

Audit Committee
Minutes of the Meeting held on Thursday 16 June 2016 at 2pm
in the Colman Room, County Hall, Norwich

Present:

Mr I Mackie
Mr B Bremner
Mr T Garrod
Mr J Joyce
Mr D Ramsbotham
Mr N Shaw
Mr R Smith

1 Election of Chairman

Mr I Mackie was elected Chairman of the Audit Committee for the ensuing year.

2 Election of Vice-chairman

Mr R Smith was elected Vice-Chairman of the Audit Committee for the ensuing year.

3 Apologies for Absence

An apology was received from Mr H Humphrey (Mr T Garrod substituted).

4 Minutes

- 4.1 The minutes of the meeting held on 21 April 2016 were agreed as a correct record and signed by the Chairman, subject to paragraph 5.3.7 being amended to read:

“The Committee expressed a view that it was not appropriate to stop members from having any input into the lettings process for the County Farms Estate.”

5 Declaration of Interests

- 5.1 Mr I Mackie declared a non-pecuniary interest as a Director of Norse, in the event that any discussions took place regarding Norse.
- 5.2 Mr N Shaw declared an other interest in agenda item 14 (Risk Management Report) as he worked in IT.

6 Items of Urgent Business

- 6.1 There was no urgent business.

7 Norfolk Audit Services Quarterly Report for the quarter ended 31 March 2016.

7.1 The Committee received the report by the Executive Director of Finance setting out how Internal Audit's work had contributed to the Council's priorities.

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

7.2.1 The Committee was pleased to note that the take up of the Traded Schools Audits had increased. The Internal Audit team liaised with the Children's Services Finance team to promote the traded schools audits, although there was no obligation for academies to purchase the service. A leaflet had been produced and copies were handed out to the Committee for sharing as they considered appropriate.

7.2.2 Norfolk Audit Services made every effort to reduce its carbon footprint by ensuring that auditors with the right skills carried out audits within their local area which saved on travelling costs and expenses claims.

7.2.3 The Chief Internal Auditor agreed to circulate the response he had received from DCLG about possible implications on the France Channel Interreg Programme if Britain voted to leave the EU at the Referendum on 23 June. In the event Britain voted to leave the EU the impact should be reviewed and presented to Committee at a future meeting.

7.2.4 A minimum wage audit had been carried out for an Adult Social Services Care Provider. Norfolk County Council required compliance with the minimum wage regulations in its contract requirements with providers.

The testing had identified some breaches and one provider had been given an opportunity to carry out its own payroll analysis to review and rectify the findings.

Some further work was currently being carried out in this area.

7.2.5 The Chief Internal Auditor agreed to circulate some information and clarification on the Council's reporting responsibilities if any breaches were found when carrying out such audits on care providers.

7.2.6 The living wage requirement had been introduced in April 2016 and had superseded the minimum wage requirement.

7.3. The Committee **RESOLVED** to note:

- the overall opinion on the effectiveness of risk management and internal control was 'acceptable' and therefore considered 'sound'.
- Satisfactory progress with the traded schools audits and the preparations for an Audit Authority for the France Channel England Interreg Programme.

