



AUDIT MANAGEMENT COMMITTEE

14:30 to 17:05	17th July 2024

Present:	Cllr Ben Price (Chair), Cllr Carrington, Cllr Toby; Cllr Hoechner; Cllr Mike; Cllr James Wright and David Harwood (Independent Person).
In attendance	Councillor Kendrick, cabinet member for resources, David Rigler, Ernst & Young (External Auditor).

1. Appointment of Vice Chair

RESOLVED to appoint Councillor Driver as vice chair for the ensuing civic year

2. Apologies Received

No apologies were received.

3. Public questions/Petitions

No public questions/petitions had been received.

4. Declarations of interest

No declarations were made.

5. Minutes

RESOLVED

That the unrestricted minutes of the meetings held on 19th March and 14th May 2024 were confirmed as a correct record of proceedings and the Chair of the Board was authorised to sign them accordingly.

6. External Audit VFM Interim Report 2021-22 and 2022-23

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

The External Auditor presented the report which sets out the external audit approach and scope for the 2021/22 and 2022/23 VFM audits. (attached to the agenda papers at item 6). The main points of the discussion maybe summarised as follows:
External Auditor drew Member's attention to a number of significant matters that were covered with in the report:

(a) page 7 of the report the table summarises that there are no significant risks or weaknesses identified in relation to Financial Sustainability and Improving economy, efficiency, and effectiveness; and

(b) In July 2021, the Council self-referred to the Regulator of Social Housing (RSH) citing non-compliance with Homes Standard on areas such as water safety, electrical safety, and fire safety. This was triggered by the internal review performed by Council on health, safety, and compliance management in June 2021, where indicators of the breach were identified.

The RSH had performed a review of the Council's health, safety, and compliance management in relation to social housing and issued a Regulatory Notice in October 2021. The Notice determined that the Council:

- ❖ had breached Part 1.2 of the Home Standard 2012, and as a consequence of the breach, there was the potential for serious detriment to Council's tenants; and
- ❖ did not have an effective system in place to allow it to meet its statutory health and safety responsibilities across range of areas.

However, since the regulatory notice was issued the Council developed a Compliance Improvement Plan and this weakness has been addressed and the Council requested removal of the regulatory notice in November 2023. The Regulator of Social Housing removed the regulatory notice in December 2023.

The Committee then went on to consider other aspects of the external audit process and Members (1) noted that since the abolition of the Audit Commission in 2015 the Council has, had to make alternative arrangements for the external audit of its accounts; and (2) agreed that residents are entitled to have full confidence in Council's accounts, and this has not been possible due to delays in finalising the audits for 2021/22 and 2022/23.

The Chair asked about the costings for those years, and it was noted that the Public Sector Audit Appointments (PSAA) is responsible for setting the scales of fees and it will depend on them as to whether or not there is a fee or compensation for work undertaken. The Chair then enquired if there were any other areas of concern, and it was noted that there are none as the regulator is satisfied with that COUNCIL responses to any of the issues raised.

In addition, to clear the backlog of historical accounts and 'reset' the system, the Ministry of Housing, Communities and Local Government [previously called the Department for Levelling Up, Housing and Communities has proposed a date in law (the "backstop date") to be introduced to conclude audits for 2022/23 and prior years by 30th September 2024 at which point local bodies would publish audited accounts for all outstanding years up to and including 2022/23. However, whilst the legislation was to be brought in, the general election had paused things e.g. the back stop dates had been pushed back further maybe to December 2024 or even January 2025.

The Chair asked how much assurance the Committee could get from this report and noted that Ernest Young will aim to provide (i) outcomes based on the available information; and (ii) a timeframe to consider any unresolved issues.

RESOLVED to:

- (1) note the attached report from the Council's external auditor;
- (2) confirm its understanding and agreement to the report that there are no significant risks or weaknesses identified in relation to Financial Sustainability and Improving economy, efficiency, and effectiveness.
- (3) Note the significant risk under Governance in respect of the regulatory notice issued by the Regulator of Social Housing.

