NORWICH
City Council

Minutes

Audit committee

16:30 to 18:45 **12 March 2019**

Present: Councillors Price (chair), Driver (vice chair), Fullman and Stutely

Also present: Councillors Kendrick (cabinet member for resources) and Davis (cabinet member for social inclusion)

Apologies: Councillors Coleshill, Hampton, Lubbock and Smith

(Apologies had also been received from the external audit manager.)

1. Public questions/petitions

There were no public questions or petitions received.

2. Declarations of interest

Councillors Kendrick , the director of business services and the chief finance officer declared an other interest in Norwich Regeneration Ltd as directors of the board.

3. Minutes

RESOLVED to approve the accuracy of the minutes of the meeting held on 22 January 2019.

4. Risk Management Report

The deputy head of internal audit, LGSS, presented the report which cabinet had considered at its meeting on 6 February 2019. During the presentation he pointed out that the council was in the process of refreshing risk management across the council, and that as set out in paragraph 4 of the report, there were two outstanding actions relating to A2, Delivery of the corporate plan and key supporting policies and strategies within the council's strategic framework, and A4 Safeguarding children, vulnerable adults and equalities duties. The progress on the risk management report would be reported to the committee to a future committee meeting.

A member referred to Appendix C, LGSS Risk Management Customer Charter, and pointed out that in the first line, on page 41 of the agenda papers, the word "County" should be replaced by "city".

During discussion, the vice chair referred to risk A8, Housing Investment Strategy, and asked whether the reduction in rental income arising from the 1 per cent reduction in social housing rent would continue. The chief finance officer said that as far as was known this would be the last year where the rents were capped and this risk should disappear in 2020 and would ameliorate the situation by £6,500 per annum. The chief executive said that at the time that this risk was identified it looked like the housing revenue account would lose money on its high value void properties but the government had reviewed this policy in the summer and withdrawn it. The risk of the impact on the determination to fund right to buy for registered providers remained a risk and was dependent on government policy. The director of business services said that the register was around five years' old and needed a total refresh as there was a tendency to increase risks incrementally.

The deputy head of internal audit referred to the report and explained the methodology for assessing the corporate risks, the inherent risk, controls to mitigate the risk and the score. He advised that there could be different tolerances for different risks if the risk owners determined this would be sensible. It was agreed that copies of the slides prepared for an informal discussion with members before the meeting could be circulated. Members noted that the role of the audit committee was to monitor adherence to the risk management policy and to review it from time to time, to review reports on the risk management process, provide assurance of adequacy of the risk management framework and the associated control environment, and raise any concerns on risk management through the committee and, if necessary, committee chair to cabinet.

Discussion ensued in which the committee noted that risk was a question of balance. Members noted that in county and unitary authorities, which were responsible for children's services and adult social care functions, safeguarding was a greater risk of safeguarding than for district councils. It was also noted that district councils that had taken the decision to sell off its housing stock had a lower degree of risk than councils that had chosen to retain its council housing stock.

RESOLVED to note the risk management report.

5. Draft Internal Audit Plan for Norwich City Council 2019-20

(Councillor Kendrick had declared an other interest in this item.)

The deputy head of internal audit presented the report. He explained that the audit plan would commence in April 2019 and had been discussed with the corporate leadership team and followed the same format as recent years'.

During discussion the chair sought confirmation that the allocation of 20 days for the audit of contract management. The deputy head of internal audit said that the contracts for the audit would be identified in the first quarter. There could be a different scenario if contracts were brought into house and as the plan was flexible more resources could be diverted to this audit if required. The chief executive said that if the key controls were fine there should not be a problem. However, it was important that flexibility was retained in the plan so that more time could be spent on things as they arose.

In reply to a question, the deputy head of internal audit said that he considered 15 days on the Norwich Regeneration Limited audit would be sufficient to give an assurance of the suite of assurances that the city council required the company to have in place. He clearly explained that this was an audit of the arrangements the council has in place to monitor the performance of NRL against the agreed business case and not an internal audit of NRL itself. There was currently no provision for such an audit.

The vice chair referred to the Grant Assurance, Disabled Facility Grant, on page 54 of the agenda papers and pointed out that the certification to the county council should be completed by 2019 not 2017, as set out in the report.

In reply a question from the chair, the deputy head of internal audit said that the audit plan was reviewed every three months and reported to the audit committee. The chair said that members of the committee could receive full copies of the audit reports on individual audits on request. Members noted that the change in approach to internal audit meant that resources were targeted rather than a cyclical audit. Internal audit also took part in preventative work and had drawn up the whistleblowing and antifraud polices for the council.

Discussion ensued in which the vice chair expressed concern that the council was vulnerable to fraud from contractors and that he considered that local businesses could provide services more cheaply. The director of business services referred to the council's procurement strategy and procedures. Contracts were scored against a social policy framework which included a requirement for contractors to be paid the Living Wage and where applicable, apprenticeship schemes needed to be in place. This did not preclude local firms submitting tenders and they were welcome to contact the members of the procurement team. Members also noted that Norwich Regeneration Ltd was not subject to the Public Contracts Regulations 2015 as it was a separate but wholly owned company of the council. However, the company purchased its financial and procurement services through the city council. The deputy head of internal audit said that as the company developed it would be important to ensure that its governance arrangements were appropriate. In reply to a question, he said that he believed that the company had appointed an external auditor for its accounts.

During discussion on the Commercial Property Investment Strategy, the deputy head of internal audit confirmed that 20 days should be sufficient to provide an audit opinion on the extent to which a sample of acquisitions complied with the strategy and governance arrangements. The chief executive pointed out that the development of the strategy was a cabinet function and part of the council's corporate plan and budget framework agreed at the budget council. By way of explanation, the chief finance officer said that where a commercial property exceeded the limit permitted in the strategy, a decision was required by full council.

Discussion then ensued on the council's new finance system from 1 April 2019 and the sample testing on transactions that would be conducted in quarters 2 and 3 and further testing in the final quarter. The deputy head of internal audit confirmed that the days in the plan should be sufficient to give an assurance. The chief executive pointed out that the plan was flexible and if insufficient time had been allocated then the deputy head of internal audit would liaise with the corporate leadership team for the allocation of more resources. The chair commented that it needed to be a question of striking a balance between adding value and value for money.

RESOLVED to endorse the draft Internal Audit Plan for Norwich City Council 2019-20.

6. Impact of New Accounting Standards and Valuation of Council Housing for the HRA

The chief finance officer presented the report.

In reply to a question from the chair, the chief finance officer referred to the section of the report, IFRS 16 Leases, and said that the definition of a lease was any asset that the council owned which could be a piece of land or equipment. The council was waiting for further guidance from CIPFA particularly on the application to local authorities and in particular in relation to assets leased at a peppercorn rent and private sector rentals.

RESOLVED to receive the report.

(The chair referred to the supplementary agenda which had been circulated at the meeting and said that he had agreed to take the report, Internal Audit Update as an urgent item.)

7. Exclusion of the Public

RESOLVED to exclude the public from the meeting during consideration of items *8 (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

*8. Internal Audit Update (Paragraph 3)

(There is a detailed minute of the discussion on this item which is exempt from publication on the grounds contained in Paragraph 3 of Schedule 12A of the Local Government Act 1972 (as amended).)

RESOLVED to:

(1) note the actions taken as set out in Annex 1;

(2) agree the audit report and proposed actions contained within Annex 2.

(3) note that internal audit will undertake a review this of audit in 6 months' time.

CHAIR