



**Audit committee**

**17:00 to 19:10**

**29 November 2022**

Present: Councillors Price (chair), Driver (vice chair), Everett, Haynes, Kidman, Sands (M), Stutely and Wright, and David Harwood (independent person)

Also present: Councillor Kendrick, cabinet member for resources

(Councillors Giles and Oliver also attended the meeting as observers.)

**1. Public questions and petitions**

There were no public questions or petitions.

**2. Declarations of interest**

There were no declarations of interests.

**3. Minutes**

**RESOLVED** to approve the accuracy of the minutes of the meeting held on 4 October 2022.

**4. Internal Audit Progress Update 2022/23**

The Head of Internal Audit presented the report. An external quality assessment had been undertaken of Eastern Internal Audit Services and it had received good feedback. More details would be provided in the year-end report. Members were advised that the Internal Audit Plan, that had been agreed in March 2022, had been reprofiled following discussions at this committee and with the Corporate Leadership Team (CLT), to ensure that the most strategic risks were considered. Paragraph 2.2 set out the list of audits that were proposed for deferral to 2023/24. It was also proposed to include the additional audits and advisory work to next year's plan as set out in paragraph 2.3. Members might want to comment or add to these proposals.

The Head of Internal Audit then answered members' questions on the report. She referred to the table in paragraph 2.2 and confirmed that the explanations for the first two areas, NC22308 Income and NC2307 Accounts Receivable, were the same. Members were advised that assurances in these areas would still be covered in the Quarter 4 Key Controls and Assurance work.

In reply to a member's question, the Head of Internal Audit confirmed that NC234 Community Safety and ASB was no longer a strategic risk following discussion at CLT, and she was confident that it would be assessed at directorate level. The chair commented that this had been noted at the last meeting.

A member commented on the deferral of audits NC2322 Housing Compliance Validation Checks and NC2304 Procurement and Contract Management and noted that these would be monitored elsewhere but expressed concern that in case there was something that had been missed, these audits should be conducted as soon as practicable when the other processes were completed. The Head of Internal Audit explained that it was a balancing act to ensure that internal audit did not get in the way of good works being undertaken. There was external verification of housing compliance validation checks through the council's self-referral to the Regulator. The Head of Legal and Procurement would be monitoring procurement and contract management against the council's standing orders. Members were therefore assured that these areas were being monitored and that it was not the right time to conduct the internal audit.

During discussion, the Independent Person challenged the loss of 36 audit days from the plan, pointing out that this was almost a 10 per cent reduction in the agreed audit plan. He expressed concern that the plan would not be delivered by 31 March 2023 and was concerned about the number of audits that would be carried out in Q4 and the impact that this would have on audit plans in future years. The Head of Internal Audit explained that the changes to the internal audit plan were to allow the internal audit team to deliver the programme, following discussions with the Audit Committee and CLT. An outcome of the external quality assurance work of the internal audit service had been to add in extra days in some audit areas to provide enhanced data analysis and assurance. Some key control work was saved to Q4 so as to be able to test sample the whole year. Audits of some financial controls were conducted on an annual or biannual basis. The committee was advised that audits were disruptive to normal work and therefore arranged to fit in with services following discussion with managers. She assured the committee that she would be in a position to provide the annual audit opinion. Other members expressed concern that the purpose of the reduction was to save the council money. Members were advised that there were resources available and that was the advantage of the consortium arrangements. The revised plan had been discussed at the committee meeting (4 October 2022) and at CLT and was considered to provide sufficient assurance on governance, risk management and controls, to form an audit opinion. Robust explanations had been in the report for the changes to the plan.

The External Auditor was invited to comment and said that the Audit Results report would include an assessment of governance and internal audit. However, he considered that the proposed changes were not unreasonable and other councils were making similar changes in focus in response to strategic risks.

Discussion ensued in which the Head of Legal and Procurement provided an example of that the internal audit review of Contracts and Procurement had slipped to allow for the new procedures to be embedded in the organisation. Whilst the audit would be deferred to the next year's plan, this might in practice only mean a few weeks. The Head of Internal Audit explained that internal audit plan was considered by CLT and assessed against the risk register and mitigations. In the case of Contracts and Procurement, she had regular meetings with the Head of Legal and Procurement and was comfortable with the progress being made.

