

Audit Committee
Minutes of the Meeting held on Thursday 24 September 2015 at
2pm in the Edwards Room, County Hall, Norwich

Present:

Mr I Mackie (Chairman)
Mr B Bremner
Mrs S Gurney
Mr H Humphrey
Mr J Joyce
Mr D Ramsbotham
Mr R Smith (Vice-Chairman)

Also Present:

| | |
|-------------|-----------------------|
| Philip King | External Auditor – EY |
| Rob Murray | External Auditor - EY |

1 Apologies for Absence

There were no apologies for absence.

2 Minutes

The minutes of the meeting held on 18 June 2015 were agreed as a correct record and signed by the Chairman.

3 Declaration of Interests

Mrs S Gurney declared an interest in agenda items 5 and 6 as her husband and son were both active paying members of the Norfolk Pension Fund. Mrs Gurney left the room when these items were considered by the Committee and did not take part in the discussion and decisions made.

4 Items of Urgent Business

4.1 As the Chairman had not received a substantial reply to the email he sent to the Chief Internal Auditor on 26 July 2015 about the process for ensuring members of staff who left the employment of Norfolk County Council could no longer access emails and other county council information, the Executive Director of Finance agreed to follow this up.

4.2 The Chairman had received the following question from Mr A Dearnley, on behalf of the Green Group.

"Will the Audit Committee commission an independent investigation and audit of how the recent cost increases on the NDR construction contract were progressed through the Full Council meeting on September 2nd. Whilst one

error by officers in the report to Councillors was acknowledged in the meeting, a further error was reported to officers including the Chief Executive before the meeting, but was not investigated further. Taken together, the two errors strongly demonstrate that the report's conclusion that the construction cost inflation was in line with market trends was flawed. As the recommendations were predicated on this conclusion, the recommendations themselves and the advice on which Councillors decided was also seriously flawed. The independent investigation should examine both how the errors were made and sustained through standard checking processes expected for reports to Councillors, particularly one relating to a one-off £10m spending decision, and the constitutional issues around continuing with the debate and decision whilst the second reported error remained investigated by officers."

In response, the Chairman asked that the Committee's concerns about the accounting method presented at the last County Council meeting be fed back to the Executive Director of Community and Environmental Services. The Committee also requested that a contingency plan for capital increases as well as risk management of NDR costs should be considered in greater detail.

- 4.3 As the report from Ofsted, following the last inspection in July 2015, was still awaited there was nothing to report on this topic.

Mrs S Gurney left the room while items 5 and 6 were discussed by the Committee.

5 Norfolk Pension Fund Governance Arrangements.

- 5.1 The Committee received the report by the Executive Director of Finance and Head of Pensions outlining the ongoing governance arrangements of the Norfolk Pension Fund.
- 5.2 The Committee was requested to consider the report, detailing Norfolk Pension Fund's governance arrangements, being fully compliant with legislative requirements, regulatory guidance and recognised best practice.
- 5.3 The following points were noted in response to questions from the Committee:
- 5.3.1 The fund compliant checklist had been verified by both the Internal Auditors and the External Auditors before being presented to the Pensions Committee for final approval.
- 5.3.2 There were no financial implications for the governance arrangements as all expenditure fell within the parameters of the Annual Budget agreed by the Pensions Committee.
- 5.3.3 The first meeting of the Pensions Oversight Board, which comprised of employer, union and scheme member representatives, had been held in July 2015 and to date no issues had been raised that the Audit committee needed to be made aware of.
- 5.3.4 In order that Parish Councils received sufficient information to allow them to make a decision about Parish Clerks joining the Norfolk Pension Fund, the Committee noted that topical newsletters were distributed and employer forums held throughout the year, which a number of Parish Councils had attended.

Officers from the Pension Fund regularly attended meetings with Parish Councils to discuss membership of the scheme. Parish Councils were advised to seek independent financial advice before making any decision about joining the scheme.

- 5.4 The Committee **noted** the report which detailed Norfolk Pension Fund's governance arrangements being fully compliant with legislative requirements, regulatory guidance and recognised best practice.

6 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2015.

- 6.1 The Committee received the report by the Executive Director of Finance introducing the External Auditor's (Ernst and Young) Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2015.
- 6.2 The report was introduced by Mr R Murray, from External Auditors EY who drew the committee's attention to the Value for Money (VfM) arrangements which were currently being finalised and advised that he was confident an unqualified opinion would be given once the VfM audit had been completed.
- 6.3 The External Auditors placed on record their thanks to the Norfolk County Council Finance Team for their assistance in producing the accounts and in assisting the External Auditors.
- 6.4 During the discussion, the following points were noted:
 - 6.4.1 The external auditors for Norse (Grant Thornton) would have raised any significant concerns if any had been identified.
 - 6.4.2 At present Norfolk County Council did not appoint its own External Auditors. EY had been appointed External Auditors in 2012 and a decision was still awaited about any extension to the existing contract.
 - 6.4.3 Although the reserves were marginally below the average level the County Council had run at for a number of years, the Executive Director of Finance confirmed he had no concerns about the level of reserves currently held.
 - 6.4.4 The Statement of Accounts for the Pension Fund was expected to receive an unqualified opinion from the External Auditors and Members noted that the report had been considered by the Pensions Committee at its meeting on 8 September.
- 6.5 The Committee and the Executive Director of Finance placed on record their thanks to the External Auditors EY for their efforts and assistance in achieving an unqualified opinion on the accounts. The NCC finance teams and the Pension Fund accounting staff were also thanked for their work.
- 6.6 The Committee considered and **agreed** the Ernst and Young Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2015.

