



Audit committee

16:30 to 17:30

24 July 2018

Present: Councillors Price (chair), Driver (vice chair following appointment), Coleshill, Fullman (left the meeting during item 5 below), Hampton, Smith and Stutely

Also present: Councillor Kendrick (cabinet member for resources)

Apologies: Councillor Lubbock

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 12 June 2018.

4. Annual Governance Statement 2017-18

The head of internal audit (LGSS) presented the report. The committee had considered the draft Annual Governance Statement (AGS) at its June meeting. The AGS had now been signed off by the leader of the council and the chief executive.

RESOLVED to approve the Annual Governance Statement for 2017-18.

5. Financial Statements and Audit Results Report 2017-18

(This report was attached to the supplementary report which was circulated in advance of the meeting.)

The strategic finance business partner (and deputy S151 officer) presented the report. She referred to paragraph 3 of the report and advised members that there were two changes from the draft accounts. The Norfolk Pension Fund had provided updated information about the council's share of the pension fund assets. This had been based on an estimate and been reassessed at the year end. The city council and other councils had been issued with the updated information and the long term pension liability adjusted accordingly. The other change was to reflect that after the reporting date, the council had made the decision to discontinue its joint venture

arrangements with NPS Norwich, Norwich Norse Building and Norwich Norse Environmental.

The chair commented on the cessation of the joint arrangements would have a financial impact on the council. As chair of audit committee, he hoped that the financial team and cabinet members would ensure that he was kept informed of progress as these changes were implemented.

The external auditor (associate partner, Ernst & Young LLP) then presented the Audit Results Report. He confirmed that the audit would be completed by Tuesday, 31 July 2018 and that he expected to issue an unqualified audit opinion on the financial statements. He thanked the chief finance officer and the strategic financial business partner and colleagues for producing “a very good set of draft financial statements”. He referred members to Section 5 (of the report), Value for Money and commented that the council’s general fund reserve balance at 31 March 2021 would remain above the council’s approved minimum level. The medium term financial strategy was predicated on savings.

During discussion the chair referred to the external auditor’s assessment of the council’s financial resilience and assessment of its reserve position, and asked whether the current level of savings and identified underspends could be achieved in the future. The external auditor explained that the value for money assessment of the general fund reserve position to 2021 was based on whether identified schemes had achieved savings. There was a concern generally that identified savings that were “easy wins” had already been achieved and that savings going forward would be more difficult to achieve. He explained that local considerations included ensuring that the council was not wholly reliant on an income stream that would be unavailable in two to three years’ time. The council had earmarked reserves of £7.86 million. External audit had no significant concerns at this point and considered the arrangements “adequate”. The external audit opinion was that the council’s general fund reserve balance of £12.82 million at 31 March 2021 would remain above the authorities approved minimum level.

The chair thanked the external auditors and members of the finance team for their hard work in preparing the financial statements to meet the statutory deadlines and commented that the reports were laid out well and showed the methodology used.

In reply to a question from the chair, the external auditor referred to the final page of section 8 of the audit results report, and explained that he was unable to quantify the final fee because of the outstanding audit work and the group accounts which was a new element for the accounts. He considered that the fees for additional work would be around £3,000 to £6,000 and subject to further discussion with the chief finance officer and strategic finance partner. A member asked whether the inclusion of the group accounts would be a one off fee as it was the first year that these had been included but was advised by the external auditor that the fees would be consistent with the changed scope of the audit and this increase would therefore be permanent. He confirmed that no issues had arisen from the outstanding work which needed to be brought to the committee’s attention.

(Councillor Fullman left the meeting at this point.)

The chair referred to the inclusion of Norwich Regeneration Limited in the group accounts and said that it represented only 2 per cent of the group, and asked whether as the company grew the risk to the council as an organisation would increase. The external auditor replied that as the private company developed it would have a greater diversification of risk and that the chair's assumption was correct. The chief finance officer referred to the business plan for the company and said that originally it had been established to build council houses at Three Scores but was now including more sites and would continue to expand as a business. In reply to members' comments the external auditor said that the fee for 2 per cent of the group accounts was relatively small but as the company expanded it would require more audit hours and therefore be reflected in the fees. There was a robust mechanism for agreeing additional fees.

