



**Audit committee**

**16:30 to 18:50**

**11 June 2019**

Present: Councillor Price (chair), Driver (vice chair , following appointment, Giles, McCartney-Gray, Peek, Stutely , Wright (substitute for Councillor Lubbock) and Youssef

Also present: Councillor Kendrick, cabinet member for resources

Apologies: Councillor Lubbock

**1. Appointment of vice chair**

**RESOLVED** to appoint Councillor Driver as 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.

(During discussion on item 5 (below), Statement of Accounts 2018-19, Councillor Kendrick and the chief finance officer declared as directors of Norwich Regeneration Ltd.)

**4. Minutes**

**RESOLVED** to approve the accuracy of the minutes of the meeting held on 12 March 2019, and the exempt minute of that meeting.

(The chair requested that the order of the agenda be changed to allow the deputy head of internal audit to present items 7 (below), Annual audit report on internal audit and fraud 2018-19 and 8 (below), Draft Annual Governance Statement 2018-19.)

**5. Statement of Accounts 2018-19**

(Councillor Kendrick and the chief finance officer declared an interest in this item.)

A member referred to a press article where it was reported that the council had a “black hole of £10 million”. The strategic finance business partner referred the member to the budget papers (budget council, 26 February 2019) where it was clear that what the funding gap and the changes that were being made incrementally to meet this gap. The chief finance officer referred to the complexities of local government finance and said that it was more nuanced than a “black hole”. The

council's budget and the medium term financial strategy set out the savings to balance the council's budget.

(The chief finance officer paid tribute to the strategic finance business partner, who in her recent absence had authorised and signed-off the unaudited draft accounts on 31 May 2019.)

The strategic finance business partner gave a power point presentation of the draft, unaudited statement of accounts. During the presentation the chief finance officer and strategic finance business partner, referred to the report and answered members' questions. The committee was advised that the "*Revenue and capital budget monitoring 2018/19: Final outturn*" report would be considered at cabinet on 12 June 2019.

During discussion members noted there was an under-spend (or surplus) in the General Fund which related to salaries and the gap between an employee leaving the council and the recruitment of a new employee to the post. The chair pointed out the importance of filling posts promptly to ensure that service delivery was maintained. He said that where the council could anticipate vacancies, the recruitment process should start without delay. Members also were concerned about the under-spend in the Housing Revenue Account (HRA) and sought reassurance that the council was delivering less to tenants in terms of repairs and maintenance. The chief finance officer explained that the budget would be reviewed for the next financial year. There was no immediate use had been established for it in the (HRA) but members were reminded that major improvement and conversions were being carried out either funded by the Housing Capital Account or through the council's wholly owned company, Norwich Regeneration Limited (NRL).

Discussion ensued on the group accounts and some members concerns that as the company expanded it would put the council at greater risk. The chair and Councillor Wright, as chair of scrutiny committee, proposed that the audit committee reviewed the audited NRL accounts and that the company established its own internal audit. The chief finance officer said that NRL was a separate company, albeit a wholly owned company by the council, and its accounts contained commercial information and were not subject to publication like the council's or the group accounts. A summary of the NRL accounts would be available at Companies House. The chair also said that whilst an external auditor audited the NRL accounts there was no internal audit process of NRL on the council's behalf. He considered that this was important as the growing company was the largest inherent risk to the council within its control. The chief finance officer said that the group accounts were part of the statement of accounts which was subject to external audit and referred to the governance arrangements for the NRL board and operation of the company, which were agreed and monitored by the cabinet. The assistant head of internal audit (LGSS) said the authority should have assurance that the governance arrangements for NRL were fit for purpose and it was for members to take a view on the inherent risk to the council. In reply to a question, the strategic finance business partner said that this was the second year that group accounts were required. The cabinet member for resources and the chief finance officer explained that it was a growing company which did not require an external auditor of its own at this point or for its accounts to be considered at this committee. These arrangements would be reviewed as the company grew. The chair said that whilst it was a fledgling company it still was liable for large sums of money and asked how the threshold

would be determined for its own internal audit. He considered that it was prudent to put mechanisms in place now before the business expanded.

The vice chair and Councillor Stutely had a number of questions in relation to the council's key performance indicators (KPIs), particularly where the council had not met its targets.. The chief finance officer explained that these related to service areas and that some KPIs had been reviewed and there were some changes for the start of the next financial year. The chair suggested that the members met with the strategy manager to discuss these and to report back at the next meeting.

A member suggested that the hyperlink to the CIPFA list of financial stress indicators should be appended to the Statement of Accounts and not a link to the "budget report". The strategic finance business partner explained that these indicators had been taken into account in the budget setting. The council was in the middle of the range. The chair and Councillor Stutely suggested that members should be able to see the details in full when considering the accounts and that in future years the full reference should be included in the narrative.