8 Local Government Association Presentation (Audit Procurement and the Sector Led Body).

- 8.1 The Committee received a presentation (attached at Appendix A) by Mr Alan Finch, Principal Advisor, Finance and Productivity with the Local Government Association.
- 8.2 After the presentation, the following points were noted in response to questions from the Committee:
 - 8.2.1 If Norfolk County Council signed up to the Public Sector Audit Appointments Ltd (PSAA) scheme, an additional fee to cover the PSAA costs would be charged on top of the audit fee.
 - 8.2.2 No decision had yet been made on how a regional model could work. This would be a joint decision with the PSAA and those Councils which had decided to contract in to the service.
 - 8.2.3 If Norfolk County Council decided not to opt into the scheme, sufficient time would need to be allowed to procure a bespoke service, to ensure that an Auditor had been appointed by the deadline of December 2017.
 - 8.2.4 The Councils opting into the scheme would be notified of, and would be obliged to use, their PSAA appointed auditor.
 - 8.2.5 The PSAA, in conjunction with the Councils contracted into the service would agree the final selection process for auditors.
 - 8.2.6 The Chairman of the PSAA was Mr Steve Freer, a former Chief Executive of CIPFA.
 - 8.2.7 PSAA would invoice authorities for the service, itemising the costs of the auditor and the costs of the PSAA.
 - 8.2.8 There was no requirement for Councils to be a member of the Local Government Association (LGA) to join the PSAA scheme.
 - 8.2.9 It was expected that the PSAA would know its own costs by the end of December 2016, although the Auditor costs would not be known until later in the process.
 - 8.2.10 The Committee would receive an update at its meeting in September, including the available options on the future of local audit.
- 8.3 The Committee **noted** the presentation.

9 Monitoring Officer Annual Report 2015-16

- 9.1 The Committee received the report by the Head of Law and Monitoring Officer summarising the internal governance work carried out by the Monitoring Officer in 2015-16 and providing assurance that the organisation's control environment, in the areas which were the responsibility of the Monitoring Officer, were adequate and effective. The annual report supported the assurance statements

included in the draft Annual Governance Statement for 2015-16 (the 'Annual Governance Statement').

9.2 During the discussion, the following points were noted;

9.2.1 A review of the Council's Code of Corporate Audit Governance was to take place.

9.2.2 The Annual Governance Statement was in the process of being finalised. The Committee was reassured that the Head of Law and Monitoring Officer, together with the Executive Directors had considered the Statement in detail and it was hoped that anything amiss would have shown up, although the Monitoring Officer could not give a categorical guarantee.

9.2.3 District Councils were the responsible authorities for elections. As Norfolk County Council did not have any direct involvement in checking election papers, the Head of Law was not in a position to scrutinise the election papers and signatures and was unable to comment on any possible repercussions following the resignation of former County Councillor M Smith or his subsequent conviction for election fraud.

The Committee was reassured that there had been no detected pattern of election fraud or any other convictions identified.

9.2.4 The Head of Law and Monitoring Officer considered that the nplaw function had sufficient ability and resources to carry out proper checks and balances. Although not every area covered by Norfolk County Council could be covered, it was anticipated that if there were any areas of concern these would quickly be picked up in the Internal Audit plans.

9.2.5 Mr D Ramsbotham asked for it to be recorded that he had raised concerns about County Farms since 2013 and that that he had no confidence in how problems with County Farms had been handled.

9.2.6 Mr J Joyce asked for it to be recorded that he had asked the Chairman to clarify a statement that that he had made, that the problems with County Farms had only emerged during the last 3 years under the old Administration as he deemed the statement to be very unfair as the problems had been ongoing for a number of years. The Chairman said he stood by his statement because that was the period the Audit review covered, within the context of the constitutional changes to a committee system, and post the 2014 report and recommendations into county farms .

Mr J Joyce left the meeting at 3.25pm.

9.2.7 The Audit Committee had requested Fraud Awareness Training to be undertaken by all staff on several occasions. The Chief Internal Auditor advised that the Managing Director had asked for further information with regard to resources and the costs of staff time in completing the training, together with details of risks, what fraud had taken place, areas at risk of fraud to ensure that any training was focused in the right areas. The Committee would receive an update at its meeting in September 2016.

- 9.3 The Committee **noted** the contents of the report, in particular the key messages in the Executive Summary and appendix A, section 2.1 of the report.