The Head of Internal Audit referred to reports being issued in final during this period as set out in paragraphs 4.4 and 5.1. Each report was summarised in the appendices to the report.

Members noted that the outstanding internal audit reviews from 2021/22, NC2213 Environmental Services and NC2219 Capital Programme Management and Accounting, had each received a limited assurance. A member, referred to the internal review of Environmental Services, and asked how the 14 recommendations would be monitored. The Head of Internal Audit said that progress against actions were monitored and would be brought back to the committee if recommendations were not carried out as agreed. The Head of Environmental Services assured members that the service had engaged with the internal audit team to ensure that recommended actions would meet the deadlines. The Head of Internal Audit commented on the outstanding recommendations and said that some of these related to providing evidence to the council that the elements of the contract were being carried out. The Executive Director of Development and City Services pointed out that members should take into consideration that environmental services was a large frontline service and the scale of the contract (£6.6 million) should be considered in comparison to smaller contracts or service areas. The Head of Internal Audit explained that each page of the contract had been examined and that the recommendations sought to demonstrate to the council that the contract was being adhered to.

A member expressed his concern that with regard to Capital Project Management, records of meetings had not been kept.

Members discussed the risk priority attached to recommendations. A member referred to Appendix 7, Accounts Payable, and said that he considered making a payment without an invoice was a fundamental weakness and asked why the priority for implementing the "No PO (purchase order), no payment" policy was categorised as medium. The Head of Internal Audit said that the priority risk was graded following discussion with service areas and was down to judgement. This would provide a good control and risk environment going forward. The Head of Legal and Procurement said that with regard to the exceptions list, where a payment could be made without a PO, the control required officers to provide reasons that would be documented.

Discussion ensued on the Environmental Services internal review. The chair expressed dismay with the recommendation for the council to undertake independent verification that key performance indicators (KPIs) provided by Norwich City Services Ltd (NCSL) were accurate. The Head of Environmental Services said that some of the recommendations were due to the timing of the audit and a misconception on the part of the internal audit team on contract management which had since been clarified. The Head of Internal Audit said that, following discussions with the council, mitigation had been agreed. This included the provision of refresher training on contract management to relevant officers. Members were advised that the internal audit review had focused on the client side.

The chair commented that he and the vice chair would like all members of the committee to receive final versions of internal audit reviews, in full, to help members understand the recommendations. It was evident from members' questions that they needed clarification which the reports would provide. The Head of Internal Audit said that a standard report template was used across consortium, with an executive summary of completed internal audit reviews. Some members would not want or have the time to read the full audit report. The chair pointed out that there would be no extra resource required as the reports would not be part of the agenda papers and could be provided as a pdf emailed to members.

**RESOLVED** to:

- (1) receive details the results of the outstanding 2021/22 internal audit plan of work and review progress with delivery of the 2022/23 plan;
- (2) request that all members of the committee are provided with pdf versions of the final internal audit reviews reports.

**5. Managing the risk of fraud and error in the payment of Coronavirus Business Grants**

The Head of Revenues and Benefits presented the report. She said that although she had only been in post since June 2022, she appreciated the work that had been undertaken by the team to ensure that business grants had been delivered as a matter of priority. The council would continue to reclaim funding where it could. To date there was an outstanding £91,000 to recover.

A member commented that from talking to businesses, he was aware that the city council had undertaken more checks than other local authorities. Members also sought reassurance that the service was not under-resourced and were advised that the grants had been issued on top of the “day job”. The chair commented on the officers’ dedication and that said that some had continued to work over the Christmas break to ensure that grants were delivered.

Councillor Kendrick, cabinet member for resources, said that there was always potential for fraud and for criminals to take advantage. The grants had saved local businesses and self-employed in the city.

A member referred to the identification of fraudulent claims or grants paid out in error as being less than one per cent of the total and asked when benchmarking data would be available so that the council’s performance could be measured against that of other authorities. The Head of Revenues and Benefits said that whilst there was no national data, from her experience of other local authorities, it was similar. Pre and post payment assurance work had subsequently identified where payments had been to ineligible businesses, either through error or fraud in the early round of claims, when local authorities were told just to pay out the grants. There was less fraud in later schemes due to processes the council put in place to pre-check applications. She considered therefore that the level of fraud was low and that the council had taken the right approach.

