



MINUTES

AUDIT COMMITTEE

5.10pm to 18.05pm

11 March 2014

Present: Councillors Little (chair), Wright (vice chair), Bremner, Boswell, Driver, Kendrick, Neale and Waters

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

RESOLVED to approve the accuracy of the minutes of the meeting held on 19 November 2013, subject to item 5, Annual audit letter, first paragraph, third sentence, inserting “accounts” after “Whole of Government” so that the sentence reads as follows:

“The external auditors reported its findings to the National Audit Office on the accuracy of the consolidation pact the authority is required to prepare for the Whole of Government accounts and issued the audit certificate on 30 September 2013.”

3. CERTIFICATION OF CLAIMS AND RETURNS ANNUAL REPORT 2012-13

The partner of the external auditors (Ernst & Young LLP) introduced the report.

During discussion the partner and the director of the external auditors answered questions on the report. The chair referred to the housing and council tax benefits subsidy claim and asked whether the error rate that had resulted in overpayments was still an area of concern. The external auditors advised the committee that there had been an increase in the incidence of error in housing benefit claims across local authorities in general, due to higher levels of claims and the complexities of

processing benefits, and therefore there was a risk that it could increase. The council's housing and benefits service showed a marked improvement. Errors had been found in the initial sample due to the complexity of the system and therefore the external auditors had to extend the sample. The external auditors had used a combination of control testing and substantive testing, where each transaction was examined in a test sample. It was noted that the external auditors had some further work which was yet to be completed.

The external auditors explained that the scale of fees for the certification work for 2013-14 was based on 2011-12, and the fee would be dependent on the nature of the testing and errors identified during the work.

RESOLVED to note the council's external auditor's Certification of claims and returns annual report 2012-13.

4. AUDIT PLAN 2013-14

The partner of the external auditors (Ernst and Young LLP) introduced the report and said that he was confident that due to the council's improved performance, it was now considered to be as robust as any other district council. He would be stepping aside as the lead on the council's external audit team. The chief finance officer said that the additional discussions with the external auditors during the account preparation had meant that there were fewer issues later on. She welcomed the external auditors' proposed audit plan for 2013-14.

The director of the external auditors (the external auditor) presented the report and confirmed that it reflected the lower level of risk for the audit overall.

During discussion the external auditors, together with the chief finance officer, answered members' questions on the audit plan and the risks identified by the external auditors following discussion with members and officers. In relation to the assessment of the group boundary for accounting purposes, a member pointed out the governance arrangements in place for the operation and delivery of services by shared or partnership organisations and the engagement of members through cross-party member panels and the scrutiny committee to oversee and scrutinise the services. Discussion ensued on business rate retention (BRR) and that there was uncertainty surrounding the council's provision for successful claims following appeals to the Valuation Office. The chief finance officer advised the committee that officers would be working closely with the external auditors and in accordance with the emerging CIPFA guidance on this issue.

Discussion ensued on the external audit fees and the committee noted that there had been an additional fee of £12,030 for consideration of correspondence from a member of the public.

The chief finance officer advised the committee that the council was in discussion with LGSS to put together a business case for a new financial system and software for a fixed asset register.

In reply to a question, the external auditor said that the level of materiality had not been finalised. He also said the level of risk was expected to be less than previous years.

The chair referred to the audit plan and said that the reference in paragraph 4.2, Audit process overview, to “council tax benefits” should be replaced by “council tax reduction scheme”.

RESOLVED to agree the approach and scope of the external audit as proposed in the audit plan 2013-14.

5. REVIEW OF AUDIT COMMITTEE PROCEDURES

The chief finance officer presented the report. The audit committee terms of reference were subject to approval at full council on 18 March 2014.

The external auditors supported the amended terms of reference and the committee procedures, which were in accordance with CIPFA guidance and tightened up local authority practice to reflect what happened in the corporate sector.