10 Audit Committee Chairman's Report

- 10.1 The Committee received the report by the Chairman summarising the work of the Audit Committee from 1 January 2016 to 30 April 2016, confirming that during 2015-16 its function has been consistent with best practice, demonstrated the impact of its work and explained how it added value.
- 10.2 The Committee **noted** that the Committee:
- Was independent of the executive function, reported directly to full Council and had terms of reference that were consistent with CIPFA's guidance and best practice.
 - Provided effective challenge across the Council and independent assurance on the system of internal control, including the management of risk, to members and the public.
 - Could demonstrate the impact and value of its work, and
 - Was monitoring the Future of Local Public Audit proposal.

11 Audit Committee Terms of Reference

- 11.1 The Committee received and **noted** the report by the Executive Director Finance, introducing the Committee's Terms of Reference. The terms of reference for the Committee were considered as part of a regular formal review.

12 Norfolk Audit Services Annual Internal Audit Report 2015-16.

- 12.1 The Committee received the report by the Executive Director of Finance setting out the significant contribution Internal Audit's work had made to the Council's priorities.
- 12.2 During the discussion, the following points were noted:
- 12.2.1 The Committee requested an update on data quality and information security at its next meeting.
- 12.2.2 The Executive Director of Resources was responsible for the Information Management Team with each Executive Director being responsible for their own service area with regard to data security.
- 12.3 The Committee considered and **noted** the key messages from the Annual Report, that
- The overall opinion on the effectiveness of risk management and internal control for 2015-16 was 'Acceptable' and therefore considered 'sound'.
 - The internal audit function had fulfilled its Terms of Reference, Strategy and provided assurance and added value through its delivery of the Committee's approved revised Internal Audit Plan for 2015-16, including traded schools audits and grant certifications and unplanned audits.
 - Work was continuing to manage performance and the cost of audit assignments.

- The work of Norfolk Audit Services for the year and the assurance provided assisted the Committee to reasonably assess the risk that the Financial Statements were not materially mis-stated due to fraud.
- The Annual Governance Statement for 2015-16 would make reference to the report and would be reported to Audit Committee in September 2016 for approval.
- The Internal Audit Function continued to comply with the Accounts and Audit Regulations 2015 and recognised standards including the United Kingdom Public Sector Internal Audit Standard (UKPSIAS).
- During the year the responsibility for Corporate Risk Management passed to the Chief Internal Auditor.

13 Risk Management Report

- 13.1 The Committee received the report by the Executive Director of Finance providing the Committee with the corporate risk register at June 2016, along with an update on the Risk Management Strategy 2016-19, and other related matters, following the latest review conducted during May 2016.
- 13.2 The following points were noted in response to questions by the Committee:
- 13.2.1 Some Members felt that the risks around hacking and terrorism should be the subject of a separate risk, rather than being included within Risk RM003 (Potential reputational and financial risk to NCC caused by failure to comply with statutory and/or national/local codes of practice).
- 13.2.2 The Executive Director of Community and Environmental Services reassured the Committee that any failures with regard to information management had tended to be due to letters being sent to the wrong addressee and that Norfolk County Council had not had IT systems hacked.
- 13.2.3 The Committee requested Gordon Boyd, Assistant Director Education, be asked to attend the next meeting to talk about the costs and commercial approach to reducing risk RM014a (The amount spent on home to school transport at significant variance to predicted best estimates).
- 13.3 The Committee **noted** the progress with Risk Management since the last Audit Committee meeting and the changes to the Corporate Risk Register and the progress with mitigating the risks.

The Committee considered agenda item 17 (Project Risk Update – Northern Distributor Route) as its next item of business.

