



Audit committee

17:30 to 19:25

4 October 2022

Present: Councillors Price (chair), Driver (vice chair), Everett, Haynes, Kidman, Sands (M), Stutely and Wright, and David Harwood (independent person)

Also present: Councillor Kendrick, cabinet member for resources

1. Public questions and petitions

There were no public questions or petitions.

2. Declarations of interest

There were no declarations of interests.

3. Minutes

RESOLVED to approve the accuracy of the minutes of the meeting held on 12 July 2022.

After the meeting it became apparent that the list of members present in this set of minutes was incorrect and should have read as follows:

Present: Councillors Price (chair), Driver (vice chair), Champion (substitute for Councillor Haynes), Everett, Kidman, Stutely (from item 5 below) and Wright

4. Draft Annual Governance Statement 2021/2022

The head of legal and procurement (monitoring officer) introduced the report. On 12 July 2022, the committee had approved the Code of Corporate Governance which provided an overview of the council's corporate governance framework and an action plan to strengthen it. The Annual Governance Statement (AGS) reflected the governance arrangements, effectiveness of internal controls and risk management in the year 2021/2022. It was a draft report as the final version could only be completed and signed off alongside the annual statement of accounts. The independent person had shared some comments on the AGS with the chair and officers and the monitoring officer suggested that these were considered outside the meeting and incorporated into the final version for approval by the committee at a later stage.

The chair welcomed the independent person's input and, said that having read the points he had raised, considered that it would be beneficial to share these with other members.

A member commented that the AGS reflected the situation in the past year, 2021/2022, and asked how the final document would reflect the changing economic landscape and the impact that this would have on the council's delivery of a balanced budget for 2022/2023. The head of legal and procurement services said that the final AGS would include the identification of any significant risks and concerns that affected the governance arrangements of the council. Last year's final version of the AGS (2020/2021) reflected housing compliance which had arisen during the period that the statement had been published and the completion of the audit. The AGS would need to reflect the cost of living crisis and economic situation, and how it affected the council and residents.

A member expressed concern that this was an important document but, as had been case last year, would not be approved until the external audit was completed. The executive director of corporate and commercial services commented that the council was caught up in the delay to the audit cycle due to issues faced by external auditors in completing local government audits. She advised members that Public Sector Audit Appointments (PSAA) had written to the council and chair to update them on the appointment of external auditors for the five-year period from 2023/2024. Two firms had expressed an interest. Members were advised that it was expected that the fees would increase significantly.

During discussion a member said that she did not consider the councillor enquiry system effective. Members commented on member training and development and the committee's concern that all members of the council should understand the role of the audit committee. The head of legal and procurement said that it was proposed to hold an all-member training session on the role of the scrutiny and audit committees in November. It was suggested that climate change and concerns about global security, due to the war in Ukraine, could be linked to the cost of living crisis and the economy.

In reply to a member's question, the executive director of corporate and commercial services explained what was meant by "cross-cutting" as used in bullet point 3 of the statement by the Leader of the council and the chief executive in relation to the creation of the senior leadership team. She gave the example of the cost of living crisis and that this impacted on different services, therefore a cross-cutting collaboration would ensure that all directorates or services involved were represented in those discussions. The chair said that this question demonstrated that the text needed to be accessible to the general public and easily understood.

The independent person referred to the covering report which set out how the AGS had been prepared, in accordance with the CIPFA framework. He considered that this was important information that should be in the AGS itself, and that the public needed to understand the process that was undertaken and who had been involved in the statement rather than it just being in a covering report. The head of legal and procurement said that it was an iterative process and that an important part of it was the review of the Code of Corporate Governance Statement. It was her intention to review the format and structure of the document next year. The statement had been prepared and circulated to officers, then the corporate leadership team and the leader. It was then published on the website for public consultation as required. The chair noted that some assurance could be provided by no comments being received from the public.