The Independent Person referred to paragraph 26 of the report and asked whether all outstanding cases would be handed over to the Department of Business Energy and Industrial Strategy (BEIS) in November. The Head of Revenues and Benefits assured members that the council was still collecting funding from identified cases of fraud of overpaid cases and that it was only the cases where the council had made three attempts to recover funding that would be handed over to BEIS to continue the enforcement process.

**RESOLVED** to note the report and the ongoing work to reclaim grant funding.

## 6. Work Programme

**RESOLVED** to agree the work programme, subject to deferring the report on the Audit Committee Self-Assessment to the March meeting.

## 7. Annual External Audit Plan 2021/22

(The chair agreed to take this item as urgent business. The report was circulated to members of the committee and published as a supplementary agenda.)

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

The External Auditor presented the appended report which sets out the external audit approach and scope for the 2021/22 audit. He would be taking over from Mark Hodgson, Audit Partner. He had worked on the council's accounts as a trainee with the Audit Commission. He drew members' attention to Section 1, which provided the committee with an overview of the external audit's initial risk identification and identified any changes made in the year. It was noted that there was no change in any of the risk or focus areas, except for Accounting for Covid-19 related government grants, where the risk was reduced from the previous year.

The chair referred to the group accounts and asked whether Norwich City Services Ltd (NCSL) would be required to provide the same level of detail in the accounts as Aston Shaw provided for Norwich Regeneration Ltd (NRL), the council's other wholly owned company. The External Auditor confirmed this and said that the external audit plan was a draft one to identify the risks and the scope and would be reviewed as it was completed. Members noted the levels of materiality for the Group Accounts and that this had been based on the group's draft accounts.

The External Auditor said that the statutory deadline for the publication of the 2021/22 audited accounts would not be met on 30 November as the audit had not yet started. He referred to the national and sector issues in undertaking statutory audits, which were not specific to this council and would continue to impact on the delivery of external audits for the next couple of years. The chair asked what measures were in place to ensure that audits would be completed in time, given that the audit was about to commence at a time that the finance teams were working on budget proposals and closing the accounts for the current financial year, stating that the council was willing to be flexible to bring forward the audit. The External Auditor confirmed that the external audit team held regular review meetings with the council's officers, which helped the delivery of the audit and meant that they made better use of their time during the audit. He pointed out that there was a two-year improvement programme in place to get back on track. The number of authorities that had not signed off accounts by the deadline was likely to increase this year. Last year 8 per cent of local authorities had met the deadline for approving their audited accounts, it had been 30 per cent the year before, and it would be even less this year.

The chair commented on the increase in the level of fees set by the Public Sector Audit Appointments (PSAA) and asked how council could reduce these. The External Auditor said that he and the external audit team had worked closely with Mark Hodgson, Audit Partner, and had a good knowledge of the council.

In reply to a question from the Independent Person, the External Auditor explained that the auditor's responsibility for reporting Value for Money considerations had changed under the 2020 Code. The auditor now had to do a risk assessment and report by exception.

The Independent Person commented that most residents would not be aware of the national situation causing the external audit to be delayed. The Corporate Finance Business Partner said that the draft accounts were already on the website and confirmed that there would be a notice on the council's website advising that the accounts had not been signed off by the statutory deadline. Officers had responded to 100 pre-audit requests and were prepared for the start of the audit. He pointed out that other authorities would be in a similar position. The External Auditor confirmed that this council had submitted its accounts and financial statements by 31 July 2022 and that he would share recommended wording for the website with the Corporate Finance Business Partner.

In reply to a question from the chair, the External Auditor explained the statement "Effects of climate related matters on financial statements and Value for Money arrangements" and said that this was an area of increasing work on audits. Unlike in the private sector, local authorities were not yet required to provide a sustainability report. Under Value for Money, where councils have declared a climate emergency, the auditors would report if there was no expenditure on climate change or statement in the key strategic aims.

**RESOLVED to:**

- (1) confirm its understanding and agreement to the materiality reporting levels set out on page 24; and
- (2) agrees the approach and scope of the external audit as proposed in the audit plan;
- (3) record the committee's gratitude to Mark Hodgson for his work on the council's external audits and valuable advice to the chair and members of the committee.

CHAIR