14 Project Risk Update - Northern Distributor Route

- 14.1 The Committee received the report by the Executive Director of Finance providing a project risk update for the Northern Distributor Route (NDR) Project, as requested by the Audit Committee.
- 14.2 The Chairman welcomed Mr T McCabe, Executive Director of Community and Environmental Services and Mr Brett Rivett, Commercial Manager, NDR Team, who attended the meeting to respond to questions from the Committee, during which the following points were noted:

- 14.2.1 The NDR Team and Balfour Beatty were now co-located in an office on Roundtree Way which worked well, allowing people to talk to each other to resolve any problems or issues quickly as they arose.
- 14.2.2 The budget and risks were reviewed weekly, with an in-depth review carried out monthly. Work was undertaken with Balfour Beatty to counteract any potential risks. The Committee noted that Balfour Beatty was incentivised to ensure the project was completed on time and within budget and would receive a bonus if the project was completed early.
- 14.2.3 Members stated that they would not wish for an additional funding request to be made to full Council in the future as had happened before the contract had been signed. The Executive Director reassured the Committee that the additional £30m had been due to the estimates made in 2012 not anticipating the final price and consideration would be given for future projects to build in a projected increase in budget costs.
- 14.2.4 The Postwick Hub Scheme was a separate scheme to the NDR scheme and had no impact on the risks associated with the NDR.
- 14.2.5 The Executive Director explained that there were some peak hour congestion issues where vehicles entered the roundabout after crossing the old A47 bridge and advised that the use of a free-flow left slip lane to improve access onto Yarmouth Road was being considered to alleviate this congestion. The potential works had been provisionally estimated at some £50k to install and any final decision would be made after weighing up if the final cost would be money well spent or if it would be best to leave the risks of congestion as it was.
- 14.2.6 The Committee thanked the Executive Director and Commercial Manager (NDR Team) for attending.
- 14.5 The Committee considered and **noted** the risk management arrangements for the NDR Project.

15 Verbal Update on finalising the Statement of Accounts 2015-16 and Annual Governance Statement 2015-16.

- 15.1 The Committee received and **noted** the verbal update from the Executive Director of Finance on finalising the Statement of Accounts 2015-16 and Annual Governance Statement 2015-16.
- 15.2 The following points were noted during the update:
 - 15.2.1 The finalisation of the draft Statement of Accounts was on target with no concerns having been identified.
 - 15.2.2 The draft Annual Governance Statement needed to be published by the end of June 2016 after being signed by the Leader and Managing Director.
 - 15.2.3 The Annual Governance Statement included issues such as Information Management, Data Quality, Children's Services Improvement and County Farms.

- 15.2.4 Mr D Riglar, from external Auditors Ernst & Young, confirmed that any issues raised during the year had been discussed and that Ernst & Young were available to audit the accounts as soon as they were ready.

16 County Farms Update

- 16.1 The Committee received the report by the Executive Director of Finance updating the Committee on progress since the meeting held on 21 April 2016.
- 16.2 During the presentation of the report, it was noted that the Economic Development Sub-Committee did not have a meeting scheduled in September 2016. The Committee suggested the Chair of Economic Development Sub-Committee should convene an additional meeting of the sub-Committee so as not to delay the matter further.
- 16.3 The following points were noted in response to questions from the Committee:
- 16.3.1 The County Farms Improvement Board was a group of Norfolk County Council Officers which met fortnightly to brief the Executive Director of Finance on any issues and to provide evidence that improvements identified in the Audit reports were progressing satisfactorily.
- 16.3.2 Many of the recommendations, including the tightening up of processes and procedures as recommended in the Audit Reports, needed to be completed by the end of August 2016.
- 16.3.3 The response letters to the complainants were currently being drafted and would be sent out by the Chief Internal Auditor once they had been cleared and finalised.
- 16.3.4 The Complaints team was aware of the complaints and had confirmed they were happy for the Chief Internal Auditor to provide the written response. The responses would be full and if the complainants were unhappy with the response they had received, they would need to contact the Ombudsman, as the investigative process had been exhausted from Norfolk County Council's perspective.
- 16.3.5 The complaints and the responses were confidential matters and would be covered by Data Protection Act and Freedom of Information (FOI) rules.
- 16.3.6 The Chief Internal Auditor confirmed that the previously published Lines of Enquiry report had included all the issues raised by complainants.
- 16.3.7 Mr Ramsbotham did not accept that he had signed off the County Farms Working Group Report to the Corporate Resources Overview & Scrutiny Committee and the Chairman agreed to circulate a link to the public reports.
- 16.4 The Committee **noted** the update report, and that
- A County Farms Improvement Board had been established.
 - Responses were being made to the complainants.