7. Annual External Audit Plan 2023-24

Interim Director of Finance (S.151) presented the annual external audit plan in relation to 2023/24 (attached to the agenda papers at item 7). The main points of the debate are outlined below:

The Chair asked about expenditure manipulation and the risks to the Council, including expenditure **e.g.** How is it recorded to ensure recording in the right category? That is to say revenue versus capital and how charges been spread over a period of years

The Committee observed that the proposals to re-establish the local authority audit framework on a more sustainable basis are likely to have an impact on the scope of the Plan 2023-24. In particular, where there is no assurance spanning a number of historic budget years, this is likely to have an impact on the assessment of materiality and the ability of the External Auditor to issue an unmodified opinion early in the recovery phase. However, the External Auditor will continue to provide updates on the impact of these changes to the Committee where necessary to do so.

The Chair observed that the following risks had been identified in the current year **(i)** change in accounting policy – Minimum Revenue Provision (MRP); and **(ii)** implementation of new Unit4 Enterprise Resource Planning (ERP) system. Arising out of consideration of these risks the Independent member asked what guarantees are there that these risks will not occur in the current year?

In response the Committee noted that the Council has to anticipate those risks so as to minimise the impacts has the relevant officers with the required skills in information technology (IT) finances to oversee the migration and review expertise within the team to ensure all goes according to plan within this project. The Council have also established a controlled project framework and have received additional support from external IT specialists.

The Independent member asked is the Council are happy on the integrity of the new systems, in response it was noted that the Council is aiming to get improvement on what it had before which it is felt has been achieved. In addition, it was noted that Ernest Young has a sound understanding of existing data, latest information, data being transferred, mapping of data and coding thereof.

The Chair noted that the valuation of land and buildings represents significant balances within the Councils financial statements and are subject to changes as they require material judgements and application of estimation techniques to calculate the

year-end balances as recorded in the balance sheet. Therefore, there is a possible risk over the valuation of these assets as different expectations and approaches may be applied by those undertaking these valuations.

The Committee observed that the outcome of consultation on the planned measures to address local audit delays and related proposed temporary changes to CIPFA's Code of Practice on Local Council Accounting are likely to impact the assessment of audit risks and the response to them. Therefore, the Audit Committee will be updated on the assessment of any changes to audit risk as this becomes clearer.

It was also noted that the CIPFA Code of Practice requires the production of group accounts where any council has material financial interests and a significant level of control over a number of subsidiaries it will therefore be necessary to consider consolidating these subsidiaries into the group accounts. In addition, for 2023/24 the Council will be employing a different subsidiary auditor to that employed in previous years. There is therefore a potential risk that the balances consolidated into the group accounts maybe materially misstated.

The Committee was informed that the outcome of consultation on the planned measures to address local audit delays and the likely issue of a disclaimer on the Council's 2021/22 and 2022/23 financial statements and any guidance subsequently issued may continue to impact on the Councils assessment of materiality for the 2023/24 audit therefore Ernest Young will keep the Audit Committee updated on any changes to materiality levels as the audit progresses.

In regard to the overview of the 2024 audit strategy it was noted that Ernest Young will provide a commentary on the Council's arrangements against the following three reporting criteria (a) how the Council plans and manages its resources to ensure it can continue to deliver its services; (b) how the Council ensures that it makes informed decisions and properly manages its risks; and (c) how the Council uses information about its costs and performance to improve the way it manages and delivers its services.

Accordingly, the Committee having considered and commented on the report **RESOLVED** that:

- (1) the attached report from the Council's external auditor be noted;
- (2) it had confirmed its understanding and agreement to the materiality reporting levels set out on pages 30 and 31 of the report; and
- (3) the approach and scope of the external audit as proposed in the audit plan be agreed.

