



Audit committee

16:30 to 17:35

14 March 2017

Present: Councillors Price (chair), Wright (vice chair), Driver, Harris, Jones (B), Kendrick and Schmierer

Apologies: Councillor Stonard

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 agree the accuracy of the minutes of the meeting held on 24 January 2017.

4. External Audit Plan 2016-17

The chief finance officer presented the report and explained that the plan set out how the external auditors would carry out the audit of the council's 2016-17 accounts.

The external auditors (Ernst & Young) presented the external audit plan, and together with the chief finance officer answered members' questions. Members were advised that there had been a good assessment of the key financial risks during the planning stage. The risks of fraud in revenue reconciliation and management override applied to any local authority and were not specific to the city council.

In reply to a question the external audit manager said that the outcome of the review of the assessment of the group boundary would be included in their report to the committee in September.

The vice chair referred to the uncertainty of government and other external funding and asked the external auditors how they could assess that the council "had proper arrangements to ensure it took properly informed decisions and deployed resources

to achieve planned and sustainable outcomes for taxpayers and local people". The external auditor referred to section 3 of the report and said that how the council put together its medium term financial strategy (MTFS) and its approach to remove uncertain funding streams would affect their value for money conclusion. The external auditors reassured members that the message was "comforting" in that they considered the risk was "low". They had also taken into account their knowledge of the city council's previous good financial statements and its low level of errors, when setting the level of materiality for the financial statement 2016-17 at £3.6 million based on 2% gross expenditure. The work of the internal audit team, corporate leadership and the officers' reaction to risk was also a factor.

The chair thanked the external auditors for the "robust" audit plan. He said that the level of materiality demonstrated that external audit was working well with the finance team and internal audit. The concerns about the MTFS were common to all councils and reflected the high state of flux where government policies were uncertain and subject to change.

During discussion members were advised that the external audit plan was prepared as the accounts for 2016-17 were about to be audited. The external auditors assured members that any issues of concern that arose during the audit would be brought to the immediate attention of the chief finance officer.

RESOLVED having reviewed the report from the council's external auditor, to agree the approach and scope of the external audit as proposed in the audit plan 2016-17.

5. Risk Management Report

The principal audit manager (LGSS) presented the report and explained the changes to the risk register as set out in appendix 1 and shown as tracked changes. He pointed out that there were two areas where the residual risk score remained above the council's risk appetite: B1 public sector funding and A8 housing investment strategy, and assured members that the council had put as many controls in place as it could to mitigate the risk but that the risk was due to external factors and therefore out of the control of the council. The changes to the risk register did not affect the overall risk to the council. The risks were regularly reviewed by the corporate leadership team, cabinet members and this committee. Cabinet would consider the risk register at its April meeting¹.

Discussion ensued in which members considered the risk register. A member pointed out that under A3, Relationship management with key service delivery partners and the management of contracts, Norwich NORSE should be included in the list of key partners. It was also noted that under B3, Capital developments, the risk mitigation of not committing to capital schemes until resources were available was very important.

Members then discussed the uncertainty surrounding government policies and housing and public sector funding. The principal audit manager said that the risks at

¹ Cabinet had approved the risk register in January 2017 and therefore as there were no further changes to the risk profiles, cabinet subsequently agreed that a report to the April meeting was not required.

strategic level tended to remain static as there were a lot of controls in place. The chief finance officer referred to the Housing Revenue Account (HRA) business plan and said that there was an expectation that “pay to stay” where higher earners had to pay more rent would not be implemented. The government was still piloting the high value voids with registered social landlords and whilst this indicated that the scheme was more difficult to implement than it had expected and would not be implemented in 2017-18 it remained a concern going forwards.

RESOLVED to endorse the proposed amendments to the corporate risk register and recommend to cabinet for approval.

6. Draft Internal Audit Plan for Norwich City Council 2017-18

The principal audit manager presented the report. He explained that the audit plan covered two years and that it realistically could not cover all work areas in a single year. The plan was therefore indicative of the internal audit work over the next two years and would be responsive to change. The chair and vice chair had been consulted on the plan. They had suggested that work on fees and charges should include income generation and that work on the waste management contract should be brought forward from next year.

A member said that she had no idea that the council employed agency staff or how many. The principal audit manager said that it might be necessary to employ agency staff whilst the authority was under a period of change. He explained that one of the team had completed a piece of work to ensure that there was compliance with council policies and that it had been considered prudent to put in for 2018-19.

Members were advised that audits not completed in one year would be covered in the next financial year. The number of days allocated to the internal plan remained at the level attained in 2016-17. The number of days had been reduced in 2016-17 to 400 but the corporate leadership team and committee had considered that this was too much of a reduction and after review 50 more days had been added back. In reply to a question, the principal audit manager said that the internal audit needed to provide an opinion at the end of the year and would discuss the content of the audit plan with the corporate leadership team. The chair pointed out that service areas would flag up areas of concern to the corporate leadership team. Members noted that the corporate leadership team reviewed the internal audit plan every quarter and reported to the committee regularly throughout the year.

Discussion ensued on the detail in the audit plan. A member suggested that “payroll” did not give him sufficient information about what the internal audit entailed. The principal audit manager said that he could provide more detail on the key financial systems in future.

The committee considered whether there were any aspects of the internal audit plan that should be brought forward or conversely was too much. The vice chair said that he had been advised that the scrutiny committee could call on internal audit as a resource. A member said that he was pleased to see that the audit plan was robust and that there were good anti-fraud measures in place.

In reply to a member’s question, the principal audit manager said that there was an element of risk when the new General Data Protection Regulations were brought in.

Internal audit would be involved in policy work and compliance and could give assurance that the work had gone ahead.

The chair thanked the officers for their work on the internal audit plan. The assurance block approach ensured that vast areas were covered and gave the opportunity to drill down into areas where it was required. The amount of days allocated to the plan remained static as the internal audit plan 2016-17 had been increased to 450 days after a period of review. He was concerned that the potential to realise income from parking and licensing fees and charges would be lost if these aspects were not audited this year, and was interested to hear members' views.

Discussion ensued in which members considered whether the risk of potential loss of income was sufficient to remove other elements from the audit plan. A member pointed out that the management of the council's resources was a cabinet function and that it would be reviewing waste management and fees and charges. The projected use of Rose Lane multi-storey car park was less than expected because the temporary car park next to it was still in operation. St Giles multi-storey car park would be partially closed soon for repairs. In reply to a member's question about waste management and whether the audit could be reviewed, the principal audit manager said that if something happened and the risk profile of an element of the audit plan needed to be reviewed, it could be brought forward following discussion with corporate leadership team and the committee. He said that the audit plan did not specify dates but some audits would be scheduled for the final quarter and there would be some flexibility to bring forward audits into 2017-18.

The committee discussed the robustness of the plan and that if there was any scope for anything to be postponed it would be around compliance. The principal audit manager said that, like the audit of agency staff (allocated five days in 2017-18), these reviews would be conducted for assurance of compliance with policy and that performance and value were achieved. If there were no immediate concerns then there was an opportunity to focus on areas where the risk was greater. The impact of any changes to the plan would be discussed in detail with the corporate leadership team.

The chair commented that the outcome of the audit in 2018-19 would show whether it had been right to hold back the audit of waste management or whether there were savings that could have been achieved earlier. He referred to the agreed approach to the internal audit plan that was introduced in 2016 and said that he was satisfied that all the key areas were covered but pointed out that the overall reduction in allocated days meant that it was necessary to adjust the plan accordingly.

RESOLVED to endorse the Internal Audit Plan for Norwich City Council 2017-18.

CHAIR