

**Audit Committee**  
**Minutes of the Meeting held on Monday 29 July 2019 at 10am in**  
**the Conference Room, County Hall, Norwich**

**Present:**

Cllr Ian Mackie – Chairman  
Cllr Judy Oliver – Vice-Chairman  
Cllr Stefan Aquarone  
Cllr Chris Jones  
Cllr Bev Spratt  
Cllr Haydn Thirtle  
Cllr Karen Vincent

**1 Apologies for Absence**

- 1.1 Apologies were received from Cllr Colin Foulger (Cllr Bev Spratt substituted);

**2 Minutes**

- 2.1 The minutes from the Audit Committee meeting held on 18 April 2019 were agreed as an accurate record and signed by the Chairman.

**3 Declaration of Interests**

Cllr Karen Vincent declared an interest in agenda item 6 (Norfolk County Council and Norfolk Pension Fund Audit Results Reports) as she was a Member of the Norfolk Pension Fund.

Cllr Haydn Thirtle declared an interest in agenda item 6 (Norfolk County Council and Norfolk Pension Fund Audit Results Reports) as he was a Member of the Norfolk Pension Fund.

Cllr Judy Oliver declared an interest in item 5 (Annual Statement of Accounts and Annual Governance Statement 2018-19) and item 6 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2019) as she was Chairman of the Norfolk Pension Fund.

**4 Items of Urgent Business**

- 4.1 Although not specifically an item of urgent business, the Chairman said since the last meeting, there had been a change in Government which had declared that the UK would be leaving the EU on 31 October 2019. The Chairman asked the Executive Director Finance & Commercial Services to update the Committee on the preparations being made by Norfolk County Council with regard to Brexit.

The Executive Director of Finance & Commercial Services advised that a risk around Brexit featured on the Norfolk County Council risk register (RM022 - Potential changes in laws, regulations, government policy or funding arising from the UK leaving the European Union, which may impact on Council

objectives, financial resilience and affected staff ('Brexit').), setting out the areas which affected the Council and those areas which the Council could influence:

1. EU Funding Streams supporting the local economy.
2. Legal base as there were many EU laws affecting Councils.
3. Workforce issues as 7% of the Adult Social Care workforce were from the EU.
4. Place-based impact – it was unknown how Brexit would impact causing uncertainty in Council business, planning and service delivery.

The Norfolk Resilience Forum received Government information about Brexit which was then disseminated to Forum Members, including Norfolk County Council's Silver Command Team.

- 4.2 The Committee requested a report setting out the preparations Norfolk County Council had made for Brexit at its meeting on 24 October 2019.

## **5 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2019.**

- 5.1 The Committee received the report by the Executive Director of Finance & Commercial Services setting out the External Auditor's (Ernst & Young) Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the Year ended 31 March 2019.
- 5.2 The Committee welcomed David Riglar, Manager (Government & Public Sector, UK&I Assurance) and Mark Hodgson, Executive Director from Ernst & Young LLP to the meeting.
- 5.3 Mr Hodgson introduced the Norfolk Pension Fund Statement Audit Results Report and informed the Committee that Pensions Committee had formally signed off the draft accounts at its meeting on 9 July 2019. He added that an unqualified audit opinion had been achieved and thanked the Pensions Team for their full co-operation and the quality of the papers provided.
- 5.4 The Chairman echoed the excellent achievement and also congratulated the Pensions Team on achieving an unqualified audit opinion.
- 5.5 The Executive Director, Ernst & Young formally introduced the Norfolk County Council Audit Results Report for the year ended 31 March 2019. He thanked the officers for their co-operation and the quality of papers submitted and advised that an unqualified audit opinion would be issued.
- 5.6 The Executive Director, Ernst & Young highlighted the Value for Money Assessment of Reserves Position to 2022 setting out how the External Auditors had considered the Council's level of savings requirement to balance the General Fund budget in each of the next three years; the planned use of reserves to support the General Fund budget in each of the next three years; history of delivering savings plans and therefore the potential to call upon reserves to make up a shortfall in future savings plan delivery; history of over- or under-spending on the General Fund budget, and the impact this trajectory

would have on the use of General Fund reserves; and the use of the General fund to support future dedicated schools grant deficits.

