



**Audit committee**

**16:40 to 18:20**

**10 March 2020**

Present: Councillors Price (chair), Driver (vice chair), Giles, McCartney-Gray, Oliver (substitute for Councillor Peek), Schmierer, Stutely 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**

There were no declarations of interest.

**3. Minutes**

**RESOLVED** to approve the accuracy of the minutes of the meeting held on 21 January 2020.

**4. Housing Benefits Agreed Procedures 2018-19 (verbal report)**

The audit manager from Ernst and Young, the council's 2018-19 housing benefit reporting accountant presented the report. He advised that the certification of claims and returns annual report 2018-19 had been completed and submitted to the Department for Works and Pensions (DWP). This resulted in a very minor amendment to the claim of £2,600 which when considered against the total claim, provided assurance that claims had been accurately processed.

**RESOLVED** to note the report.

**5. External Audit Plan 2019-20 (verbal report)**

The audit manager from Ernst and Young, the council's external auditors, presented the report. It was noted that the external audit plan was not available at this meeting and a verbal update would be provided.

Initial planning of the external audit was underway and Ernst and Young had met with the chief finance officer to discuss factors impacting the audit. An initial risk assessment had been concluded which showed the risk profile to be similar to that of last year with one extra risk area for consideration.

The main financial statement risks were the standard fraud risks, with a focus on the capitalisation of revenue expenditure and the accounting for movement of the reserve position with the potential for this to be manipulated. The introduction of a new finance system for the general ledger presented a new risk for 2019-20, due to the increased potential for material misstatement regarding data transfer between the old and new systems and the creation of complete and accurate financial statements from the new system that was implemented part way through the financial year.

The inherent risks remained the same; the valuation of property, plant and equipment as the valuation of these assets was complex with potential for misstatements to be made; the pensions valuation again was a complex area to value; and group consolidation given the increased loans from the authority and activity in the authority's subsidiary company.

The value for money risks in terms of council investments would be considered, such as loans to council owned companies and the council's investments in its commercialisation agenda.

Ernst and Young had worked extensively with chief finance officers and audit committee chairs to develop a phasing profile for its portfolio of local authority audits running from mid-May to October 2020. All accounts would be signed off in September/October 2020. The formal external audit plan would be presented at the June meeting of audit committee.

Due to the increase in audit requirements upon all audit firms, both in the sector and the wider UK audit market, Ernst & Young would discuss the current fee for the 2019-20 external audit with the chief finance officer, in the first instance, to ensure a fair fee was being paid to reflect the level of work and assurance provided by the external audit process.

Members discussed the late timetabling of the external audit due to pressures on the auditors. Members discussed reporting concerns to the PSAA (Public Sector Audit Appointments) as contract holders for the external audit function, but it was noted that they were aware of the position. Members questioned what the government was doing to engage with the problem and to support local authorities.

In response to a member question the chief finance officer confirmed that if an increase in fee for the audit was agreed for this year then this would be covered from the corporate contingency budget and then factored into the budget going forward. However, no detailed fee discussions with the external auditors had been undertaken to date and no breakdown had been received to show the structuring of a new fee therefore a new fee had not to date been agreed.

**RESOLVED** to:

- 1) note the update;
- 2) request that the chair write to the Minister of State for housing, communities and local government to express concern over the inability of audit firms to deliver external audits to local authorities by 31 July and at the proposed increase in fees for these audits; and

- 3) request that cabinet write to the Minister of State for housing, communities and local government to express concern over the inability of audit firms to deliver external audits to local authorities by 31 July and at the proposed increase in fees for these audits.

## **6. Internal Audit Plan 2020-21**

The director of resources presented the report. An internal audit manager had been recruited and was scheduled to start on 23 or 24 March. He was an experienced manager with experience of working in the public sector. There would be an opportunity for a short handover of a week before the current head of internal audit returned to LGSS. It was not appropriate for the current head of internal audit to complete the new audit plan as he would not be taking the plan forward. External options were considered but it was decided that the corporate leadership team would review the organisational risks and devise the outline internal audit plan 2020-21. Once the new manager was in post he would work through and finalise the plan.

