



**Audit committee**

**15:00 to 17:45**

**24 November 2020**

Present: Councillors Price (chair), Driver (vice chair), McCartney-Gray, Peek, Sarmezey (substitute for Councillor Giles, from item 4), Schmierer, Stutely and Wright

Also present: Councillor Kendrick, cabinet member for resources  
Councillor Waters, leader of the council

Apologies: Councillor Giles

**1. Public questions/petitions**

There were no public questions or petitions received.

**2. Declarations of interest**

Councillors Driver and Peek each declared an other interest in item 9\* (below) Management responses to Internal Audit reviews – Norwich Regeneration Company Limited (NRL) and Contract Management – Housing Repairs and Responsive Maintenance (Paragraph 3) as a council tenants.

(During the item, Councillor Kendrick declared an other interest in item 9\* (below) Management responses to Internal Audit reviews – Norwich Regeneration Company Limited (NRL) and Contract Management – Housing Repairs and Responsive Maintenance (Paragraph 3) as a director of the company and board member.)

**3. Minutes**

**RESOLVED** to approve the accuracy of the minutes of the meeting held on 14 July 2020.

**4. Internal Audit Update**

The interim audit manager presented the report.

During discussion, the interim audit manager and the chief executive provided the committee with assurance that the council's administration of business support grants had the correct balance of due diligence and speed in application. Lessons had been learned and local authorities were in a stronger position to mitigate fraud in this second tranche of business support grant allocation. In March the government advice had been to allocate grants to businesses as quickly as possible whilst government guidance was still being issued. The council did conduct its usual basic

checks. It performed well in national league tables for issuing business support grants and had been the best performing local authority in Norfolk. It was difficult to say whether the council's checks were more stringent than neighbouring councils. The revenues and benefits team were part of a network with other local authorities and shared good practice and information with colleagues, including awareness of national alerts of fraudulent activity. The council was part of the National Fraud Initiative and data matching would potentially identify further fraudulent claims. The government would underwrite business support grants that were subject to fraud provided local authorities demonstrated due diligence and had a risk assessment and a post assurance plan in place. The council had to report on the administration of the grants to central government and if required would increase more rigour to the process in line with government guidance.

In response to a member's question about the cost to the council from people recycling incorrectly, the interim audit manager said that this was an ongoing problem for waste management services. There would be a report on the audit review of the council's waste management contract in the internal audit report to the next meeting of the committee.

During discussion on the joint ventures, members welcomed that internal audit was providing a consultancy role or "critical friend" in the establishment of the new wholly owned company to ensure that there was a whole raft of policies and good governance practice in place from the start. The project board included a member of the internal audit team. The chair and non-executive directors had been appointed. The interim director of resources confirmed that the new company would report quarterly to the council as shareholder on a quarterly basis and that the oversight of the governance and business plan would be conducted by cabinet. She assured members that the chair of the new company was aware of the importance of good governance and risk management.

The committee then considered the revised internal audit plan and the approach of internal audit to move away from carrying out short compliance reviews into substantive service reviews, to provide value to the council through consultancy and assurance and to conduct key financial systems reviews over a 3 year term based on risk rather than annually. The interim audit manager used the analogy of a cake and said that compliance of basic financial controls should be risk based. Payroll and credit systems would be reviewed each year. Other systems did not require an annual compliance review unless there was a change to the system. The internal audit team were used to compliance audit reviews and there would need to be training to transfer skills to the service reviews and risk based approach. Audit coverage would add greater organisational value going forward.

The chief executive endorsed this approach and said that internal audit should not be feared by colleagues and that lessons could be learned through the experience of an internal audit review. The advice of internal audit was valued and the risk based approach would mean that it was more "agile" in responding to emergency issues such as cybersecurity, whilst providing ongoing assurance.

The external auditor also endorsed the approach and said that it was used elsewhere. Internal audit was a "one tool in the armoury" to provide assurance and should focus on the risk control gaps as part of mitigation against risk. The audit of key systems on a basis of a number of years, unless there was a change to the IT or

system change, was appropriate and a move away from the old approach of annual internal audits.

**RESOLVED** to note the report.

## **5. Risk Management Update**

The interim audit manager presented the report. He explained that the report had been brought forward to this meeting and the cabinet would be considering risk management at its meeting on 16 December 2020.

The chief executive officer said that it was a priority of the organisation and that the review of risk register had been completed over the last 10 months. A CLT risk assurance group had been established which would meet quarterly to consider finance, performance and risk. There would be a set of risk registers in each directorate and monitored on risk scores and impact that would be fed into the risk register. He had discussed with the leader of the council that the risk register would be considered by cabinet as part of the quarterly performance report so that the cabinet had an oversight on risk. The risk register would be regularly scrutinised at CLT and at departmental management teams. The restructure of the senior team was currently underway and through that process of recruitment would be testing the corporate ownership of risk and performance.