Discussion ensued where the strategic finance business partner and the chief finance officer answered a member's questions relating to the council's budget provision for elections services and, referring to the Statement of Accounts, expanded on the narrative in relation to the council's commercial activity to generate income and the council's Medium Term Financial Strategy, particularly around business rates and the outcome of the Fair Funding Review, and its capital strategy. The chair asked that the committee would be kept informed of the business rates pilot scheme in the county. A member also sought information about the number of underpayments to applicants for benefits or council tax reduction. Another member asked for a copy of the council's "Reducing Inequalities Framework" for information.

**RESOLVED** to:

- (1) note the draft (unaudited) Statement of Accounts 2018-19;
- (2) include the CIPFA financial stress indicators in future years' Statement of Accounts;
- (3) note the committee's appreciation to the strategic finance business partner and deputy s151 officer and team for submitting the Statement of Accounts by 31 May 2019.

**6. Annual Audit Report On Internal Audit and Fraud 2018-19**

The deputy head of internal audit presented the report and said that chief internal auditor had issued a good assurance on the basis of the audit work undertaken during the financial year 2018-19 and was pleased to report that this level of assurance remained at the same level as the previous year.

During discussion the deputy head of internal audit, together with the principal auditor, referred to the report and answered members' questions. New members were advised that the committee received quarterly reports and that all audits were followed up with senior managers and the outcome reported to the committee. In reply to a member's question, the deputy head of internal audit said that an action

plan was issued for each internal audit report and explained the prioritisation of actions that were recommended to be taken.

Members noted that the payroll audit had been delayed and was expected to be ready for the committee's next meeting. Its delay though would impact on the audit plan for April and May 2019-20.

Discussion ensued on paragraph 4.5.5 of the report, the review on the governance arrangements for NRL. The chief finance officer confirmed that the corporate leadership team were working with colleagues across the council and NRL to build the business case. The principal auditor confirmed that the commercial rents audit had been carried out in the first quarter of 2018-19. Some of the actions arising from the audit of NRL should be completed by the end of June and could be reported to the next meeting.

In reply to a member's question, the deputy head of internal audit explained that internal audit did not offer a level of opinion on fraud. He explained the processes that were undertaken to investigate fraud.

**RESOLVED** to receive the Annual Audit Report on Internal Audit and Fraud 2018-19.

(Councillors Peek and Wright left the meeting at this point due to other commitments.)

## **7. Draft Annual Governance Statement**

The deputy head of internal audit presented the report. This Annual Governance Statement (AGS) formed part of the statutory documents which accompanied the Statement of Accounts.

During the presentation the deputy head of internal audit drew members' attention to the fact that only 8 out of 13 heads of service had completed their self-assessments. The chair expressed displeasure at this and asked that each of these heads of service be written to and asked to explain why the self-assurance statements had not been completed as requested by internal audit. There had not been a problem in previous years and it was hoped that officers would respond more quickly in future years.

The chair referred to the adoption of the Risk Management Charter earlier in the year and pointed out that the policy and risk register would be updated in line with the charter.

The chief finance officer explained that it was proposed to appoint external directors in order to ensure that members of the NRL board had the right skill set. In reply to a question from the chair regarding the risk to each project that the company undertook, the chief finance officer said that there was clarity in the budget reports, where there was substantial lending or equity release, cabinet recommendations were subject to approval by full council and members had access to information on the risks and consequences that could impact on the council.

The chair said that the AGS was a public facing document and that it fulfilled the statutory requirement. He asked the chief finance officer if the committee could be involved at an early stage in the production of the AGS in future years. He considered that the committee could provide ideas to enhance the appearance of this outward facing document. The deputy head of internal audit said that the audit started in February or March each year, with the first draft being available in early April. He cautioned that the audit opinion would not be available until the completion of the final quarter in March.

**RESOLVED** to:

- (1) agree that the AGS is consistent with the committee's perspective on internal control within the council, and the governance issues and actions;
- (2) ask to ask the chief executive to advise the heads of service to complete self-assurance statements as soon as possible and to advise the chair of their reasons;
- (3) note that the chair of the committee would like members of the committee to have the opportunity to comment on the appearance of the AGS at an early stage.

**8. Annual Audit Committee Report 2018-19**

(The report was attached to the supplementary agenda for this meeting.)

The chair introduced the report. He said that he would like additional text under paragraph 20 to identify the audit considered at its meeting on 12 March as Norwich Regeneration Limited and to mention the work around a whistleblowing case, and that the committee had recommended cabinet adopted a Risk Based Verification Policy for the assessment of housing benefit and council tax reduction scheme claims and change of circumstances.,

A member pointed out a typographical error in paragraph 13, where the October date should read "2018".

A member welcomed the report which he considered was a good introduction and summary of the work of the committee over the civic year.

**RESOLVED** to recommend the Annual Audit Committee Report 2018-19 to the July committee.

CHAIR