NORWICH City Council

Minutes

Audit committee

16:30 to 17:30 **23 July 2019**

Present: Councillor Price (chair), Maxwell (substitute for Councillor Driver), McCartney-Gray, Peek (from item 5), Ryan (substitute for Councillor Giles), Stutely , Wright[1] and Youssef

Also present: Councillor Kendrick, cabinet member for resources

Apologies: Councillors Driver (vice chair) and Giles

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 11 June 2019, subject to amending item 5, Statement of Accounts 2018-19, fifth paragraph, fourth sentence, inserting the word “not” between “was” and “delivering” so that the sentence reads as follows:

“Members also were concerned about the under-spend in the Housing Revenue Account (HRA) and sought reassurance that the council was not delivering less in terms of repairs and maintenance.”

4. Annual Governance Statement 2018-19

The principal internal auditor (LGSS) presented the report. The committee had approved the draft Annual Governance Statement (AGS) at its last meeting. The AGS had been reviewed and there were no material changes in the final AGS, which would be signed off by the leader of the council and the chief executive officer.

RESOLVED to approve the Annual Governance Statement for 2018-19.

[1] Appointed to the committee as a member (replacing Councillor Lubbock)

6. Statement of Accounts and Audit Results Report 2018-19

(The external auditor (associate partner, Ernst & Young LLP) and the external audit manager attended the meeting for this item.)

The strategic finance business partner introduced the report. There were two material changes to the audited statement of accounts from the draft accounts relating to net pension liability and an additional capital accrual for work carried out on a housing revenue account project. Members were also advised that there was one unadjusted audit difference in the accounts which the chief finance officer had chosen not to adjust relating to data inputs for valuation calculations resulting in an understatement of asset values of £0.236m because the error was immaterial in its size and made no impact on the council's usable reserves and would require a disproportionate amount of work for the amount of work involved.

The external auditor presented the Norwich City Council and Group Audit Results Report dated 22 July 2019. During his presentation he drew member's attention to the Significant Risk section of the report and his conclusions. He confirmed that work had been completed on the movement in reserves statement and no issues had been identified or any adjustments required.

The external auditor commented on the section on the unadjusted error and referred members to Section 4, Audit Differences of the audit results report where the external auditors requested that the misstatement be either corrected or a rationale as to why it was not corrected be considered or approved by the audit committee. The strategic finance business partner and the chief finance officer explained that the misstatement of property assets related to the council's independent property valuer using the incorrect inputs for two aspects of two valuation calculations. The chief finance officer had taken the view to close the accounts with the unadjusted error so that the finance team could move on to other work. The external auditor explained how the errors had been identified in the sample testing of a selection of the council's assets. Only two errors had been identified in the sample and were immaterial in size and therefore it had not been deemed necessary to extrapolate further data against the whole list. The strategic finance business partner confirmed that the error had been an undervaluation of two assets. The chair said that the issue of the data being input incorrectly had been highlighted and that it was not expected to reoccur.

During his presentation of the audit results report, the external auditor explained that the impact of the McCloud judgement on discrimination arising from public sector pension schemes and transitional arrangements meant that pension liability was a big issue for councils this year. The financial statements had been reviewed to incorporate the council's increased pension liability following the outcome of this ruling and advice from Norfolk Pension Fund's actuaries. In reply to a question from the chair, the external auditor explained that the council had provision for its liability. The contingent liability is based on the hypothetical situation of all pensions being paid out at one time. The actual value of the fund, made up of contributions from employees and employers, could see an increase in contributions as it was important in the medium term budget provision going forward. The value of the pension fund varied due to investments on the stock market. Officers said that further information would be available in the autumn.

The external auditor referred to the section on the Group Accounts and confirmed that the process had been completed and no issues had arisen which needed to be brought to the attention of the committee. He also confirmed that the New Accounting Standards had been applied and there was nothing significant to report to the committee. In conclusion, the external auditor brought to members' attention the Executive Summary and referring to the status of the audit said that the external audit work had been completed for all of the items listed except the last four bullet points: review of the final version of the financial statements; completion of subsequent events review; receipt of the signed management representation letter, and final manager and engagement partner reviews. He confirmed that he expected to issue an unqualified audit opinion on the financial statements by 31 July 2019, the accounts publication date.

Discussion ensued on the tight timescales for the submission and completion of the audit by the accounts publication date. The chair acknowledged the outstanding achievement of the finance team in closing down the accounts and the pressures of the external auditors to meet the 31 July 2019 deadline. He suggested that the council might consider moving the date of the audit committee back a week in future years but pointed out that this would fall within the school summer holidays. The external auditor said that the outstanding issues list was not indicative of a badly organised close down of the accounts but rather a reflexion of the timescale permitted from the start to completion of the external audit. He was confident that the audit would be completed by 31 July 2019. The chair said that the council could consider moving the audit committee back a week in future.

The external auditor confirmed that as set out in Section 3 of the audit results report, an unqualified audit opinion was expected to be issued. He said that the unadjusted error was not above the threshold of materiality and that he considered that the financial team had presented a very robust set of financial statements. He referred to Section 5, Value for Money section of the report and the financial resilience of the council and said that external audit plan (approved, February 2019) had identified a risk to the council from its increasing commercialisation to meet the funding gap between funding and expenditure which in years 2019-20 and 2021-22 would be £7 million. A member pointed out that the council needed to find £7m over three years.

Discussion ensued in which the chair referred to the concerns raised by the committee relating to the governance arrangements for the council's commercial activity during the year. The business plan for Norwich Regeneration Limited (NRL) had been updated and the investment strategy had been approved strategy. The external auditor referred to the conclusions in the report and confirmed that proper arrangements were in place. He said that it was getting more difficult to deliver the savings and that he was satisfied that the council could make up a shortfall in its future savings plan delivery from the General Fund balance and still remain within the council's approved minimum reserves. The chief finance officer referred members to the introduction to the council's budget report (February 2019) and in reply to a member's question confirmed that in the last three years, no core services had been cut and that the savings had been made through income generation and efficiencies.

In conclusion members commented in appreciation of the finance team and corporate leadership team in ensuring that the financial statements were submitted

on time and would receive an unqualified opinion from the external auditor. A member commented on this achievement and the progress made over the council had made in this respect over the last 9 years. The external auditor confirmed that the information received from the council and the audit opinion was appropriate for a council of this size.

The committee considered the letter of management representation.

RESOLVED 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, in consultation with the chair, the signing of the accounts by 31 July 2019.

(3) review and 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, including the chief finance officer's rational for not correcting an audit difference within the financial statements.

7. Internal Audit 2019-20 – April to June Update (Quarter 1)

The principal auditor (LGSS) presented the report and answered members' questions.

During discussion, the principal auditor confirmed that the committee would be advised if management did not adopt the recommendations of internal audit. A table had been introduced into the monitoring report which summarised the progress of implementation of recommendations following previous internal audits. This was in response to a request from the chair. She confirmed that two actions in relation to the NRL audit had been completed within the timescale requested.

The chair commented that the full refresh of the corporate risk register was an important piece of work and that it was expected that the report would be considered at the next meeting of the audit committee.

In reply to questions, the principal auditor explained that internal audit had been asked to provide advice and guidance on the controls within the process and procedure notes for sending out mail in response to a data breach. The recommendations had been accepted by management. Officers reviewed data breaches to identify where a control had failed and where deemed necessary reported the breach to the Information Commissioner's Office.

The principal auditor confirmed that progress against the internal audit work programme was on target for this first quarter.

RESOLVED to note the contents of the report.

CHAIR