



Audit committee

16:30 to 18:35

21 January 2020

Present: Councillors Price (chair), Giles, McCartney-Gray, Peek, Sarmezey (substitute for Councillor Driver), Stutely, Wright and Youssef

Also present: Councillor Kendrick cabinet member for resources

Apologies: Councillor Driver (vice chair)

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 15 October 2019.

4. Internal Audit Update Quarter 3 2019-20 – October to December update

The head of internal audit (LGSS) presented the report advising the committee on the work of internal audit in the period and progress against the internal audit plan.

The chair stated that he was concerned about the number of days allocated to audit activity. The internal audit plan, attached as Appendix A to the report, profiled the annual days at 450 and he considered this was not enough to respond to what he termed the increasing risk profile of the council. He highlighted commercial purchasing, Norwich Regeneration Limited (NRL) and the insourcing of joint ventures as increased risks to the council along with the Brexit and Climate change challenges.

In response to a question from the chair the director of resources said that when considering if the risk profile of the council was rising it was important to ask what was a risk, was it something which would prevent the council from achieving its corporate plan and objectives. Risk registers and the internal audit plan were aligned with the council's corporate plan. He noted that it was difficult to consider the correct number of annual audit days without reviewing the annual internal audit plan which was scheduled to come to the March meeting of audit committee.

A member noted that in terms of the raising profile of risk, the joint ventures were not scheduled to come in until financial year 2021-22 and it was premature to consider an increase to the days to manage this risk. In response to a member question the principal auditor said it was his view that it would be of value to bring in audit in a consultancy role to review the insourcing companies in advance rather than using audit solely in an assurance role. The director of resources noted that members of the internal audit team sat on the insourcing project board and were embedded in the process with scope for a further role in the future.

A member asked if it was possible to reallocate days when and if new risks were identified. The head of internal audit said it was but that days spent auditing the council's key financial systems were reduced to a minimum. Members discussed the number of audit days required and concluded that there were enough days currently allocated with the flexibility to respond to new risks in the future and allocate further days to these. Members agreed to discuss the correct number of days when the internal audit plan was presented at the March meeting of committee. The chair expressed his displeasure that there was no draft report to consider or feed into at this meeting.

In response to a member question the head of internal audit said that problems which occurred at authorities of a similar size and nature were considered when designing the internal audit plan as part of horizon scanning activities.

The chair noted that LGSS would no longer be providing internal audit to Norwich City Council and members discussed how the service would be provided going forward. The principal auditor advised that two staff from LGSS would be transferred over to the council and would continue to provide the internal audit service. The director of resources noted that it was a difficult situation and the organisation and structure of internal audit was being considered. He noted that because a new chief executive officer had recently started starting recruitment was delayed in order for him to feed into the new structure. A number of options were being considered for the continuation of the service after 1 April 2020.

The principal auditor reviewed finalised assignments from the quarter and noted there were good assurances received on key financial systems. In terms of key policies and procedures there were a number of recommendations made following the internal audit of the area. The director of resources advised that this piece of work was being picked up by the Corporate Governance Group, the work would consider when policies should be reviewed and who was responsible for which policies. The head of internal audit advised that each director would be asked to sign an annual assurance statement to confirm their policies and procedures had been reviewed and were up to date. In response to a member question the head of internal audit said the review had found policies and procedures were in place in key areas but that the system for reviewing policies should be more robust.

The head of internal audit provided an update on work in progress, there was a piece of work on contract management outstanding, a key area to be addressed was client side contract management and improving the controls to manage outcomes. The chair expressed a desire to see the report when completed. Members discussed NRL, for clarity it was noted that the director of resources was a director of NRL as was the cabinet member for resources.

Discussion ensued on appropriate ways to manage commercial companies. Councillor Wright, advised he attended a recent conference at the centre for public scrutiny and the emerging commercialisation agenda within local authorities was the topic of the opening address. Another member noted that this was a key topic of debate at a recent political conference. Members acknowledged that commercialisation presented a number of challenges to local authorities in terms of how the relationship between a local authority and a council owned commercial company would be structured.

The director of resources said this was acknowledged and appropriate structures were being considered and the council was commissioning specialist advice to enable it to consider the potential options. The chair noted that he had raised concerns regarding the council's relationship with NRL previously and highlighted the recommendations on page 14 of the report. It was the chair's opinion that an independent internal audit of NRL should be conducted on behalf on the council.

In response to a member question the director of resources said that NRL could be included in the internal audit plan but what an internal audit of NRL would incorporate had to be considered. As a commercial company the governance arrangements for NRL were different to that of the council. The head of audit explained the difference between a third party assurance and a client side audit, in the former the audit was carried out as suggested by a third party and not the council's own audit team which was what a client side audit referred to. The chief finance and section 151 officer said it was acknowledged that how to structure relationships, in particular, the shareholder function had to be considered. The work to find the appropriate model for Norwich was being undertaken.

In response to a member question the director of resources said the relationship between NRL and the council would be different to that of the joint ventures if they were brought in. NRL was a commercial company providing services to the market. Joint ventures were guaranteed a contract from the council and therefore an income. In response to a member question the director of resources said that the timetable for bringing joint ventures inhouse was April 2021 for environmental services and it was anticipate that building maintenance and property services would be brought back in April 2022. Members considered that there would be sufficient time to consider and put the appropriate models for risk management in place.

Members briefly considered the risk register, in response to a member question the director of resources said that internal audit maintained and administered the risk register but that it was owned by the Corporate Leadership Team (CLT). Internal audit conducted a risk management session with CLT and the register was reviewed and the format changed. It was acknowledged that two risks were yet to be entered onto the risk register

RESOLVED to:

- (1) thank internal audit for their hard work; and
- (2) note the report

CHAIR