Mrs S Gurney re-joined the meeting.

7 Annual Statement of Accounts and Annual Governance Statement 2014-15

7.1 The Committee received the report by the Executive Director of Finance introducing the Statement of Accounts and Annual Governance Statement of Norfolk County Council for 2014-15 which had been subject to external audit by Ernst and Young. The Executive Director of Finance anticipated that Norfolk County Council would receive an unqualified audit opinion.

7.2 The following key points were noted during the discussion:

7.2.1 The Committee was pleased to note that the Public Services Network (PSN) Accreditation had been achieved on 8 September 2015 and the Annual Governance Statement 2014-15 would be amended to reflect the accreditation before it was signed off.

7.2.2 No issues or concerns had been identified in this year's accounts about contingent liability. All Chief Officers had been asked to identify if they were aware of any matters of concern, such as pending law suits, and no areas of concern had been identified.

7.2.3 The Statement of Accounts would be published as soon as possible, the deadline being 30 September 2015, once they had been approved by the Committee and had received final sign-off from the External Auditors.

7.2.4 There had been a few minor amendments to the Statement of Accounts 2014-15 since the Committee report had been published and these amendments are attached at Appendix A to these minutes. The changes will be incorporated into the final accounts and published on the website.

7.3 RESOLVED to

- Note that, following annual review, the system of internal control and internal audit are considered adequate and effective for the purposes of the relevant regulations;
- Approve the Annual Governance Statement (Appendix 2) and commend the final statement for signature by the Leader and the Managing Director;
- Approve the Council's 2014-15 Statement of Accounts (Appendix 3);
- Note the Summary of the Statement of Accounts (Appendix 4) to be published alongside the full accounts.

8 Letters of Representation 2014-15

8.1 The Committee received the report by the Executive Director of Finance providing details of the letters of representation in connection with the audit of the financial statements of Norfolk County Council for 2014-15.

8.2 RESOLVED to

Endorse the letters of representation in respect of the Pension Fund and of Norfolk County Council. The Chairman of the Audit Committee and Executive Director of Finance signed the letter on behalf of Norfolk County Council.

9 Norfolk Audit Services Quarterly Report for the Quarter ended 30 June 2015.

- 9.1 The Committee received the report by the Executive Director of Finance. The Committee was asked to consider and comment on the overall opinion on the effectiveness of risk management and internal control being 'acceptable' and therefore considered 'sound'; the progress with the anti-fraud e-learning roll-out; the changes to the approved 2015-16 Norfolk Audit Services audit plan as set out in Appendix B of the report; satisfactory progress with the traded schools audits and the preparations for an Audit Authority for the France Channel England Interreg Programme.
- 9.2 The following points were noted during the discussion:
- 9.2.1 The Committee again raised concern about the amount of time it was taking for effecting its request to make it a mandatory requirement that all staff undertake the Fraud Awareness e-learning course and asked for a further update at its next meeting. The Executive Director of Finance agreed to follow up the reasons why the training hadn't been made mandatory and to bring an update report to the next meeting.
- 9.2.2 The Committee suggested that the Anti-Fraud e-learning should be made available to Chairs of Governors at schools to assist them and protect them from potential fraud and to help them identify any possible areas of concern.
- 9.2.3 Although there had been a slow take up of the Traded Schools Audits, reminder letters would be sent out to non-participating schools, asking them to identify who was carrying out their audits if they were not using Norfolk Audit Services.
- 9.2.4 The Chief Internal Auditor would let Mr Bremner have some additional information about Mile Cross Primary School compliance.
- 9.2.5 The Government had yet to designate Norfolk County Council as the Audit Authority for the France Channel England Interreg Programme.

9.3 RESOLVED to note

- the overall opinion on the effectiveness of risk management and internal control being 'acceptable' and therefore considered 'sound'.
- The progress with the Anti-Fraud eLearning roll-out.
- The changes to the approved 2015-16 Norfolk Audit Services audit plan, as set out in Appendix B of the report.
- The satisfactory progress with the traded schools audits and the preparations for an Audit Authority for the France Channel England Interreg Programme.

10 Internal Audit Plan 2015-16 for Quarters 3 and 4.

- 10.1 The Committee received the report by the Executive Director of Finance setting out the Internal Audit Plan 2015-16.

