



**Audit committee**

**16:35 to 18:45**

**20 June 2017**

Present: Councillors Price (chair), Driver (vice chair following election), Bradford, Bremner, Jones (B), Lubbock, Maxwell and Schmierer

**1. Appointment of vice chair**

**RESOLVED** to appoint Councillor Driver as the vice chair for the ensuing civic year.

**2. Public questions/petitions**

There were no public questions or petitions received.

**3. Declarations of interest**

There were no declarations of interest.

**4. Minutes**

**RESOLVED** to agree the accuracy of the minutes of the meeting held on 14 March 2017.

**5. Annual report on Internal Audit and fraud 2016-17**

The chair took this item first.

The head of internal audit presented the report and explained that it was a summary of the work carried out over the last year. On the basis of the completed work, he said that the council was giving good assurance on compliance and that the committee should be reassured by this.

The principal audit manager continued the presentation and highlighted key areas. He said that the council operated to Public Sector Internal Audit Standards.

He referred to the overview and key findings on page 206 of the agenda papers and said that there were a number of high and medium priority recommendations that were still open. These were to be implemented in the future so were categorised as 'open' rather than 'outstanding'.

The head of internal audit clarified that a 'good rating' was the second highest assurance level with a 'substantial' rating being higher. He said that if the council had set targets to this level, it could indicate that the target risk compliance level was

too high. A 'good' rating shows a balance between risk and control. He added that there were still areas to improve upon and these had been taken very seriously by the council's corporate leadership team.

A member referred to the recent cyber-attack on the NHS computer systems and asked for some more information on data management. The head of internal audit said that a review of data management had taken place and the council had shown good compliance, however, it was a fast moving area so it would always be a challenge to undertake a substantial assessment. Current procedures had been reviewed and that there was an evidence test of resilience in place following a much lower key attack earlier in the year. This had been dealt with and managed using disaster recovery procedures. Further actions were still recommended and developments on these were being taken forward by LGSS. The principal audit manager added that after the NHS cyber-attack, internal audit had looked at the readiness of the council in case the same attack were to take place and concluded that the council was in a good position. As members had more detailed questions around cyber-attack and resilience, the chair suggested that a representative of LGSS attend the next meeting of the audit committee to give members more information on this topic.

A member referred to the 'moderate' compliance of the debt recovery audit on page 208 of the agenda papers and asked the principal audit manager whether the errors were in the past or likely to happen in the future and whether constantly changing information from the Department of Work and Pensions had any bearing on this and the risk of fraud. The principal audit manager said that when testing the transactions, they had not found any evidence of fraud. The review looked at sundry debt which included invoices to customers and businesses and these were more reflective of internal financial systems than information needed for council tax and benefit purposes which would be subject to a different review. A new finance system was in the process of being implemented which needed to be monitored but there were no formal concerns around this.

In response to a member's question, the head of internal audit explained the 'limited' compliance assurance rating for capital contracts on page 215 of the agenda papers. He said that this was linked to work on a sheltered housing project which had an overspend against the budget. There had been a 'design creep' with the project relating to incrementally increased specifications. Controls on the works between the council and NPS Norwich had not been fully complied with and budget changes had not been reported upwards. The chief executive officer confirmed that piece of work had been commissioned by the council to look into the overspend as increased costs throughout a development should be reported and then dealt with accordingly by obtaining authority for an increased spend or by scaling back works. A report was commissioned to understand and tighten the control between the council and NPS Norwich as it was important to manage capital projects within allocated budgets. She added that it was rare to ask for an audit but costings should be transparent and lessons needed to be learnt. There was no suggestion that money had been misspent but instead that some spend had not been properly authorised. The head of internal audit said that if there were any further development around this, it would be reported in the next quarterly update.

The chair asked that any issues that members of the committee wanted to be covered in the internal audit plan be put through the chair who could progress these with the auditors.

**RESOLVED to:**

- (1) note the annual Internal Audit report and opinion, noting the work of the Internal Audit team for 2016 – 17; and
- (2) ask the head of IT services to attend an informal briefing with members of the audit committee to discuss the resilience around cyber attacks

**6. Risk Management Report**

The chair took this item next.

The principal audit manager presented the report and highlighted the changes to the corporate risk register. He said the he met with the corporate leadership team to discuss changes to the risk environment and if there were any additional changes, these would be brought to the attention of the audit committee.

He reassured members that risks C1 (business continuity and emergency planning) and C3 (information security) had been reviewed in light of the recent cyber-attack on the NHS and there were appropriate procedures in place. There were two elements to these risks, technical and human and that continuing education in these areas was needed to maintain awareness.

There were two risks which were still above the council's risk appetite (the housing investment strategy and public sector finance), which had been approved by this committee and cabinet, and the council had taken all the necessary actions. The chair referred to the heat map on page 198 of the agenda papers and said that there was a balance between mitigation and controls around risk. The report showed that controls had been put in place as far as possible and said that the two red elements in the heat map were currently beyond control of the council and were red due to external factors. The principal audit manager reminded members that the heat map showed residual risk which was calculated using the inherent risk score in tandem with the key controls. In response to a member's question, the principal audit manager said that the corporate leadership team along with relevant senior officers reviewed the key controls each quarter to ensure that the correct controls were in place.