5.7 In response to questions from the Committee, the following points were noted:

5.7.1 The External Auditors confirmed that the Value for Money Assessment of Reserves Position graph was their judgement and that the exercise would be intermittently re-run to monitor the latest financial assessment. It was also confirmed that the Executive Director of Finance & Commercial Services was aware of the projection but considered there was sufficient headroom at the present time.

5.7.2 The audit difference of £27.7m of Norse transactions and been identified when the accounts were consolidated into the group accounts. After the accounts had been drafted, officers noticed that the transactions had not been adjusted correctly and should have been removed as inter-party transactions. Mr Riglar confirmed that this was not a material consideration when the Auditors opinion was made.

5.7.3 The External Auditors confirmed that the Value for Money assessment of Reserves Position to 2022 graph currently showed borrowing at £600m and was projected to rise to £850m by 2022. The VfM assessment was that borrowing was not considered to be rising at an exponential rate.

5.8 The Chairman, on behalf of Audit Committee, thanked the External Auditors for the thorough report. He also thanked the Executive Director of Finance & Commercial Services and the Finance and Internal Audit Teams for their efforts in achieving an unqualified audit opinion in a difficult environment.

5.9 The Committee considered and **noted** the matters raised in the Ernst & Young Norfolk County Council and Norfolk Pension Fund Audit Results Reports before Ernst & Young issued their audit reports.

## **6 Norfolk County Council – Annual Statement of Accounts and Annual Governance Statement 2018-19.**

6.1 The Committee received the report by the Executive Director of Finance & Commercial Services setting out the Annual Statement of Accounts and Annual Governance Statement 2018-19.

6.2 The following points were noted in response to questions from the Committee:

6.2.1 An assumption had been made about the amount of money which may be received for the Better Care Fund in 2020/21 which, it was hoped, following a positive indication from the Government, would continue.

6.2.2 Members asked for a breakdown of the exit packages for those staff who had left the council and whether the figures included salary in lieu of notice, pay-offs, pension strain, etc. The Executive Director of Finance & Commercial Services responded that the pension strain had been included in the figures and that the exit package costs included all costs. The Assistant Director Finance would provide details of the headcount figures for those staff that received less than £50,000 per annum.

- 6.2.3 The Assistant Director Finance would provide the details of the reduction in rental income from investments, but explained this was likely to have been caused by a reduction in income from the airport industrial estate.
- 6.3 The Committee considered the report and **RESOLVED** to:
- **Note** that, following annual reviews, the systems of internal control and internal audit were considered adequate and effective;
  - **Approve** the Annual Governance Statement.
  - **Approve** the Council's 2018-19 Statement of Accounts.

## **7 Audit Letters of Representation 2018-19**

- 7.1 The Committee received the report by the Executive Director of Finance and Commercial Services introducing the letters of representation of Norfolk County Council and Norfolk Pension Fund for 2018-19. The letters of representation covered matters material to the financial statements and possible non-compliance with laws and regulations.
- 7.2 In presenting the report, the Corporate Accounting Manager advised that, since the agenda had been published, the External Auditors had requested additional paragraphs in the Letters of Representation to be signed by the Executive Director of Finance and Commercial Services and the Chairman of Audit Committee. Copies of the revisions are attached at Appendix A.
- 7.3 In response to a question about the return of investments particularly in the reduction of fossil fuels, the Vice-Chairman, Cllr Judy Oliver, as Chairman of the Pensions Committee, advised that the topic would need to be raised at the next Pension Committee meeting, together with expert advice on how to ensure the best return was achieved on investments.
- 7.4 The Committee considered the report and **RESOLVED** to:
- **Endorse** the letters of representation in respect of the Pension Fund and of Norfolk County Council, and
  - **Authorise** the Chairman of the Audit Committee and Executive Director of Finance and Commercial Services to sign the letters on behalf of the Council.

The meeting adjourned at 10.45 and reconvened at 10.55 during which time the Chairman and Executive Director of Finance & Commercial Services signed the Letters of Representation and the Statement of Responsibilities in the Norfolk County Council Statement of Accounts 2018-19.

