



Audit committee

16:30 to 18:15

13 July 2021

Present: Councillors Price (chair), Driver (vice chair, following election), Fulton-McAlister (M) (substitute for Councillor Sands (M), to end of item 8 (below)), Giles (substitute for Councillor Oliver), Haynes, Stutely (from item 5, below) and Wright

Also present: Councillor Kendrick, cabinet member for resources

Apologies: Councillors Hampton, Oliver and Sands (M)

1. Appointment of Vice Chair

RESOLVED to appoint Councillor Driver to be the vice chair for the ensuing civic year.

2. Public questions/petitions

There were no public questions or petitions received.

3. Declarations of interest

Councillor Fulton-McAlister declared an other interest in that he was a board member of the council's wholly owned company, Norwich City Services Ltd (NCSL).

4. Minutes

RESOLVED to approve the accuracy of the minutes of the meeting held on 9 March 2021.

5. Annual Report on Audit Risk and Fraud 2020-21

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

During discussion the chair acknowledged the contribution of the interim internal audit manager to move away from a compliance to risk-based approach to internal audit.

Discussion ensued on the evaluation of risk and whether the risk of the pandemic was in line with what would have been expected. The executive director of corporate and commercial services said that the council as an organisation had undertaken a complete review of risk over the last year and had a very different set of data than it had previously. She referred to the council's Covid Recovery Plan and said that

funding from central government had provided the council with the resources to mitigate the risks that it had to face arising from the pandemic. The chair said that the risks on the register had been based on a flu outbreak and that the risk presented by Covid-19 had turned out much different than envisaged. No council would have anticipated this risk or had the mitigations in place to deal with this new disease.

A member referred to Appendix A and asked whether actions due to be completed in July, in relation to the internal audit reviews of Information Security and GDPR and Contract Management – Housing Repairs and Responsive Maintenance, were on course. Officers confirmed that they would approach the service leads for a written progress update for members outside the meeting. The chair asked that reasons for any delay were provided.

The vice chair referred to the table in paragraph 20, which sets out the risk priorities of the audit work conducted in 2020-21 and asked how these figures compared with the previous year. Members were assured that the data for the previous year could be provide and that there had been no lapse in controls during the pandemic. Appendix B provided the definitions of the audit assurance ratings and the risk priorities.

During discussion a member referred to the internal audit review of Equalities Duties and expressed an interest in seeing the project and action plan that was currently being developed and commenting on the “high priority” for the policy to be published on the Equality section of the website. The chair referred to the comments at the previous meeting of Councillor McCartney-Gray, who had asked that the actions were reviewed after six months and said that he also would be interested to see the action plan as there could be implications for the work of the council.

During discussion on the internal audit’s work on Anti-Fraud and Corruption, the executive director of corporate and commercial services explained that she could not go into the specific details of individual cases. The council had a responsibility to report incidents of money laundering or fraud to the National Crime Agency. The agency would then determine whether there was a case for further investigation. Members were assured that in such cases, the council conducted a full internal review before referral to the National Crime Agency and complied with government guidance.

The chair commented on the internal audit plan for 2020-21 and the internal audit opinion of “reasonable” was good. The committee had expressed its concerns about the audit reviews of contract management and policies and procedures where limited assurance had been given and the wider impact that this could have on the council and its services. The audit opinion was caveated by the ongoing work on risk management by the corporate leadership team across the council and would be reviewed by the committee twice yearly. It was appropriate for the committee to consider the corporate risk register at its September meeting because of the cycle of management reports that fed into it. He drew members’ attention to paragraph 42 of the report and said that the new internal audit arrangements would continue to provide support to officers to comply with the action plans and that he hoped that any outstanding works would be carried out quickly.

RESOLVED,

- (1) having considered the annual Internal Audit report and opinion, to note the work of Internal Audit team for 2020-21;
- (2) record the committee's gratitude to Gavin Jones, interim internal audit manager (2020 -21);
- (2) ask the executive director corporate and commercial services to provide members with:
 - (a) progress reports on any outstanding actions due by the end of July in relation to the internal audit reviews of Information Security and GDPR and Contract Management – Housing Repairs and Responsive Maintenance;
 - (b) circulate copies of the Equality Duties action plan when available;
 - (c) provide the comparative data on recommendations raised from audit work conducted in 2019-20.