The interim director of resources explained how risk management would filter through the organisation. The assurance group which sat below the CLT was the first example of this. Regular reporting would highlight risk management and monitor actions set out in the register. The assessment of risk was fundamental to the 2021-2022 budget setting process.

Discussion then followed in which members asked the officers questions on the risk register. A member commented that the format of the risk register was easy to read.

In response to a question, the chief executive referred to the multi-agency response to the unprecedented levels of people presenting as homeless or at risk of becoming homeless. This included working with Pathways and increasing the service by an extra day to 6 days a week, and twice weekly counts so that the council was aware of the number of rough sleepers in the city. The director of strategy and culture pointed out that scrutiny committee had considered homelessness at its meeting on 19 November 2020, which could be shared with members. Councillor Wright, as chair of scrutiny committee, said that the city council had been an exemplar council in the work it had done to alleviate homelessness.

The vice chair asked how the risk of Covid-19 was assessed as it was constantly changing. The chief executive said that the risk level on the risk register was fundamental to the city council and its services, and informed through the work of the council on a number of forums, that included representatives of the University of East Anglia, the police and Public Health England, and at leadership and chief executive officer level with the other councils across the county. The risk level would be kept under review as vaccinations were rolled out or as the situation changed.

A member asked whether the scores given to the council's commercial activities and NRL were low considering that Croydon Council was declared effectively bankrupt

last week due to its commercial activities and housebuilding, and that other councils were learning lessons from it, and the UK regulator finding inadequacies in councils' audits. The interim director of resources confirmed that the score reflected the council's position with regard to its wholly owned companies and commercial activities and was appropriate in relation to this council. The recommendations of the internal audit had been fully implemented and the council, as shareholder, received information on the commercial and financial position of the company.

In reply to a question from the chair, the interim audit manager said that he would provide assurance to the committee of the effectiveness of the directorate service level risk registers. He would have oversight of these on a quarterly basis to see if any outstanding actions warranted escalation to the CLT assurance group. He also recommended an audit of the process next year to ensure that it was effective.

**RESOLVED** to note the risk management report.

## **6. Annual Governance Statement 2019-20**

The interim audit manager presented the report.

The chair referred to the committee's discussion on the draft annual governance statement (AGS) at the last meeting and said that he was pleased that the committee's recommendations (as set out in paragraph 8 of the covering report) had been incorporated.

The external auditor confirmed that the AGS was consistent with their knowledge of the council.

**RESOLVED**, unanimously, to approve the Annual Governance Statement 2019-20.

## **7. Statement of Accounts and Audit Results Report 2019-20**

The chair thanked the finance team for their support in helping the committee understand the accounts at the last meeting and at an informal meeting (23 November 2020).

The interim director of resources introduced the report and thanked members for attending the informal session the previous evening which was a really proactive session. She paid tribute to Hannah Simpson, the financial business partner, as the S151 officer responsible for preparing the accounts in accordance within the revised timescale which was a really positive outcome. She confirmed that as the current S151 officer, she was not concerned about the four changes to the accounts, set out in paragraph 4 of the covering report, which were due to circumstances and enhanced the accounts.

The financial business partner explained the four changes to the accounts, as set out in paragraph 4, of the covering report. It had become apparent in the last week that Norfolk Pensions had overstated its assets, but based on the information that the council had, did not make a material impact on the financial statements. The chair welcomed the inclusion of the additional information in the notes.

The external auditor explained that the purpose of the Audit Results Report (appendix 2) was to provide assurance on the accounts. It was important to note that due to Covid-19 the external audit had been conducted remotely and evidence provided electronically in all cases. He then presented the external audit results report, drawing members' attention to the executive summary which highlighted the exceptions to the audit plan. The outstanding procedures were underway by the audit team and one of them closed off without any matters arising to bring the committee's attention. He commented on the material disclosures that the finance partner had highlighted.

The external auditor said that there was one unreported material disclosure relating to pension liability following the audit of the assets of Norfolk Pensions. The city council had a share of these assets and the reassessment reduced its liability. Without requesting a report from the actuary, it was not likely to be a one for one ratio or to be material, and could not impact on his assessment and would require numerous adjustments for a non-material change. Discussion ensued on the adjustment to the accounts relating to Norfolk Pensions and the reassessment of its assets of £1.02 million of which the city council had a share. The interim director of resources explained that notice of this change had been through the external auditor. The work involved to adjust the accounts would affect the ability to sign off the accounts at this stage. This was due to the timing of the shared information, which was not believed to be a material adjustment and would require the commissioning of an actuarial report for an exact figure. The chair took comfort that this was a prudent decision as the adjustment would be made in the following year's account.