- 10.2 During the presentation of the report, it was noted that the impact of vacancies referred to in the Executive Summary of the report should read 345 days lost and not as stated.
- 10.3 The following points were noted in response to questions from the Committee:
- 10.3.1 The Executive Director of Finance confirmed that, as the Section 151 Officer, he was confident the Chief Internal Auditor had a sufficient level of resource available to allow him to carry out the internal audit function.
- 10.3.2 The Chairman said that the County Farms Advisory Board oversaw the governance arrangements for County Farms to ensure these were robust. He confirmed that a Corporate Governance Audit would be undertaken.
- 10.4 The Committee **RESOLVED** to note:
- the revised Internal Audit Strategy (Appendix A) for the remainder of the year (646 days).
 - The Internal Audit Plan to support the opinion for quarters 3 and 4 (Appendix B) at 383 days (including 80 days in reserve for Traded Schools Audits and up to 100 days of contractor time).
 - The overall the target for final report and draft reports for audits are 34 and 12 respectively, to be reported on in the Annual Internal Audit Report.
 - The three year Internal Audit Strategy agreed in January remained largely unchanged, except for the deletion of an Internal Audit Manager post.
 - The actual days available to deliver the audit opinion work within the strategy (Appendix A) remain sufficient to support the opinion.
 - The opinion work plan (Appendix B) will be managed flexibly to support the traded schools approach, while the service was developed and bookings stabilised.
 - Some audits timed for Quarters 1 and 2 are carried into the remainder of the year as work in progress.
 - The medium term internal audit strategy will be refreshed in January 2016.

11 Governance, Control and Risk Management of Treasury Management

- 11.1 The Committee received the report by the Executive Director of Finance, concluding that the County Council's Treasury Management operations were fully compliant with the statutory and regulatory framework and recognised best practice.
- 11.2 The Committee considered the report, during which the following points were noted:
- 11.2.1 The next meeting of the Treasury Management Panel would take place on 10 November 2015.
- 11.2.2 The change of bank from the Co-Operative Bank to Barclays Bank had been a very smooth transition and the Committee congratulated the Chief Investment Manager and his team for coordinating the move.
- 11.2.3 The Committee was reassured that the Treasury Management team monitored credit ratings and market intelligence on a daily basis, with external advisors

providing information and decisions were made on the information available at the time. Regular meetings were held with the Relationship Team from Barclays.

- 11.2.5 The Chief Investment Manager confirmed that there were **no** equality implications arising from the report.
- 11.3 The Committee **RESOLVED** to note the report which provided assurance to the Committee as to the adequacy and effectiveness of the governance, control and risk management arrangements for Treasury Management.

12 Risk Management Report

- 12.1 The Committee received the report by the Executive Director of Finance providing the Committee with an update of the Corporate Risk Register at September 2015 and other related matters following the latest review conducted during the early part of 2015-16.
- 12.2 The following points were noted during the discussion:
- 12.2.1 The Committee requested some further information about the levels of Norfolk County Council insurance cover.
- 12.2.2 With regard to risk RM005 (The potential risk of failure to fully implement Digital Norfolk Ambition (DNA), the Committee requested that the Project Manager for DNA be requested to attend the next meeting to provide an update on the project. The Committee noted that a Member Working group had been convened by the Policy & Resources Committee to consider all aspects of DNA. The Executive Director of Finance agreed to circulate information about the project plan and the risks to Members of the committee.
- 12.2.3 With regard to the Northern Distribution Route (NDR) the Committee requested that the Chairman of the Environment, Development and Transport Committee be asked to consider placing the risks surrounding the building of the NDR on the agenda for its next meeting.
- 12.2.4 The Committee requested that the risks included in the heat map at Appendix D of the report be shown as spots, colour referenced for the prospect target rating (red, amber or green) and also include arrows to show whether the risks were increasing or decreasing.
- 12.2.5 All Service Committees received risk reports as part of their Performance Monitoring Reports and included those departmental risks which had a combined score of 12 or above. The next report was due to be presented to Committees at their meetings in October 2015.
- 12.2.6 The Committee **agreed** that it required all Service Committees to review departmental risk registers on a quarterly basis.
- 12.3 **RESOLVED** to note:
- that risk management was now managed by the Chief Internal Auditor.

- that a Risk Management Strategy 2015-18 was being prepared and a Strategic Risk Manager was being sought.
- the changes to the Corporate Risk Register (Appendix A of the report).
- the 13 corporate risks identified and the progress with the mitigating risks.

13 Work Programme

- 13.1 The Committee received and noted the report by the Executive Director of Finance setting out the programme of work for the Committee.

14 Date of next meeting

- 14.1 The next meeting will take place at 2pm on Thursday 28 January 2016 in the Colman Room.

The meeting ended at 4.10pm.

CHAIRMAN



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Norfolk County Council
Statement of Accounts 2014-15

Changes since Audit Committee papers circulated

| Page | Subject | Change |
|-------------|---|---|
| 15 | Statement of Responsibilities | To align with the date that the audit report will be signed, the dates of signature have been amended to 30 September. |
| 91 | Relationships with Other Entities | Legislator companies summary table removed. Table was for information only and 2014-15 accounts are not yet available. |
| 108 | Group accounts Financial Instruments Borrowings | The "Principal amount" and "Total included in Borrowings" figures have been corrected. This was an adjustment of £5.060m which had not been properly reflected in this note. The change does not affect any other figure in the accounts. |
| 110 | Pension Fund auditors report | The auditor's opinion on the pension fund financial statements has been inserted. |