6. Draft Annual Governance Statement 2020-21

The head of finance, audit and risk introduced the draft Annual Governance Statement (AGS) 2020-21 and advised members that the action plan would be updated throughout the year.

The chair commented that the action plan was a fresh approach and a welcome addition to the AGS and showed the council's performance and direction of travel. It was a front facing document and a clear reflection of the council.

RESOLVED to agree that the draft Annual Governance Statement is consistent with the committee's own perspective on internal control within the council, plus the governance issues and actions.

7. Draft Statement of Accounts 2020-21

The head of finance, audit and risk gave a detailed presentation of the report and the attached Draft Statement of Accounts 2020-21. The statement would be signed by the executive director of corporate and commercial services (S151 officer) by the end of July. Members would have a further opportunity to review the accounts when the audited accounts came back to committee later in the financial year.

The executive director of corporate and commercial services thanked the head of finance, audit and risk explained that it had been her decision not to give members training on the statement of accounts until the accounts had been audited. She thanked the head of finance, audit and risk and her team for working tirelessly to produce the accounts to meet the statutory timeframe for the publication of the accounts in what had been a challenging year. External audit would not be commencing its audit until the autumn. Councillor Kendrick, cabinet member for resources, also praised the officers for the draft accounts and said that last year had

been an exceptional one and that the figures would be different from previous years. The chair reiterated these comments and pointed out that the delay in external audit would impinge on officer time during the budget setting period of the year.

The chair commented on the statement of accounts and said that the use of earmarked reserves, as agreed at council in the 2021-22 budget, to manage future budget risks and fund support costs for the transformation change programme, was a prudent way forward. Although the government had an excuse, the delay in the reform of local government funding was frustrating and meant a further year of uncertainty about the settlement.

A member referred to page 89 of the agenda papers (page 15 of the draft Statement of Accounts) and pointed out that the captions to the diagrams needed to be switched round. He also pointed out that on page 88 (page 14 of the draft statement), second bullet point, that an "m" (for a million) should be inserted after £1.215.

A member commented on the need to find a further £11.8m of gross permanent savings over the next four years and asked what progress had been made. The executive director of corporate and commercial services said that each service had been asked to submit high level options by the end of this week. An initial update on the Medium Term Financial Strategy would be presented to cabinet in September with detailed options for 2022/23 presented in a report to cabinet in November.

The chair commented on the reduced income from car parking and commercial rents and said that the council would need to diversify as it could not rely on government funding to bale the council out in future years.

RESOLVED to:

- (1) record the committee's gratitude to the head of finance, audit and risk and the finance team for their work in preparing the Statement of Accounts in this challenging year and meeting the statutory deadline;
- (2) note the draft Statement of Accounts 2020-21;
- (3) ask the head of finance, audit and risk to note the amendments to pages 14 and 15 as minuted above.

8. Annual External Audit Plan 2020-21

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

The external auditor presented the Annual External Audit Plan 2020-21. The plan sets out the audit risks and the audit evidence required to provide an audit opinion on the financial statements 2020-21. The concept of materiality as set out on page 240 of the agenda papers (or page 8 of the external audit plan) was consistent with previous years. Uncorrected misstatements over £170k would be reported to the audit committee. The audit risks and areas of focus as set out on page 237 of the agenda papers (or page 5 of the external audit plan) were consistent with the

previous years but included a new significant risk around the accounting for Covid-19 related government grants. Members were reminded that the auditor's responsibility for reporting Value for Money considerations had changed under the 2020 Code. The auditor now had to do a risk assessment and report by exception. It was proposed to complete the audit in six weeks from 15 November 2021 and the audit results report would be reported to the January meeting of the audit committee.