The chair asked whether it was sufficiently transparent to include details of the process in the covering report. A member considered that the publication of the report, its various drafts and relevant minutes for the committee, and the statement on the website, provided adequate transparency and information for the public. Members should consider the resource implication in terms of officer time. During discussion, members commented on the AGS being a public facing document. The independent person also referred to the CIPFA guidance and said that the AGS should be brief. The committee considered that other points raised by the independent person could be shared with members and discussed online outside the meeting. The head of legal and procurement reassured members that any changes incorporated into the final AGS would be subject to member approval at committee. She agreed that the AGS was a long document but there had been a lot of work on the Corporate Code of Governance this year and it would have been onerous to change the format of the AGS this year. The AGS for 2022/2023 would be more succinct. The executive director of corporate and commercial services said that she would be happy as a one off to include the process to provide the committee with an understanding of the processes that went into the AGS in the covering report that provided an overview to the committee, with a link from where the AGS was published on the website, as there was no requirement to include the process for the AGS in the document. Members considered that this was a logical way forward.

The executive director of corporate and commercial services welcomed the comments from the independent person and said that the council as a learning organisation was open to best practice. The chair, with the consent of the independent person, suggested that the comments were shared with members. The head of legal and procurement asked that for clarity she had a discussion with the independent person before sharing the comments to ensure that there was no confusion.

RESOLVED to approve the draft Annual Governance Statement 2021/2022, subject to further discussion outside of the meeting on the points raised by the independent person.

5. Statement of Accounts 2021/22

The interim head of finance, audit and risk presented the report and paid tribute to the corporate finance business partners, Robert Mayes and Jean Stevenson, for their work on the report and the preparation of the draft statement of accounts (SoA). These were the unaudited accounts; the external auditors were expected to commence the audit in December 2022. The accounts were published on the website and no objections or questions had been raised during the public consultation period.

The chair on behalf of the committee expressed gratitude to the officers for submitting the accounts on time. The interim head of finance, audit and risk confirmed that officers had completed the pre-audit work and that the audit was expected to last a month to six weeks. The accounts would be signed off shortly after the conclusion of the audit. The chair reminded the committee that it would have the opportunity to consider the audited statement of accounts.

The interim head of finance, audit and risk then answered questions from members of the committee on the accounts. This included advising members that regarding Section 16. Investment Properties (page 117 of the agenda papers, 66 of the SoA),

the £15.6 million gain was due to fair value adjustments and that such a swing was not unusual in investment properties. In reply to a member's question, the interim head of finance, audit and risk said that in some cases the maintenance of the investment properties was the responsibility of the tenant but would check the veracity of the following statement:

"The Authority has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement."

A member referred to Section 5. HRA (Housing Revenue Account) Council Dwellings (page 163 of the agenda papers, 112 of the SoA) and noted that the number of council dwellings purchased under Right to Buy had increased in 2021/22 and whether higher interest rates would affect this. The interim head of finance, audit and risk said that there was no evidence of this but pointed out that certain mortgage products had been removed from the market. Another member asked whether the council would buy back council dwellings if the resident could not afford mortgage repayments and was advised that the council had previously repurchased properties and had powers to do so but that in most cases such properties were sold on the open market.

The chair referred to the statement of accounts and to issues that had been raised in the regular reports on the Medium Term Financial Strategy (MTFS) relating to financial risk management and underspends in both the General Fund and Housing Revenue Account capital programmes. Members concurred with his statement that the SoA provided a fair and true reflection of the council's accounts for 2021/2022.

RESOLVED to note the draft Statement of Accounts 2021/2022 was published on the council website on 28 July 2022.

6. Risk Management Update

The interim head of finance, audit and risk presented the report. Members were advised that cabinet (14 September 2022) had deferred consideration of the *Q1 22-23 Corporate Performance Assurance Report* in accordance with procedures for the National Mourning Period on the death of the Queen and therefore, he could not provide any feedback from that meeting. Four new risks had been added to the corporate risk register, as set out in paragraph 5 of the report. The format of the report had been changed, although because this was for the first quarter, some of the comments were still in the old format. Members were advised that there was an exempt appendix attached to the agenda papers.

In reply to a member's question, the executive director of corporate and commercial services said that the residual risk for CORP01 Council Funding Medium-Long Term was based on predictions in July. The corporate leadership team (CLT) reviewed this risk all the time and whilst there was a lack of clarity from the government, they would be reviewing the council's economic position and risk scores at a dedicated session later that week.

