



**Audit committee**

**16:30 to 17:35**

**15 March 2016**

Present: Councillors Neale (chair), Wright (vice chair), Bradford, Harris and Kendrick

Apologies: Councillors Boswell, Driver and Howard

**1. Rob Murray**

The committee held a minute's silence in remembrance of Rob Murray, director Ernst & Young (external auditor) and former district auditor and members expressed their condolences to his family, friends and colleagues.

**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 approve the accuracy of the minutes of the meeting held on 19 January 2016.

**5. Audit Plan**

(Mark Hodgson, executive director Ernst and Young, and the council's external auditor, had sent apologies as he was unable to attend the meeting to present the report.)

The chief finance officer introduced the report and said that there had been a significant reduction in the external audit fees for 2015 to 2016. The external audit manager presented the appended report and, together with the chief finance officer and the chief accountant (LGSS), answered members' questions.

Members of the committee commented on the financial statement risks which had been identified by the external auditors. The chair sought assurance that the Norfolk

Property Services' valuations experts were independent of the property management service (contracted to NPS Norwich Ltd). The external auditor explained the methodology and controls in place to ensure this independence. The proposed external audit approach was to rely on the management's valuation experts' opinion which was supplemented by comparison with other industry valuations and consultation with the external auditors' own valuation experts. In reply to a question, members were advised that the chief accountant would be responsible for the preparation of the accounts for The Regeneration Company Limited which would be the focus of the external auditors assessment of the group boundary.

In reply to a question, the chief finance officer explained that the community infrastructure levy was collected by the council. Except for the neighbourhood element, it was then managed by the county council and therefore expenditure appeared on the county council's balance sheets.

The committee noted external audit's approach to its audit of the council's plant and equipment assets and that it would involve taking a sample of the £26.7 million to ensure that assets were still owned or used by the council. It was acknowledged that the council would be procuring a new financial management system in the next financial year.

The chief accountant advised members that the city council, like other councils, was making additional payments to fund deficits in the pension scheme. Members also noted the risk to the pension scheme because of changing demographics.

During discussion on the external audit's value for money work, the chief finance officer said that the council was aware of the impact of the 1 per cent rent reduction but not the outcome of the Housing and Planning Bill. The housing revenue account (HRA) business plan would need to be reworked. The committee empathised with the task ahead for the chief finance officer and her colleagues and noted the external auditors proposed audit approach.

The chief accountant confirmed that indicative fees for the minimum revenue provision had been discussed with the external auditors.

**RESOLVED** to agree the approach and scope of the external audit as proposed in the external audit plan 2015-16.

## **6. Risk management report**

The internal audit manager (LGSS) presented the report. He said that the council's corporate leadership team (CLT) had considered Risk C1, emergency planning and business continuity on 2 March 2016. Critical actions within the first 24 hours of an emergency had been identified and would be added to the plan.

During discussion members noted the changes to A8 on the risk register following the review of the register by CLT and that if necessary the council could use its assets to fund right to buy from housing associations.

**RESOLVED** to note the corporate risks and the key controls and further actions planned to mitigate the risks.

## 7. Draft internal audit plan for Norwich City Council 2016-17

The head of internal audit and risk management (LGSS) presented the report.

During discussion the committee noted the change of focus for the internal audit plan for 2016-17 and the reduction of days from 590 to 400. The chief finance officer said that 590 days had not been delivered in the current financial year and the reduction in audit days had been recommended as a budget saving for the council. No time had been allocated in the current plan for fraud work but instead this would be agreed on a case by case basis undertaken if a business case was made.

Discussion ensued on the approach to fraud within the organisation. The head of internal audit and risk management and the chief finance officer explained the change of approach where the focus of internal audit would be on large risks. Members were advised that managers would deal with low level employee fraud or theft as part of general management. There should be zero tolerance of such behaviours and the outcome of management investigations publicised as a deterrent to others within the council or its partner organisations.

The head of internal audit and risk management said that there should be an internal audit of the key financial systems every year. The audit approach and control environment should mitigate the risk that anything went wrong. The internal audit plan would be regularly monitored by the chief finance officer, committee and external audit.

In response to a question about assurance on commissioning and contracts, the head of internal audit and risk management said that procurement was included in the key financial systems. The chair said that he considered that contracts should have the flexibility for the council to review if necessary due to changes or value for money. The head of internal audit and risk management said that business continuity would be considered in 2017-2018 and contracts would be looked at through different audits. It was noted that contractors could be audited by internal audit if it was written in as part of setting up a contract.

During discussion on the new audit approach, members noted the contingency for the council to commission internal audit to carry out specific pieces of work. In response to a question, the chief finance officer said that she was satisfied with the proposed approach. The head of internal audit and risk management reminded members that the council had other mechanisms to identify anomalies, such as its whistleblowing policy and did not rely just on internal audit to identify them. Internal audit could also advise the council as a critical friend. He pointed out that the internal audit plan would be reviewed quarterly.

**RESOLVED** to endorse the draft internal audit plan for Norwich City Council for 2016-17.

**8. Steve Dowson**

**RESOLVED** to record the gratitude of the committee and its officers to Steve Dowson, internal audit manager (LGSS) for all his work and to wish him well on his retirement.

CHAIR