market. There were some exemptions which had been used recently to make sure that there was a smooth transferral of joint venture services into the NCSL in April. There were very clear rules for this which need to be signed off by the interim director of resources and monitoring officer, and a clear message to officers was made that it was an exception and “not to come back”. She confirmed that she considered that the procurement procedures were in place to ensure value for money at the start of a contract but it was the monitoring of the performance of contracts that was the issue.

In reply to a question from the chair on the capital spend policy, the interim director of resources, together with the finance business partner, explained how capital expenditure was incorporated into the corporate planning cycle. Each service could provide an opening brief for any capital and revenue expenditure implications and an invest-to-save assessment. These would be evaluated and subject to discussion with members. Schemes going forward would be worked up in the summer and placed on the draft capital programme for the next financial year. This process had been established and in place for the last two to three years at least, but the difference this year was that it had been brought forward to feed into the budget process earlier before decisions were made in January. The interim audit manager pointed out that the internal audit plan for 2021-22 included an audit review of the capital programme management.

RESOLVED to note the report.

7. Business Grants payment

The revenues and benefits operations manager presented the report

During discussion members congratulated the revenues and benefits teams for their work carried out in difficult circumstances.

In response to members' questions, the revenues and benefits operations manager confirmed that overpayments, due to office error and unfamiliarity with the new system, had been recovered by deducting the sum when the claimant made an application for a further grant. If this had not been the case the claimant would have been invoiced for the overpayment and if not repaid, would be liable for prosecution. The five overpayments had been made in the first tranche and early on in the lockdown when there was pressure from government to pay people entitled to a grant as soon as possible. The interim audit manager explained that basic checks had been made. Four of the five overpayments had been picked up by the claimants' banks. The revenues and benefits operations manager explained that the government had provided a new burdens grant aid to compensate the authority for any financial loss. Other local authorities had been in the same position.

Councillor Stutely, chair of licensing committee, congratulated the team for ensuring that all payments to licensed premises had been made on 24 December, the same day that the government had produced its guidance.

RESOLVED to note the report.

8. Internal Audit Plan 2021-22

The interim audit manager presented the report and outlined the items on the audit plan.

Discussion ensued on the draft audit plan. A member questioned the allocation of days for IR35 compliance which was the same as the new housing system. The interim audit manager said that the audit work on the new housing system included consultancy time. He had allocated 10 days for the IR35 compliance work as a default. It would take as long as it takes as it was a compliance piece of work that had not been undertaken before but he expected that it would take a minimum of 5 days based on previous evidence.

The chair commented on the draft audit plan and said that he welcomed the inclusion of the capital programme management assurance work, the Towns Fund and social housing delivery programme on the plan. There should be more work on contract management, and policies and procedures. A request had been made at the constitution working party to change the committee's terms of reference so that members had greater input into the content of the audit plan rather than the committee just monitoring it or making recommendations for further audit resources. The cabinet member for resources had stated at the working party meeting that the audit plan should be set by the corporate leadership team.

The interim audit manager explained that some of the consultancy work, under contract management, related to the request of the business relationship and procurement manager and the support for her and the team with competency training. There would be a considered approach to contract management. Compliance work did not indicate any risk on contract procurement. The council was reviewing its policies and strategies through its governance arrangements and internal audit would follow these up when appropriate. There was further work being undertaken on the asset management strategy as one review. In April the first round of information gathering for the Annual Governance Statement (AGS) would commence. It was suggested that there would be a compendium of policies and strategies assigned to the officers, whose responsibility it was, appended to the AGS. The chair welcomed that the asset management strategy was being reviewed and asked when there was formal agreement for internal audit to be involved. The interim audit manager confirmed that he had noted it for future audit work and said that internal audit would be involved when its input would be useful. The interim director of resources said that asset management was a priority of the council and that the review was underway. Input from internal audit would be welcome as part of this process. The asset management plan was expected in September 2021.

In reply to member's questions, the interim audit manager explained there were additional days allocated to the audit plan this year to make up for the days lost at the start of the pandemic while officers were being set up to work effectively from home. There was some contingency in the plan and the allocation of days was flexible and dependent on the delivery of the internal audit function which was subject to review. The audit team would ordinarily conduct some work on procurement on compliance and this would be done when the revised procurement strategy had become established. The interim director of resources said that the procurement strategy had been an internal cross-cutting review of the 40 officers comprising the senior management team. It would then be considered at the next

meeting of the scrutiny committee for pre-consideration before consideration at cabinet. She pointed out that it had not been possible to conduct outreach consultation with businesses in the city this year.

In reply to a question from the chair, the interim audit manager confirmed that the plan reflected the priorities of each director and that the corporate leadership team had not refused any of his suggestions for inclusion on the plan.

The external audit manager confirmed that external audit was not allowed to rely on the work of the internal audit team, but considered that the plan took into account the risks identified in each directorate and provided good coverage.

The chair in conclusion called on the committee to endorse the internal audit plan and commented that he would like to see more audit work on contract management but that he welcomed the reviews of the asset management and procurement strategies, and the audit approach and improved competencies in the team, as set out in the report.

RESOLVED to:

- (1) to endorse the draft internal audit plan;
- (2) record the committee's gratitude to Gavin Jones, interim audit manager for his contribution.

CHAIR