A member referred to paragraph 6 of the report relating to the removal of the antisocial behaviour risk from the corporate risk register, and asked what the policy was for moving risks, suggesting that risks stayed on the register for 6 months to be monitored. The executive director of corporate and commercial services said that this was the corporate risk register, and that each directorate had its own risk

register which sat behind it. Once a risk was no longer considered strategic it would be monitored at directorate level, but if it were to become a strategic risk would then be moved back to the corporate risk register.

A member referred to the new corporate risk, CORP21 Equality Impacts Due to Climate Change, and asked if there was any indication when the five control statuses currently showing as red would move to amber or green. The executive director of community services explained that placing a new risk on the register involved a significant amount of work. She assured members that milestones and dates for achieving outcomes would be added to the register so that the risk could be monitored.

Regarding CORP18 Failure to address Natural England Advice on Nutrient Neutrality (NN), a member asked how this was being done and how was it affected by water companies discharging raw effluent into rivers and the sea. The chair said that there was a process and that he had received some updates from the head of planning and regulatory services. The executive director of corporate and commercial services said that they would note this question and that there would be a further briefing for members of the council to update them on NN next month.

Discussion ensued on the risk to the council from local government reorganisation. Members considered that the effect of the cost of living crisis, rising running and fuel bills and the effect of government funding cuts would drive forward local government reorganisation as the county council sought to address its budget deficit by seeking to incorporate district councils with their assets into a county wide unitary authority. The executive director of corporate and commercial services said that CLT could review this as part of the cost of living crisis. She explained that the registers were regularly reviewed and that it was good practice to ensure that gaps were filled. Members were advised that whilst the MTFs might not be balanced, the council would be able to balance its budget for next year. The chair commented that it was reassuring that the council was aiming for a balanced budget next year given the current economic conditions.

In reply to a member's concern that council tenants would be unable to pay their rents, the head of legal and procurement said that the scrutiny committee would be considering a review of the council's approach to debt support.

Councillor Kendrick, cabinet member for resources, confirmed that he had every confidence in the officers' ability to reduce risks to the council even when faced with a "moving target". He pointed out that the current status of CORP16 Implementation of the Elections Act was red due to the lack of clarity from the government on the roles and expectations of local authorities which meant that the council could not develop an implementation plan. The head of legal and procurement said that there was expected to be some movement on Friday and that there was further work required to look at mitigation to risk. The council's risk profile might increase if a general election or referendum were to be called. A member commented that the system was not broken but there was a risk that people were disenfranchised by this Act.

In response to a member's question about the council's risk appetite, the interim head of finance, audit and risk explained how the risk score matrix was used to apply the scores used on the risk registers. All risks had an officer assigned to it as a risk owner. The corporate and senior leadership teams discussed risks and determined

the residual risk. Mitigation or actions to reduce the residual risk were levers to bring it down. The target risk represented the cabinet's risk appetite. The report should provide the committee with assurance that the council was moving in the right direction. The executive director of corporate and commercial services said that fundamentally the leadership team determined the risk appetite. The corporate risk register was considered by cabinet on a quarterly basis and if members were not satisfied with targets could be reviewed.

The head of internal audit for Norwich City Council confirmed that she was consulted on the risk register and that the committee had previously considered the Risk Strategy which could be circulated to members. The risk appetite was tied into the Risk Strategy.

Discussion ensued on the independent person's views on the relationship of scores linked to the likelihood or the impact of a risk. The independent person provided an example that a death was unlikely, but that the impact of a death was the same however often it occurred. Reducing the likelihood of a death would mean that whilst it occurred less often, its impact remained the same. To reduce the score, you reduce the likelihood, either to put in more resource and therefore put more cost into it. The committee needed to be aware that cabinet was content to accept this approach to risk management. The chair pointed out that the CLT and the cabinet owned the corporate risk register. The cabinet member for resources said that mitigation could reduce the impact of a significant event happening. For example, the council had significant back up plans to ensure business continuity and delivery of services if City Hall became unavailable due to an incident. He recognised that the death of a worker was a tragic event for which the council sought to reduce the likelihood.