8. Progress Report on Internal Audit Activity

The Head of Internal Audit presented a report on the work performed by Internal Audit in delivering the Annual Internal Audit Plan for 2023/24. (attached to the agenda papers at item 8). Outlined below is a summary of the discussions on this report:

The Committee:

- Asked for details at its next meeting in regard to Norwich City Services Ltd (NCSL) housing repairs and void management and the progress in completing the agreed audit work in this area. Members asked for a full copy of the audit report to be sent to them once the audit was finalised (to be sent with the papers for the next meeting.)
- Regarding the NC2424 Starters, Movers, and Leavers report, observed that a corporate risk level had been raised relating to cyber security and highlights insider threat as a risk which was relevant to this audit. The starters, movers and leavers process has not been reviewed recently, and this audit looked at whether the IT department is given information in a timely manner to enable them to add, remove or update staff access to council systems. Therefore, service enhancements had been made to increase both the operational efficiency and enhance the delivery of value for money services.
- Noted that in regard to the procurement process for Disabled Facilities Grant (DFG) controls can be put in place for purchase orders for both single and multiple transactions within the context of the DFG to minimize any risks in this process. In addition, this can be addressed through training on contract management to ensure the right steps are followed within that process.
- Noted that following a detailed review of the DFG that covered the timeliness of assessment, approval, and delivery, there were now only two outstanding cases to be resolved.
- Noted that in regard to parking and civil enforcement that **(i)** cash collections have been missed and that the procedural guidance for parking and financial support functions requires updating to ensure that missed collections are identified and reported; and **(ii)** controlled weaknesses had been identified for pay and display and penalty charge notice income reconciliations and that the recording of income and other information for monitoring purposes has at times, been incorrect. Accordingly, the business continuity and service level, risks are to be reviewed and updated **e.g.** to have systems in place so that when staff leave their knowledge is not lost corporately.
- Noted that detailed monitoring of the mandatory training for safeguarding course is in place to ensure that staff are completing the e-Learning at the defined intervals online and that the Committee can receive details included in further updates.
- Noted that they would be receiving a report on the Disclosure and Barring Service (DBS) systems to ensure that informed recruitment decisions are being made.

Accordingly, the Committee having considered and commented on the report
RESOLVED:

1. To note the progress on the delivery of the 2023/24 Internal Audit Plan.

9. Annual Report of the Audit Committee

Interim Head of Legal and Procurement presented the draft Annual Report of the Audit Committee 2023-24 (attached to the agenda papers at item 9). An outlined below of the discussions on this report is set out below:

The Committee:

- Noted that there would be a review of decision-making powers **e.g.** the Statement of Accounts and Annual Governance Statement to be submitted to full Council for approval, instead of making that decision being delegated to the committee.
- Agreed that the terms of reference to be updated to explicitly address the core areas of the CIPFA Position Statement. In addition, the work plan would cover the core areas of the CIPFA Position Statement over the year.
- Concurred that to ensure the independence of the Members an evaluation of the skills and training needs to be undertaken every two years and training be provided to address this.
- Agreed that as part of the introduction to the Annual Report there should be an overview to capture the essence of the document, highlighting the purpose, methodology, major findings, and key recommendations.

Accordingly, the Committee **RESOLVED** to:

1. Approve the content of the Annual Report of the Audit Committee 2023-24 and recommended it to Council for adoption.

10. Work Programme

Interim Head of Legal and Procurement presented the Committee's work programme to fulfil its terms of reference as set out in the Council's constitution and agreed by Council (attached to the agenda papers at item 10).

Accordingly, the Committee **RESOLVED** to:

1. agree the work programme.

11. Exclusion of the Public

RESOLVED to exclude the public from the meeting during consideration of 12* (**below**) on the grounds contained in the paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).

12. Exempt minutes

RESOLVED

1. That the exempt minutes of the meeting held on 19 March 2024 were confirmed as a correct record of proceedings and the Chair of the Board was authorised to sign them accordingly.

13. Close of Meeting

With no other business to discuss, the Chair called this meeting to a close. Members were advised that the next meeting is scheduled for 17th of September 2024 at 4.30 p.m. to be held in City Hall, St. Peter's Street, Norwich NR2 1NH. Finally, the Chair thanked everybody for their attendance and participation this afternoon.