The chair commented on the audit plan and drew members' attention to the audit strategy and whilst not doubting the integrity of the officers, pointed out that it was important that external audit tested for misstatements to ensure that there was no management override of controls. The valuation of the council's non-current assets needed to be accurate because of the large values involved. The inclusion of Norwich City Services Ltd (NCSL) in the group accounts was a good move as it would be required in the 2022-23 accounts. The assessment of the council as a going concern was an important piece of work.

During discussion on the fees the chair and vice chair commented on the need for external audit to provide a robust assessment of the financial statements, which required skill and supported the members and council. The external auditor said that he considered that the planned fees were set at the right level for an authority of this size and the level of risk as identified in the plan.

The chair then commented on the committee's frustration at the timetable set for the audit of the financial statements. The external auditor said that he shared members' frustration and that he would like to provide an audit opinion within the statutory timescale. Public sector external audit was a broken system. The fees had been set too low and the time allowed for the audits was insufficient. This had led to audits overrunning and had set back the proposed timetable of audits for the following year. Then Covid-19 had made a further impact, with 53 per cent of local councils' financial statements for 2019-20 not being signed off by the deadline of 30 November 2020. It was therefore proposed that a phased plan would get the external auditors back on track this year. He had promised officers that the audit would take place at the end of this year and over a six-week period. He apologised for this situation. In reply to a question, he explained that the scheduling of the audits was not based on whether the council had a good or bad audit previously. The proposed plan of audits had been issued in February and councils had been advised that swaps with other councils would be allowed but there had been no take up of this offer.

A member referred to the comment in the external audit plan that it was not possible to quantify the impact of Covid-19 and asked whether there was a limit on what these fee implications would be. The external auditor said that the increase in fees had not been approved by the Public Sector Audit Appoints (PSAA). The executive director of corporate and commercial services needed to agree the fee increase with the PSSA on behalf of the council. There would need to be sufficient work on the impact of Covid-19 for an audit opinion to be made. The executive director of corporate and commercial services said that the council's finance team and the external audit team met regularly and discussed the issues that could arise through the audit and where necessary put in internal resources to address these before the financial statements were submitted. Post audit, the best outcome was to make as few changes as possible.

In reply to a question, the external auditor said that he considered that approval of the statement of accounts and the audit results report should be available for the committee's meeting in January 2022. This could not be guaranteed if extensive testing was required during the audit.

The vice chair expressed concern that fees for external audit had not yet been paid. The executive director of corporate and commercial services explained that provision had been made for the payment but clarity on the increased schedule of fees was required from the PSAA before the council made a payment.

In reply to a member's question, the external auditor explained that estimated timescale of the audit was on the premise that it would be conducted remotely. There was no reason to stop face to face portals, as it had proven to be a success and provided sufficient assurance to form an audit opinion.

The chair then referred to the audit plan and commented that it was important that the auditors worked with valuers to ensure the correct assessment of the council's property, plant and equipment. He considered there was an inherent risk to the council from the group accounts and was pleased that NCSL would be included this year. With regard to Norwich Regeneration Limited (NRL), he expected that external audit would liaise with the company's auditors about any recommendations arising from the audit of the accounts. In conclusion, the chair referred to the discussions between external audit and the finance team on the revised going concern assessment in advance of the end of the audit would provide management with useful feedback.

RESOLVED to agree the approach and scope of the external audit as proposed in the annual external audit plan 2020-21.

(Councillor Fulton-McAlister left the meeting at this point.)

9. Draft Annual Report of the Audit Committee 2020-21

The chair introduced the report and said that it was a true reflection of the work of the committee over the last year.

RESOLVED to approve the content of the annual audit committee report and recommend it to council for adoption.

10. Exclusion of the public

RESOLVED to exclude the public from the meeting during consideration of the items *11 below on the grounds contained in the relevant paragraphs of schedule 12a of the local government act 1972 (as amended).

***11. Internal Audit Service Provision (paragraph 3)**

(Faye Haywood, head of internal audit, South Norfolk Council, attended the meeting for this item.)

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

During discussion members commented in support of the proposed arrangements for internal audit service provision and sought confirmation that, as with any contract for a service, it would be monitored and performance kept under review.

RESOLVED to note the proposed short and long term arrangements for the delivery of an internal audit service.

CHAIR