NORWICH
City Council

Minutes

Audit committee

17:20 to 18:55 **16 October 2018**

Present: Councillors Price (chair), Driver (vice chair), Coleshill, Fullman, Hampton, Lubbock, Smith and Stutely

Also present: Councillor Kendrick (cabinet member for resources)

1. Public questions/petitions

There were no public questions or petitions received.

2. Declarations of interest

There were no declarations of interest.

3. Minutes

RESOLVED to agree the accuracy of the minutes of the meeting held on 24 July 2018.

4. Annual Audit Letter 2017-2018

(David Riglar, external auditor, Ernst and Young LLP, attended the meeting for this item.)

The external auditor presented the annual audit letter and explained that it was a public facing document which the external auditors issued to the council at the end of its audit procedures. The external auditors' conclusions were set out in the *Executive Summary*. The signing off of the statement of accounts for 2017-18 by the new deadline of 31 July 2018 was a significant achievement by all concerned. Under *Value for Money*, the external auditors have identified the council's commercial activity as a significant risk due to the council's increasing activity in this area.

The external auditor said that data analytics was an integral part of the audit work. The use of data analysers enabled the auditors to capture the whole population of financial data and identify exceptions and anomalies, which were then considered to be at higher risk and subjected to further testing. In reply to a member's question on the quality of information provided in the journals and number of manual adjustments, the external auditor said that the local authority provided a memorandum of completeness when mapping over the data, and that most journals were complete with few manual adjustments.

The external auditor referred members to the *Purpose and Responsibilities* section of the letter and pointed out that the council was responsible for ensuring that proper governance arrangements in accordance with its annual governance statement.

The annual audit letter also addressed the impact of the application of new accounting standards on the council in future years. The external auditor said that CIPFA had issued some provisional guidance which indicated the impact on local authority accounting. In reply to a question from the chair, the chief finance officer confirmed that data information on leases was being collected from all service areas in preparation for the IFRS 16 Leases accounting standard. The CIPFA guidance had served to point the council in the right direction. The chair then referred to IRFS standards IFRS 9 Financial instruments and IFRS 15 Revenue from contracts and customers and asked how this would impact on the business of the council; its trading companies and group accounts; and implications for resources on internal audit. The external auditor said that the funding streams from council tax, non-domestic rates and government grants were excluded but recognised income from fees for services such as planning applications could be considered as material. There would be less impact on local authorities from IFRS 15. The chief finance officer said that she did not have knowledge of the detail and that a briefing on this would be available at a later meeting. The external auditor advised members that CIPFA guidance was that it would not have a major impact on local authorities. The external audit team had discussed the implications of the revised Code of Practice with the finance team and initial work had been started.

The external auditor said that the final audit fees had been approved by the PSAA and submitted to the council's corporate leadership team for approval. The vice chair said that he was concerned that the fees were sufficient to cover the work involved as the fees had been reduced in recent years. The external auditor explained that the schedule of fees was straight forward for the basic audit with extra fees for additional work. There had been planned work around the minimum revenue provision and group consolidation outside the scope of the scale fee and further work had been required on the significant risk identified in regard to Value for Money. The final fee would be reported to the committee in the annual certification report.

Discussion ensued in which a member referred to the *Valuation of Land and Buildings* and page 24 of the statement of accounts and asked for an explanation of the valuation of council houses being greater in 2017-18 than in the previous year but with fewer council properties. He said that he was concerned that the correlation between number of properties and value could mean that properties were over-valued and that this could be a risk to the housing revenue account if the council borrowed against its housing stock. The chair suggested that the committee should ask for a paper from the appropriate officer to explain the methodology used for the valuation of the housing stock. The external auditor said that the housing stock had been valued by Norfolk Property Service and the valuation was calculated on market value based on stipulated factors. The committee concurred that it should consider a report to explain the land valuation at its next meeting.

RESOLVED to:

(1) note the Annual Audit Letter 2017-18;

(2) note that the final fees for the external audit of the council's financial accounts 2017-18 will be reported to the committee in the Annual Certification report 2017-18;

(3) ask the chief finance officer to report back to the committee on the impact of the new accounting standards applied under the Code of Practice on Local Authority Accounting in the United Kingdom, standards IFRS 9, IFRS 15 and IFRS 16;

(4) ask the chief finance officer to report to the committee on the valuation of council housing for the HRA.

5. Internal Audit 2018-19: July to September Update (Quarter 2)

The head of internal audit presented the report.

During discussion the vice chair asked for an explanation for the changes to the internal audit plan and the reasons for the additional 21 days. The head of internal audit said that internal audit had been requested to carry out a significant piece of work that had required extra days and was near conclusion. He explained that there was flexibility in the plan to add additional days when required. In reply to the chair the head of internal audit said that recommendations would be made in response to this investigation into alleged fraud and shared with members. The chair said that the whistleblowing policy was positive for the organisation and that fraud and counter fraud should feature strongly on the work programme.