## **8 Anti-Fraud, Bribery and Corruption Progress Report.**

- 8.1 The Committee received the report by the Executive Director of Finance & Commercial Services and the Chief Legal Officer introducing the NAS Anti-Fraud, Bribery and Corruption Audit Committee Progress Report (including Whistleblowing).
- 8.2 The following points were noted in response to questions from the Committee:

- 8.2.1 Incidents of fraud were very rare. All employees signed up to the code of conduct and were required to complete mandatory e-learning training including fraud awareness, detection and whistleblowing when they started working at Norfolk County Council. Regular spot checks would also be carried out by line managers for staff working in areas of potential fraud.
- 8.2.2 The Internal Audit team worked with management to investigate fraud when it had been identified. The Chief Internal Auditor confirmed that the controls and processes were established to take the appropriate action in the event of fraud and also to recover any losses if any fraud had been committed.
- 8.2.3 Norfolk County Council Information Management Team was aware of the potential for phishing/spam attacks and had system controls and procedures in place to deal with any occurrences, with the majority of unrecognised emails being sent directly to individuals' "junk mail folder" within Outlook. An established e-learning training programme was rolled out to staff who were required to undertake the information security and data protection e-learning courses every two years. A refreshed version was imminent. Regular emails were circulated to all staff reminding them not to open or click on links in emails received from unknown sources.
- 8.2.4 Full Council, at its meeting on 7 May 2019 had agreed that all office-based staff should be mandated to undertake the e-learning course on Fraud, Bribery and Corruption and a working group consisting of the Investigative Auditor, Senior Auditor and Workforce Development Manager, had been established to implement that decision.
- 8.2.5 The Executive Director of Finance & Commercial Services advised that tracking an individual employee status after a whistleblowing complaint to identify how many staff been promoted, demoted or who still worked at Norfolk County Council was not carried out, as it was considered an individual had been brave to blow the whistle in the first place. Some Members felt it would be reassuring to know that those whistleblowing individuals were not being victimised. The Executive Director of Finance & Commercial Services would speak with HR colleagues to ascertain what information could be provided and circulate the response.
- 8.2.6 The details about the new referral made in the current financial year in residential care was an ongoing case and could not be discussed until the investigation had been completed.
- 8.2.7 The Vice-Chairman highlighted that a whistleblowing policy should not necessarily be seen as a negative connotation as such a policy could also encourage staff to identify where and how services could be improved.
- 8.2.8 A suggestion was made that Norfolk County Council could adopt a policy similar to some banks which were now demanding a named payee on an account as well as the sort-code and bank account number. Members agreed that this could be looked into as it could provide an extra level of security and assurance.
- 8.3 The Committee considered the report and **RESOLVED** to **agree**:

- The key messages featured in the update.
- The content of the Anti-Fraud, Bribery and Corruption and Whistleblowing Audit Committee Progress Report (Appendix A) and that the progress was satisfactory, and arrangements were effective.
- The updated activity plan at Appendix B of the report.
- The CIFAS Fraudscape report at Appendix C of the report.

## **9 Norfolk Audit Services Report for the Quarter ending 30 June 2019**

- 9.1 The Committee received the report by the Executive Director of Finance and Commercial Services supporting the remit of the Audit Committee in providing proactive leadership and direction on audit governance and risk management issues. The report updated the Committee on the progress with the delivery of the internal audit work and advised on the overall opinion on the effectiveness of risk management and internal control, by setting out the work to support the opinion and any matters of note.
- 9.2 In response to questions from the Committee, the following points were noted:
- 9.2.1 Under the new governance arrangements, the Risk Management Officer had been asked to refresh the Corporate Risk Register which would be presented to Cabinet at its meeting on 2 September 2019, after which it would be reported to Audit Committee.
- 9.2.2 Some Members expressed concern that the Risk Management Report would be considered by Cabinet before the Audit Committee as under the old governance arrangements, the Risk Management Report was presented to Policy & Resources after it had been considered by Audit Committee. The Executive Director of Finance & Commercial Services advised that under the previous governance arrangements, Audit Committee had scrutinised Risk Management Reports after they had been considered by Policy & Resources Committee. The Committee was reminded that Cabinet held responsibility for the Corporate Risk Register which was scrutinised by Audit Committee to ensure the system was effective.
- 9.2.3 Cllr Karen Vincent, as Chairman of the Corporate Select Committee advised that the Corporate Select Committee had considered a Risk Management report at its recent meeting, including the risks around the HR Finance Management Replacement System.
- 9.3 The Committee considered the report and **RESOLVED** to **agree**:
- The key messages featured in the report.
  - That the Chief Internal Auditor review procedure meets Public Sector Internal Audit (PSIA) Standards.

## **10 Work Programme**

- 10.1 The Committee received the report by the Executive Director of Finance and Commercial Services setting out the work programme.