In reply to a question from the chair, the external auditor confirmed that he had the right level of assurance under the extenuating circumstance this year. He would not issue an audit opinion if he did not have sufficient audit evidence. The level of evidence remained the same. The audit would normally have been conducted on site. Some elements of the audit had been more efficient electronically. He envisioned a hybrid method in the future, incorporating face to face interactions and electronic access. This had been a bridging approach to help the external auditors get through the audit this year. Screen shots were not the most effective approach.

The external auditor then referred to the audit focus section of the report and answered members' questions. This included an explanation of the use of data analytics to test the incorrect recording of capitalisation of expenditure from revenue codes to capital codes, using the sophisticated filtering of 100 per cent of the accounts dependent on the risk being tested which provided better assurance than the extrapolation of data from a random test sample.

The external auditor referred to the outstanding audit work in relation to the council's commercial assets. The council had a significant investment portfolio of £29 million at fair value and as a percentage of its total assets. The valuer could not provide material certainty on the value because of the impact of Covid-19 on the market at 31 March and would only need a movement of 11 per cent to affect materiality and the audit opinion. The external auditors had seen the value of assets of the type that the council holds, particularly retail and leisure centres, move by 20 per cent elsewhere. The external audit team were working on this, together with the additional audit notes that the finance business partner had provided. Evaluation experts were employed to assist the external auditors and the work should be complete by 30 November 2020.

In reply to a question from the chair, the external auditor said that the work needed to be complete in order to issue the audit opinion. The audit results report provided an indication of the audit opinion that was likely to be issued and explained the recommendation to the committee to delegate to the interim director of resources in consultation with the chair the approval of the accounts or to agree any changes

In reply to a members' question, the external auditor said that experts would take into account location and regional differences when assessing land values. As an audit process the external auditors used the valuations provided by nps. The interim director of resources said that the city council was not unique in this respect and that there had been a proactive approach between the council, nps and the external auditors to ensure that the audit could be concluded on time.

The external auditor in conclusion of his presentation of the report, said that he expected to provide an unqualified opinion of assurance and an unqualified value for money opinion. He also referred to a member's question earlier in the meeting regarding the quality of audits by the FRC and said that Ernst & Young had been the top performers in the assessment, including one of his own audits which had received a very good assurance.

The chair took the opportunity to thank the external auditor.

Commenting on the *Value for Money* section of the external auditor's report, the chair referred to the financial position of the council and said that it had a good record of underspend and that this would help with the use of reserves to smooth the process. The chair said that he expected that the auditors were working closely with the finance team. The external auditor said that he expected the medium term financial plan to be adjusted to reflect the reduced yield from the commercial investments. The chair said that this was for consideration by the council during the next stage of budget planning.

The chair thanked the external auditor and said that a letter had been received from the Secretary of the State, in response to letters from the chair and cabinet member for resources regarding the fees as discussed at the previous meeting. The external auditor said that the fee table proposed in his report was what external audit considered appropriate but that the negotiation of fees was with the Public Sector Appointments regulator to determine, taking into consideration the council's representations and the outcome of the Redmond Review.

The chair confirmed that the letter of management representation was a fair representation of the work that had been undertaken.

**RESOLVED**, unanimously, to:

- (1) approve the statement of accounts presented in Appendix 1 of the report, subject to the completion of any outstanding audit 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 (interim director of resources), in consultation with the chair, the signing of the accounts by 30 November 2020;
- (3) note the Audit Results Report from the council's external auditor (presented in Appendix 2 of the report);
- (4) review and approve the draft letter of management representation presented in Appendix 3 of the report.

## **8. Exclusion of the Public**

**RESOLVED** to exclude the public from the meeting during consideration of item 9\* (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

### **9\*. Management responses to Internal Audit reviews – Norwich Regeneration Company Limited (NRL) and Contract Management – Housing Repairs and Responsive Maintenance (Paragraph 3)**

(Councillors Driver, Peek and Kendrick had declared interests in this item.)

The interim internal audit manager presented the report.

The managing director, Norwich Regeneration Limited (NRL) presented the management response to the internal audit of the company and answered members' questions. Councillor Kendrick also endorsed the actions that had been taken and paid tribute to the managing director in turning the company round. The interim internal audit manager confirmed that the recommendations had been completed to his satisfaction.

The head of neighbourhood housing, together with the interim director of people and neighbourhoods and the client property manager, presented the management response to the internal audit on contract management – housing repairs and responsive maintenance. The report set out the actions being taken. The internal audit manager advised members that these would be monitored and reported to the committee.

**RESOLVED**, to note that members are satisfied that the actions in relation to the internal audit reviews of Norwich Regeneration Company Limited (NRL) and Contract Management – Housing and Responsive Maintenance have been made or are being taken.

CHAIR