The executive director of corporate and commercial services said that any decision made by the council required a risk assessment. Financial resources were always considered in any decision that was taken. The council had created risk reserves whether for savings options and mitigation of risk, and a business change reserve to provide funding, if there was not sufficient funding in the service's budget. There were situations where it was necessary to invest for improvement and risk mitigation was a good example of this.

The chair said that he considered that it would be useful if the committee revisited its understanding of the cabinet's risk appetite when next reviewing the risk register.

RESOLVED to note the risk management report and ask that the committee revisits the risk appetite when it next reviews the risk register.

7. Internal Audit Progress Update 2022/2023

The head of internal audit presented the report, which included progress against action plans for completed audit reviews. During the presentation she highlighted the three areas which the internal audit team, following a review of the risks to the council, considered should be included in the internal audit plan as set out in paragraph 2.1 of the appended report and that these themes could be incorporated into the three year rolling internal audit plan. With reference to paragraph 4.4, members were advised that the audit report on Leasehold Management had been issued to management and would be brought back to committee once a management response had been received. Members were also advised that the

reports on Environmental Services and Capital Accounting and Programme Management were now at the review stage. The outstanding internal audit recommendations were set out in Appendix 3.

The vice chair referred to the annual audit committee training and suggested that other members of the council should understand the role of the audit committee in overseeing internal audit. He pointed out that the internal audits covered areas which would be of interest to members of other committees, such as the review of licensing fees and charges. The chair concurred that opening up audit committee training for all councillors would be beneficial to members of the audit committee and help interaction with other members of the council.

During discussion it was noted that Councillor Stutely, chair of licensing committee, would be briefed later that week on licensing fees and charges and that the scrutiny committee would be considering the fees and charges in due course.

Discussion then ensued on the three areas for inclusion on the internal audit plan. A member said that he supported the proposal for Safeguarding and Financial Viability to be included in the work plan as standard and that he considered that Nutrient Neutrality was a standalone piece of work. The independent person suggested that the audit team looked at the implementation of the new HR and finance system, the impact of the council from disruption to its supply chain, commercialisation and the impact from increased rents and running costs, and increased risk of employee fraud due to the cost of living crisis. The head of internal audit thanked the independent person for his suggestions and said confirmed that these issues, whilst not all standalone, would be discussed with CLT for inclusion in the plan. The executive head of corporate and commercial services said that the new HR and finance system would be considered as part of the compliance assurance on key controls. The head of customers, IT and digital and colleagues were working hard to implement the new finance/HR system, and whilst the council wanted proactive audit assurance the executive director of corporate and commercial services was concerned that there were other projects in this service.

In reply to a question from the chair, the head of internal audit confirmed that internal audit plan in Appendix 1 would deliver the audit plan by the year end, and incorporate the additional changes discussed to the audit plan if agreed following the discussion with CLT. It was a risk-based plan and was under constant review. She explained that internal audit was moving away from number of days delivered to coverage over key risks.

The chair commented that he hoped that CLT and the internal audit team should consider greater coverage in the internal audit plan next year to compensate the lower level of coverage last year.

RESOLVED to note the progress in delivering the remainder of the 2021/2022 internal audit plan or work and progress with delivery of the 2022/2023 plan.

8. Work Programme

RESOLVED, having considered the report, to agree the work programme.

9. Exclusion of the Public

RESOLVED to exclude the public from the meeting during consideration of items 10* to 11* (below) on the grounds contained in the relevant paragraphs of Schedule 12A of the Local Government Act 1972 (as amended).

10.* Risk Management Update – exempt appendix (Paragraph 3)

The interim head of finance, audit and risk presented the exempt appendix

The committee considered the risks set out in the exempt appendix.

The executive director of community services answered members' questions on the second risk and confirmed that the focus was on ensuring that the service was provided. The chair said that cabinet would be responsible for ensuring that mitigation was carried out and that the service was delivered.

RESOLVED to note the exempt appendix to the Risk Management Update report (item 6 above).

11.* Update on Transition to the New Delivery of Internal Audit Services (Paragraph 3)

The head of internal audit provided an update on the new arrangements for the delivery of internal audit services.

RESOLVED to note.

CHAIR