17 Norfolk Pension Fund – External Auditor’s Audit Plan 2015-16.

- 17.1 The Committee received the report by the Executive Director of Finance introducing the External Auditor’s Audit Plan 2015-16 and welcomed Mr D Riglar from Ernst & Young to the meeting.
- 17.2 The following points were noted in response to questions from the Committee:
- 17.2.1 The Norfolk Pension Fund Audit Plan would be presented to the Pensions Committee for approval.
- 17.2.2 Tessa Gilbert, Executive Director in the UK Pensions Team, Ernst & Young, was responsible for signing off the report.
- 17.2.3 There was no change to the External Auditors fee of £27k.
- 17.2.4 The Norfolk Pension Fund draft Annual Accounts 2015-16 were currently being audited by the External Auditors.
- 17.3 The Committee **RESOLVED** to note:
- the External Auditor’s Audit Plan.
 - The scope and fees of the external auditors for audit, inspection and other work.
 - That the plan would be reviewed by the Pensions Committee for its approval.

18 Audit Committee Work Programme

- 18.1 The Committee received and **noted** the report by the Executive Director of Finance setting out the programme of work for the Committee and agreed the following items to be included on the agenda for the September meeting:
- Update on data quality and information security.
 - Update on County Farms.
 - Update from the Assistant Director Education on Risk RM014a (Amount spent on home to school transport at significant variance to predicted best estimates).
 - Update on Risk RM014B (Savings to be made on Adult Social Services transport are not achieved).


The meeting ended at 4.55pm.

CHAIRMAN



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Appendix A



Local audit procurement

Alan Finch
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Local Government Association

June 2016 www.local.gov.uk

Local audit – the story so far

- 31st March 2015 – final abolition of the Audit Commission
- Local Government Audit & Accountability Act 2014 – introduced local appointment of auditors
- Local Audit (Appointing Person) Regulations 2015 - enables an appointing body to procure on behalf of a number of principal authorities
- February 2016 – LGA announced that it would like to see Public Sector Audit Appointments Ltd (PSAA) become an appointing body
- May 2016 – DCLG issued market enquiry for Sector Led Body (SLB) . PSAA applied.

Options for Councils

- Procure your own external audit overseen by a specially set up independent Auditor Panel
- Joining with other councils to set up a joint independent Auditor Panel
- Opting-in to a sector led body (an 'appointing person') who will negotiate contracts and make the appointment on behalf of councils, removing the need to set up an independent Auditor Panel

Timings

- Existing contracts extended to end of 2017/18 accounting year
- Bodies need to have an auditor appointed for 2018/19 by December 2017 (statutory)
- Indicative timing for a decision by an authority to opt in; September 2016- January 2017.

What the appointing body will do

- Make appointment of auditors to each opted in authority
- Consult an opted-in body about a proposed appointment
- Oversee the independence of auditors appointed
- Specify fees
- Notify the opted-in body of variations to fees, giving reasons
- What else would be useful?

Why go with the appointing body?

- Hassle-free procurement
- Step back from appointment means easier to show auditor independence
- No requirement to have an auditor panel
- Opportunity for 'proper' contract management
- Why wouldn't you? Appointing locally does not provide significant benefits
 - Same process, same bidders, same prices?
 - Possible that 'bulk purchase' will bring benefits

Next steps

- Councils can express interest in opting in now (by notifying LGA) – 210 already signed up
- DCLG to appoint 'appointing person'.
- Appointing person invites all authorities to opt in
- Authority makes decision (Council decision) – late this year/ early next year
- Procurement during 2017
- New auditors in place April 2018

<http://www.local.gov.uk/external-audit>

Thank you!

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