Members then discussed the uncertainty surrounding public sector finances. The chief executive officer said that the council had brought back its housing debt which would have been payable within the thirty year profile. The one percent rent cap imposed has taken significant amounts of money out of the programme of investment. The spending had subsequently been re-profiled and officers were confident that the requirements of the thirty year plan could be met. With regards to the high value voids determinations, there was still uncertainty still around how these would be calculated so there were no means of telling how this would affect finances. She added that overall public sector finance was not in the control of the

council but a five year medium term financial strategy was in place. The government may change the variables around public sector finance which could increase the risk.

A member raised the issue of emergency planning in relation to tower block safety. The chief executive officer said that as soon as the news had broken on the Grenfell Tower tragedy, all council owned tower blocks had been checked and none had the external cladding. Prior to this, there had also been a clampdown on washing lines and flower pots in the tower blocks which were for the safety and security of the tenants. A letter had been sent to all tenants regarding fire safety inspections and NPS (Norwich) were undertaking further checks for any residual risks- none had been identified so far. She said that a fire drill had recently been undertaken in one block and that the council had a history of working in collaboration with other councils regarding emergency planning and reciprocal arrangements.

**RESOLVED** to endorse the proposed amendments to the corporate risk register and recommend to cabinet for approval.

## **7. Draft annual governance statement 2016 - 17**

The principal audit manager presented the report. He said that section six of the statement documents existing governance issues and also looks forward to future challenges. He highlighted the implementation of the General Data Protection Regulations and said that steps were already being put in place to comply with this. He added that this would also be chance to refresh the code of corporate governance.

In response to a member's question about the accuracy of the fixed asset register, the chief accountant said that tender was in place and that a management system for the register was on track to be implemented by April 2018. She added that a piece of work had been undertaken to cross reference ownership of these assets with the land registry which helped with keeping improvements up to date.

The chair referred to paragraph 6.2 at page 30 of the agenda papers and questioned whether recording council meetings to produce verbatim minutes should be considered. The chief executive officer said that there were resource implications around producing verbatim minutes. She added that the scrutiny committee looked at the cabinet forward agenda as part of their work programme item at each meeting and corporate plan and budget items were also considered by the scrutiny committee. She reminded members that cabinet decisions could be called in to scrutiny and that opposition members attended cabinet meetings and raised issues. Also, members could raise concerns informally with officers.

The chair suggested that all members could benefit from audit training at the start of the civic year. The chief executive officer suggested that this could be included in the member's training programme if agreed by the councillor development group.

**RESOLVED** to:

- (1) agree that the Annual Governance Statement is consistent with the committee's own perspective on internal control within the council including governance issues and actions,

- (2) approve the revised draft Code of Corporate Governance; and
- (3) ask the councillor development group to consider including audit training for all members in the member's training programme.

## **8. Statement of accounts 2016-17**

The chief accountant presented the report. She said that there were some layout changes to the statement of accounts which would bring the format in line with budget monitoring reports to make these more familiar to the reader. She also highlighted the expanded funding analysis.

In response to a member's question, the chief executive said that bad debt relating to housing benefit was an area being investigated for improvement over the next few years and that an investment was being made in staff time to improve rates of collection. The chief accountant acknowledged that the lack of council tax income from student households was also an income issue.

Members discussed one for one right to buy receipts. The chief accountant explained that when a property was sold under the right to buy scheme, the receipt must be spent on replacement dwellings within three years. When receipts were kept, the council had designated these to be used on development. Due to the one percent rent cap and negotiations, the three year deadline was reached and the receipts had to be surrendered to the government. The chief executive officer added that housing associations had been approached to see if they could use the receipts but they were unable to. The chief accountant said that right to buy take up had increased from 2015-16 and the committee acknowledged the financial impact of this.

In response to a members question on pension liabilities, the chief accountant said that the figures in the report were provided by an actuary based to data given by the council. She confirmed that the estimate was based on the entire workforce taking their pension at the same time and being entitled to their full pension.

(Councillor Lubbock left the meeting at this point).

The chair asked for an explanation of the underspend shown on page 79 of the agenda papers. The chief accountant said that there was a programme of planned maintenance but some works were not needed or a better price was negotiated leading to an underspend.

### **RESOLVED:**

- (1) having reviewed the draft Statement of Accounts 2016-17, to note the report; and
- (2) to ask the chief accountant to include a glossary of terminologies to the statement of accounts 2017 -18.

## **9. Annual audit report**

The chair presented the report. He explained that he considered that a sentence should be added to paragraph 18 of the report to note the committee's concerns at the long term financial implications regarding uncertain government policies.

### **RESOLVED:**

- (1) at point 18 of the report, include a reference to the committee's concerns at the long term financial implications of uncertain government policies; and
- (2) to approve the content of the Annual audit committee report 2016 – 17 and recommend that council adopts it.

CHAIR