There was discussion at the last meeting of audit committee regarding what was the appropriate number of days to allocate to conduct internal audit work. A comparison of days with other local authorities was included with the report at appendix one to provide a helpful benchmark for members. In response to a member question the director of resources confirmed that the local authorities on the list were the CIPFA grouping of comparative authorities.

In response to a member question regarding the difference in figures for days, with a figure of 400 days in the first paragraph of the report, 450 days in appendix 1 and 505 in appendix 2 the director of resources confirmed the extra days represented 100 days allocated for consultancy and advice in reference to the return of the joint ventures. He advised that the newly appointed internal audit manager would sit on the joint ventures project board to provide advice and oversight. The chair welcomed the extra days for consultancy and advice work.

In response to a member question the director of resources said that the allocation of 50 days for other financial systems to be identified, provided flexibility to enable the newly appointed internal audit manager to allocate days where he considered they would be of most value. It was noted that there was an overlap with financial systems and ICT systems, (in terms of who had access to systems and what their authority and access levels were on those systems) and that the correct controls were in place in terms of personnel change. There were a number of recent ICT changes, both the finance team and human resources had introduced new IT systems recently and a new housing system was set to be introduced in the near future.

The director of resources confirmed that the days allocated for business continuity and emergency planning could be adjusted, the audit plan was a dynamic document which responded to the changing needs of the council as new risks arose and others were mitigated. Members considered that in the current context with the potential impact of the Coronavirus pandemic this flexibility was very important. In terms of mitigation it was noted that the council was a member of the Norfolk Resilience Forum and that the corporate leadership team were currently reviewing remote working options. In response to a member question the director of business resources advised that he considered that the level of risk was currently correctly identified on the audit plan but

it depended on how the situation progressed. The latest government assumption estimated that 20% of the workforce could be off at the peak of the pandemic.

In response to a member question regarding the impact on the council of a drop in the stock market, the director of resources said that the council had no money invested in stocks and was not permitted to make such investments. He noted that it could have an impact on the Local Government Pension Scheme but that an investment of this nature was a long term one and not necessarily impacted by short term fluctuations in the market. The chief finance officer noted that there had been some impact on the rate offered by the Public Works Loan Board, the rate had dropped to 2% the day prior to the meeting where it had been 2.8% approximately two months ago.

The director of resources advised that the internal audit plan identified risks to the organisation and the role of the plan was to manage and mitigate these risks. The role of the audit committee was to judge if the correct management of these risks was taking place; that the correct policies, procedures and systems existed to mitigate risk. In terms of the council's risk appetite this was set by cabinet and ownership of risk sat with the corporate leadership team whose responsibility it was to ensure the correct procedures to manage risk were in place. The allocated days for risk and strategic risk management of 5 and 15 respectively were taken from last years plan and were open to challenge by the new internal audit manager when he was in post.

The chair advised that he had met with the new chief executive officer who had an audit and governance background and he welcomed his reassurance regarding the role of audit across the council. Further he had requested that the director of resources consider an increase in the allocation of audit days for a number of areas and was reassured these areas had increased in allocated days. In particular he welcomed the extra days for guidance on the joint ventures, contract management, commercial property investments and wholly owned limited companies.

In response to a member question regarding the absence of detail on items 6 and 7 on the risk register, the director of resources said that regarding item 6, this required the input of the head of strategy and transformation who had just returned from maternity leave, and regarding item 7 it had not been possible to coordinate a meeting with the head of human resources. These items would be completed before the next review of the risk register which was scheduled for 1 July 2020. The new chief executive officer was considering introducing a new quarterly reporting process for the risk register, business continuity, emergency planning and financial and performance information.

(Councillor Oliver left the meeting at this point.)

In response to a member question the director of resources said that risks on the risk register were assessed by looking at historical analysis and it was noted that all scoring system had some inherent weaknesses. The risk register, represented the corporate risks, risks were also owned at the service and project level too.

**RESOLVED** to note the internal audit plan 2020-21.

CHAIR