- 10.2 The Committee considered and **noted** the report and agreed to receive a report on the overall preparations of Brexit at its October meeting.

The meeting ended at 11.20 am.

Chairman



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## **A. Financial Statements and Financial Records**

1. We have fulfilled our responsibilities, under the relevant statutory authorities, for the preparation of the financial statements in accordance with, for the Group and the Council the Accounts and Audit Regulations 2015 and CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19.
2. We acknowledge, as members of management of the Group and Council, our responsibility for the fair presentation of the consolidated and council financial statements. We believe the consolidated and council financial statements referred to above give a true and fair view of the financial position, financial performance (or results of operations) and cash flows of the Group and Council in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 and are free of material misstatements, including omissions. We have approved the consolidated and council financial statements.
3. The significant accounting policies adopted in the preparation of the Group and Council financial statements are appropriately described in the Group and Council financial statements.
4. As members of management of the Group and Council, we believe that the Group and Council have a system of internal controls adequate to enable the preparation of accurate financial statements in accordance with the CIPFA LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 for the Group and Council that are free from material misstatement, whether due to fraud or error.
5. That we believe that the effect of the unadjusted audit difference, summarised in the Audit Results Report, accumulated during the current audit and pertaining to the latest period presented is immaterial to the financial statements taken as a whole. The reason for not adjusting is as follows:
  - a. £4.8 million adjustment to the net pension liability: This late audit difference addendum adjustment concerns updated IAS19 reporting following a re-run of actuarial reports to reflect the final pension fund asset position at 31 March 2019. This does not affect the Council's general fund reserve balance, and no adjustment has been made for the change due to its immateriality in the context of the accounts.

## **B. Non-compliance with law and regulations, including fraud**

1. We acknowledge that we are responsible to determine that the Group and Council's activities are conducted in accordance with laws and regulations and that we are responsible to identify and address any non-compliance with applicable laws and regulations, including fraud.



## **P. Expenditure Funding Analysis**

1. We confirm that the financial statements reflect the operating segments reported internally to the Council.

Yours faithfully

Simon George, Executive Director of Finance and Commercial Services

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I confirm that this letter has been discussed and agreed by the Audit Committee of Norfolk County Council on 29 July 2019

Cllr Ian Mackie

Chairman of Norfolk County Council Audit Committee

D3. We have recorded and/or disclosed, as appropriate, all liabilities related litigation and claims, both actual and contingent.

D4. No other claims in connection with litigation have been or are expected to be received.

## **E. Subsequent Events**

E1. As described in Note 6 to the financial statements, there has been one event subsequent to period end which require adjustment of or disclosure in the financial statements or notes thereto. The subsequent event relates to the Transition Arrangements Age Discrimination Legal case (McCloud) and the UK Government's application for leave to appeal to the Supreme Court was refused. The refusal of the application to appeal enabled the Government Actuary Department (GAD) to develop an estimation technique and this has been made available by GAD. The Fund's actuary has adjusted GAD's estimate to better reflect the Norfolk Pension Fund's local assumptions, particularly salary increases and withdrawal rates. The revised estimate as it applies to total liabilities (i.e. the increase in active members' liabilities expressed in terms of total membership) could be 0.4% higher as at 31 March 2019, an increase of approximately £10M. The estimated increase in liabilities is reflected in note 20 to the financial statements.

## **F. Other information**

F1. We acknowledge our responsibility for the preparation of the other information. The other information comprises The Norfolk Pension Fund Annual Report and Accounts 2018/2019.

F2. We confirm that the content contained within the other information is consistent with the financial statements.

## **G. Independence**

G1. We confirm that, under section 27 of the Pensions Act 1995, no members of the management of the Fund of the Scheme is connected with, or is an associate of, Ernst & Young LLP which would render Ernst & Young LLP ineligible to act as auditor to the Scheme.

## **H. Derivative Financial Instruments**

H1. We confirm that all investments in derivative financial instruments have been made after due consideration by the [members of the management of the Fund] of the limitations in their use imposed by The LGPS Management and Investment of Funds Regulations 2016. The Fund's Investment Strategy Statement has been duly reviewed to ensure that such investments comply with any limitations imposed by its provisions. The financial statements disclose all transactions in derivative financial instruments that have been entered into during the period, those still held by the members of the management of the Fund at the Fund's year end and the terms and conditions relating thereto.