The chair referred to the council's increasing commercial activity and the acquisition of substantial commercial properties and said that it was important that the committee worked with the chief finance officer and internal audit to seek assurance over the coming weeks and months. The chief finance officer explained the procedure for procuring commercial properties to generate income to support the provision of council services and identify areas of the city in need of regeneration. The council had become aware of a potential commercial acquisition that was above the threshold for officer delegations. Governance arrangements for the consideration of this potential acquisition were agreed at a meeting comprising members of cabinet, the corporate leadership team and the group leaders for the Green Party Group and Liberal Democrat Group. The proposal as to whether to submit a bid or not would be considered at the extraordinary meetings of the scrutiny committee and cabinet convened on Wednesday, 1 August, with an informal leader and portfolio meeting held in the interval between the two meetings. If the cabinet agreed to progress with this bid, then there would be further decisions to be made before contracts were signed at cabinet and full council.

The chair referred to the draft letter of management representation as set out in Appendix 3 and thanked the external auditor and team for their work in ensuring that the external audit was completed by the earlier deadline of 31 July 2018.

RESOLVED to:

- (1) approve the Statement of Accounts 2017-18, presented in Appendix 1 of the report, subject to the completion of any outstanding work and if any outstanding audit work gives rise to a material adjustment to the accounts, to delegate approval of the statement of accounts as amended/adjusted in line with audit findings to the chief finance officer, in consultation with the chair (or vice chair) of the committee;
- (2) delegate to the chief finance officer, in consultation with the chair, the signing of the accounts by 31 July 2018;
- (3) note the Audit Results Report, Appendix 2, from the council's external auditor;
- (4) approve the draft letter of management representation presented in Appendix 3 of the report.

6. Internal Audit 2018-19 – April to June Update (Quarter 1)

(Councillor Driver left the meeting for a short period during the consideration of this item.)

The principal auditor (LGSS) presented the report. She referred to the audit assignments which were at the draft report stage or work in progress, and said that these would be reported to the next meeting of the committee. The head of internal audit explained that the committee reviewed progress on the internal audit plan, set out in Appendix A of the report, at its meeting throughout the year and gave officers a steer with regard to the focus of the audit assignments.

The chair commented on the cabinet's recent decision to provide services in house rather than through joint ventures as at present, and asked whether 20 days allocated for the audit assignment on contracts would be adequate. In reply to a question from the chair, the head of internal audit said that he considered the audit should also incorporate a review of contract performance in terms of value for money and governance, and there should be business case and due diligence for the process of taking the contracts back in house. He would be discussing the scope of the audit with the corporate leadership team. The chair said that it was essential that the committee was kept informed about the progress and said that he expected more information at the committee's next meeting. In reply to a member's question regarding the cost of transferring the contracts, the chief finance officer said that there was not yet an agreed timetable for the transfer of contracted services back in house.

The head of internal audit said that the audit report on the audit assignment of Norwich Regeneration Ltd was almost complete and would be reported to the next meeting. Discussion ensued in which the external auditor explained that its audit was of the accounts and that internal audit provided assurance on the private company's management and governance arrangements. The head of internal audit confirmed that the audit looked at the controls and procedures that the council had in place to hold the company to account. The chair said that this was an important piece of work and commended internal audit for conducting a thorough audit, pointing out that he would like to have access to the full report. The chief finance officer said that as these were currently received by the corporate leadership team a formal request for the reports could be considered. Members concurred in supporting the chair's request to access internal audit assignment reports.

The vice chair asked whether progress on the internal audit plan was on track for the first quarter and asked whether Appendix A was up to date. The head of internal audit said that audits were started but not always completed in the same quarter. He explained that if an audit took more days then it had an impact on the plan which would be discussed with the corporate leadership team and reported to committee. The internal audit team recorded their time on a management system.

RESOLVED to:

- (1) note the report on the work of the internal audit team and progress against the internal audit plan;

- (2) ask the chief executive and corporate leadership team for copies of internal audit reports to be circulated to the chair and any interested member of the committee.

CHAIR