



Audit committee (extraordinary meeting)

17:00 to 18:10

17 May 2022

Present: Councillors Price (chair), Driver (vice chair), Giles, Sands (M), Schmierer (substitute for Councillor Haynes), Stutely and Wright

Also present: Councillor Kendrick, cabinet member for resources

Apologies: Councillors Haynes and Peek

1. Declarations of interest

There were no declarations of interests.

2. Annual Governance Statement 2020/21

The interim head of finance, audit and risk presented the report.

The chair said that he considered it was prudent to amend the Annual Governance Statement as set out in paragraph 4 of the covering report. He thanked the committee for raising concerns about contract management and the corporate leadership team for identifying the issue and taking the appropriate action. He referred members to the Statement by the Leader of the Council and the Chief Executive (page 7 of the agenda papers) and said that the improvements to the governance arrangements of the council highlighted in the statement, including the shareholder panels and the wholly owned companies, demonstrated that members' concerns had been listened to and acted on. The AGS was a public document that showed the council's governance and risk management structure to be robust.

RESOLVED, unanimously, to endorse the Annual Governance Statement and recommend it for signing by the leader of the council and the chief executive officer.

3. Statement of Accounts and Audit Results Report 2020/21

(Mark Hodgson, director Ernst & Young (external auditor) and Andrew Paylor, Ernst & Young, attended the meeting for this item.)

(Members of the committee had attended an informal briefing on the changes to the Statement of Accounts facilitated by the executive director of corporate and commercial services, interim head of finance, audit and risk and corporate finance business partner (interim) before the meeting.)

The interim head of finance, audit and risk introduced the report. These were not the final accounts as there was some audit work outstanding, but he was confident that this was nearing completion. Members' attention was drawn to the changes made to

the draft Statement of Accounts (SoA), as set out in paragraph 4 of the report and it was noted that a briefing note had been circulated to members before the meeting of adjustments to the accounts that had been agreed with the external auditor and would be included in the final version of the accounts to be signed off. ([This briefing note is available on the council's website with the papers for the meeting.](#))

In reply to a member's question, the interim head of finance, audit and risk and the executive director corporate and commercial services, explained that there had been a decrease in the council's net pension liability due to an error in the information provided by the Norfolk Pension fund, but overall, despite this change identified through the audit process, there had been a £34 million increase in the council's pension liability over the two-year period.

The external auditor presented the audit results report and apologised that this report was later than had been originally expected and that issues affecting the planned timeline for delivery would be discussed with the executive director of corporate and commercial services, at the conclusion of the audit.

During the presentation, the external auditor explained that during the audit process the audit differences level for reporting misstatements had been updated to £0.146 million. He updated members of the progress of the outstanding audit processes as listed under "Status of the Audit" (page 6 of the audit results report, page 206 of the agenda papers). Work was progressing in relation to the receipt of the response to their Management fraud enquiry letter, Recharge Testing and Accounts Receivable and Housing Revenue Accounts (expenditure). The audit had been completed with no issues to report in relation to Capital Financing Reserve, Collection Fund Disclosures, and Housing Revenue Account Disclosures and Income. The unaudited statement of accounts had been received for Norwich Norse Building Limited and note 32 amended, as set out in the interim head of finance, audit and risk's briefing note to the committee. The external auditors were waiting for guidance from HM Treasury on the completion of the whole of government accounts submission.

The external auditor confirmed that there were no further issues to report in relation to the Focus of the Audit section of the Executive Summary. The executive director of commercial and corporate services explained that it had been agreed to accept the unaudited accounts of the council's associate Norwich Norse Building Ltd in order to confirm the council's consolidated Group financial statements, as it would not result in a material difference and could be adjusted in the next year's accounts. Members were also directed to one uncorrected misstatement in the draft financial statements relating to £150,000 for a redundancy which had been misclassified as a provision rather than an accrual, and three differences relating to National Non-Domestic Rate (NNDR) appeals; grants and pensions that had been corrected by management. There were no issues to report in relation to the council as a going concern or any material risks to report by exception in relation to the Value for Money risk assessment. The auditor expected to issue an unqualified audit opinion.

During discussion members of the committee expressed their frustration with the delays to the audit. The external auditor said that it was a national issue with only 53 per cent of local authorities' statement of accounts for 2020-21 being signed off by 30 April 2022. This was due to significant issues that included resources and the complexity of audits, as well as Covid. Members noted that issues had been raised with government through the Redmond Review and other surveys.

Discussion ensued on the phasing of audits. It was not possible to bring forward the council's audit in next year's cycle, or elements such as property and assets. Delays could be caused because of problems encountered by the auditors once they had started another audit but testing was conducted before commencement in mitigation. The council would be in the middle tranche of the audit cycle for 2021-22 and was due to be audited in December 2022. The cabinet member for resources shared the committee's concerns about the impact that the timing of the audit had on the council's resources, budget planning and close down of the accounts.

At the chair's request, the interim head of finance, audit and risk drew members' attention to the section of the report which explained the underspends of £1.5 million for the General Fund and £4.8 million for the Housing Revenue Account final outturns (as summarised on pages 56 and 57 of the agenda papers). He explained that there had been significant variances in expenditure due to the impact of Covid-19. The government had provided a grant to support the council to mitigate additional expenditure. The most significant of these was housing the homeless for the city council. The council had made good 25 per cent of the income lost that was not supported by the government grant. This included the cancellation of events, such as the Lord Mayor's Procession. Members were advised that the remainder of the General Fund underspend (£0.913 million) had been moved to reserves. The council maintained a prudent minimum level of reserves. A strategy for the use of the reserves to smooth expenditure would be considered by the cabinet. Regarding the Housing Revenue Account, members were advised that the underspend was attributed to Covid-19, although responsive repairs had been carried out during this period. Members also noted the Capital outturn.

In reply to a member's question, the executive director of corporate and commercial services explained that the assurance against priorities was provided in the AGS. Some key performance indicators could not be collected during this period because of Covid-19. Performance and risk management was reported to cabinet as a Quarterly Assurance report.

During discussion, the chair commented on the Medium Term Financial Strategy (MTFS) and the prudent minimum level of reserves, and asked the external auditor for his views on whether maintaining reserves at £5 million was the correct direction of travel, whilst expressing his concern that the government had not fulfilled its Fair Funding Review. In reply, the external auditor said that the use of reserves was set out in the council's MTFS. The council's S151 officer provided justification for the prudent minimum level of reserves. It was not possible to benchmark against other authorities as each was different, such as the wholly owned companies, assets etc.

The chair commented on the improved performance of Norwich Regeneration Ltd but expressed his concern about long term debt.

RESOLVED to:

- (1) approve the statement of accounts presented in Appendix 1 of the report, subject to the completion of any outstanding audit work; and, if any outstanding audit work gives rise to a material adjustment to the accounts, to delegate approval of the statement of accounts, as amended/adjusted in line with audit findings, to the chief finance officer, in consultation with the chair (or vice chair) of the committee.

- (2) delegate to the chief finance officer, in consultation with the chair, the signing of the accounts.
- (3) note the Audit Results Report from the council's external auditor presented in Appendix 2 of the report
- (4) approve the draft letter of management representation presented in Appendix 3 of the report.

CHAIR