During discussion a member welcomed the procedures which were “more robust” and explicit about the role of the committee to challenge and query. The chair referred to the Annual governance statement which was listed as one of the core functions of an audit committee, as set out in the CIPFA guidance (appendix 1) and suggested that, given the level of attention that the committee should give it, there needed to be more detail of the documents which provide the evidence base. The internal audit manager (LGSS) confirmed that within the document there were hyperlinks to the evidence base in electronic forms. The external auditor said that the Annual governance statement was a key document that was reviewed at the end of the year and was used to hold the council to account.

In reply to a question the internal audit manager said that LGSS had drafted an internal audit charter which would be reported to a future meeting of the committee.

The chair said that the CIPFA guidance discouraged members of the cabinet from being members on the committee. He also referred to the accountability arrangements in the procedures and said that he would be reporting to full council in July 2014 on the committee’s performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose.

RESOLVED to approve the audit committee procedures as set out in appendix 2.

6. INTERNAL AUDIT AND FRAUD TEAM 2013-14 – NOVEMBER TO FEBRUARY UPDATE

The internal audit manager (LGSS) presented the report and explained that it covered a longer period to reflect that the committee meeting in January 2014 had not been convened. In relation to non-assurance work members were advised that

the corporate risk register would be considered at cabinet later that month. The six days included in this year's audit plan for the Oracle upgrade / replacement project (council's financial system) would not be used as the project would not be carried out until the next financial year and therefore had been included in the 2014-15 internal audit plan. The county council was the accountable body for the City Deal and therefore the days that had been allocated to its internal audit were not required. Two of the ICT audits had not been completed and had slipped to next year's plan and would be completed once a computer auditor post had been filled. He referred to the National fraud initiative 2012-13 and said that the results had been received in January 2013 and that the council's progress at reviewing matches had been rated as "green" by the external auditors and that 84% of reports had been closed.

During discussion the internal audit manager answered members' questions. In response to a member's question the internal auditor confirmed that future reports would contain a breakdown to explain if housing benefit overpayments were caused by either customer or officer error. Members were advised that under payments were identified as part of the certification of claims and returns by the external auditors. Although the payroll had been contracted out, an internal audit had been necessary to check the payroll matched the council's establishment. Members were advised that a limited assurance had been given for the audit of customer contact because the management of controlled stationery was not sufficiently robust and involved cash. The head of citywide services had been informed of the outcome of the audit of the garden waste scheme. It was important to the council that the scheme was run properly.

Discussion ensued in which members considered that 5% of the community infrastructure levy (CIL) should be reserved for administration.

The chair asked whether there would be an internal audit of outsourcing arrangements. The internal audit manager said that there had been discussions with the deputy chief executive (operations) around an internal audit of NPS Norwich. The head of internal audit and risk management (LGSS) said that the work of internal audit would be more outcome focused and this would be reflected in the audit plan for next year.

In reply to a question from the chair, the internal audit manager said that at the time that the audit plan was being drafted it was proposed an internal restructure was being proposed which had yet to take place.

RESOLVED to note the:

- (1) work of internal audit between November 2013 and February 2014;
- (2) progress of the internal audit plan:
- (3) work of the fraud team between November 2013 and February 2014;
- (4) latest position on the National fraud initiative (NFI).

7. DRAFT INTERNAL AUDIT PLAN FOR NORWICH CITY COUNCIL 2014-15

The internal audit manager (LGSS) presented the report and together with the head of internal audit and risk management (LGSS) answered member's questions. Members were assured that audits of computers and ICT complied with industry standard in terms of back up and data management. The financial management system would be a major investment for the council and it was important that internal audit was involved at the commencement of the project before it was embedded. Similarly this applied to the payroll and receipts systems and was a better use of the team.

The chair announced that the head of internal audit and risk management would be leaving LGSS to take up an appointment in London and thanked him on behalf of the committee for his contribution.

RESOLVED to endorse the draft internal audit plan for Norwich City Council for 2014-15.

8. COUNCILLOR LITTLE, CHAIR OF AUDIT COMMITTEE

Councillor Waters said that Councillor Little would be standing down as chair of the audit committee.

RESOLVED to record the committee's gratitude to Councillor Little for his contribution to the work of the audit committee as its chair for the last six years.

CHAIR