In reply to a question, the head of internal audit explained that the audit on fees and charges – compliance with policy had been pulled from the current work programme. The council still had to adopt a fees and charges policy, and once implemented the audit ensure that fees and charges were compliant with the policy. Fees and charges could be used to influence behaviours. For example, the council could make the decision to provide free car parking to regenerate an area of the city. Members also needed to be assured that concessions on fees and charges for specific groups of people complied with the council's corporate plan priorities. The audit on fees and charges – compliance with policy would be recommended to the corporate leadership team for inclusion on the audit plan for next year.

The vice chair asked whether the head of internal audit considered the five additional days allocated to the audit committee as good use of his and the principal auditor's time. The internal audit referred to the training session and meeting with the chair and vice chair and said that he considered it to be effective use of his time in the short-term. He pointed out that all local authorities had smaller budgets and when comparing the support of the audit committee against an open book review of a major contract, it might not seem such effective use of resources. The chair said that he found the pre-meetings and training sessions "hugely beneficial" and input from internal audit officers was very good value for money in that it helped him to chair meetings and empowered all members of the committee. The vice chair asked whether 17 days could be allocated to audit committee work in next year's audit plan at the start of the year. The head of internal audit said that all councils had smaller budgets which were under pressure and the internal audit budget was no exception. If an important piece of work came though it would need to attract the necessary resources and other work streams would need to be reviewed accordingly.

Discussion ensued on the internal audit work programme and whether the number of days of officer time should be reviewed given the “significant risk” identified by the external auditor in relation to the changes in the operation of the council with increased commercialisation and taking back contracts in house. The chair pointed out that the current 450 days had been set before the establishment of Norwich Regeneration Ltd (NRL) and asked whether the allocation should be reviewed. The head of internal audit explained that the internal audit work plan was considered each year in discussions with the corporate leadership team and was a risk based approach. The internal audit team comprised two FTEs and some of his time. He explained the processes that would be undertaken to conduct audits of NRL and the five contracts that the council was proposing to take back in house. The corporate leadership team had requested an open book review of the contract management. The vice chair asked why open book reviews had not been conducted previously and was advised by the external auditor that this these reviews were something that local authorities had started to do in the last few years. The chief finance officer said that an open book review of NRL, as a wholly owned council company was not required as the financial modelling and accounting for the company was undertaken by LGSS. Finance and the company’s financial results and future plans were taken to cabinet for approval in the company’s business plan. The head of internal audit confirmed that although contract procedure rules was being taken off the work programme, the open book review of contract management would include looking at procurement procedures, terms of reference and performance against service level agreements.

(Councillors Lubbock and Kendrick left the meeting at this point.)

During discussion members commented on the cross-cutting audit assignments which had been completed. The head of internal audit referred to the report and said that the audit of KPIs (key performance indicators) had identified that the council did not have a written performance management framework in place. A member commented that there was no point collecting KPIs if officers did not know what to do with them. The principal auditor said that the recommendations from the audit assignment had been signed off by the strategy manager who had agreed that the performance management framework would be in place by 31 March 2019.

Members noted that there were a number of reports from audit assignments which were still at draft stage or work in progress. The head of internal audit explained that many of the reports had been discussed with management and were waiting to be signed off. The internal audit team followed up after each assignment was completed to ensure that managers had implemented agreed actions.

RESOLVED to note the report.

6. Reserves

(The chair agreed to take the following question from Councillor Stutely who had asked the question at a previous meeting and wanted the response minuted in full.)

Councillor Stutely referred to page 5, of the Statement of Accounts 2017-18, and asked the chief finance officer to confirm the minimum level of reserves that the council should keep? The chief finance officer said that the minimum level of reserves was calculated annually and cabinet would recommend it to council as part of the annual budget setting process.

By way of a follow up question, Councillor Stutely said that given there were no guarantees that the council would receive sufficient funding through non-domestic business rates or council tax and the general economic uncertainty around Brexit, could the reserves be used to maintain frontline services. The chief finance officer explained that earmarked reserves were money put aside for planned use as part of the medium term financial strategy. The minimum reserves were to protect the council from risks to ensure that services could continue.

Councillor Stutely then asked about the use of reserves and whether there was an underspend in the planned forecast there would be additional savings. The chief finance officer said that as part of the budget setting process the impact of Brexit and other external factors were taken into account, for instance the implications of the Comprehensive Spending Review which would be withdrawn in 2021, and uncertainty about business rates.

CHAIR