Norfolk County Council

Audit Committee
Minutes of the Virtual Teams Meeting held on Thursday 15 October 2020 at 2pm

Present:

Cllr Ian Mackie – Chairman
Cllr Colin Foulger
Cllr Chris Jones
Cllr Mark Kiddle-Morris
Cllr Judy Oliver – Vice-Chair
Cllr Haydn Thirtle

Vacancy – Liberal Democrat Group

1 Apologies for Absence

1.1 An apology was received from Cllr Karen Vincent (Cllr Mark Kiddle-Morris substituted).

2 Minutes

2.1 The minutes from the Audit Committee meeting held on 30 July 2020 were agreed as an accurate record.

3 Declaration of Interests

3.1 Cllr Ian Mackie declared a non-pecuniary interest in agenda item 5 (Annual Statement of Accounts and Annual Governance Statement – List of Members of the Norfolk Pension Fund) as he was a Governor at Dussindale Primary School; a Town Councillor on Sprowston Town Council and a Town Councillor on Thorpe St Andrew Town Council.

3.2 Cllr Haydn Thirtle declared an interest as a Member of the Norfolk Pension Fund.

3.3 Cllr Judy Oliver declared an interest as the Chair of the Norfolk Pensions Committee.

4 Items of Urgent Business

4.1 The Chair wished to place on record his thanks to the Finance and Internal Audit Teams for their work during the Covid-19 pandemic in continuing to deliver services; he commended the work of the Finance Team in preparing the 2019-20 accounts and the budget for 2021-22 and also placed on record the Committee's thanks to Dr Louise Smith and the Public Health Team for the work they had carried out to mitigate and combat some of the localised outbreaks of covid-19.

The Committee **agreed** to consider agenda item 6 (Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2020 as its next item of business.

5 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2020.

5.1 The Committee received the report by the Executive Director of Finance and Commercial Services introducing 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 2020.

5.2 The Executive Director of Finance & Commercial Services commended the work of the Finance Team and departmental Finance colleagues in producing the accounts for 2019-20 whilst working in the different arrangements caused by the covid-19 pandemic.

5.3 The Committee welcomed David Riglar and Mark Hodgson from Ernst & Young to the meeting.

5.4 Mr Hodgson, from External Auditors Ernst & Young introduced the Norfolk County Council Audit Results Report during which the following points were noted:

5.4.1
- The preparation of the financial statements of accounts during the lockdown period, followed by the completely remote audit had proved a significant challenge for everyone involved.
- Specific audit considerations on the challenges brought about by covid from an accounting and financial reporting perspective were around property, plant and equipment valuations; going concern and pension asset valuations.
- Due to the covid-19 pandemic the latest publication date for the accounts had been moved to 30 November 2020.
- The materiality level set for Norfolk County Council was £26.75m.
- The following updates to the published report were noted:
    - Pension Assurance – work had been completed on the Pension Fund aspect, and the conclusions documented. The assurance letters would be finalised in the next couple of weeks.
    - The conclusions and judgments about how Hymans, the Actuary, had made some assumptions around the McLoud judgement were currently being finalised.
    - No update was yet available for the property, plant and equipment valuations.
    - There were no issues for the Audit Committee to consider from file work and review completed on the Norse Group audit and the reliance on PWC as the component auditor.
    - Audit differences found during the audit process had identified one adjusted numerical difference of £5.89m which was well below the materiality level and had been identified as a school development originally classified as asset under construction and which had actually opened. It had been moved to an operational asset within the revised statements.

- The other disclosure updates were around the addition of a going concern note and additional narrative around estimation uncertainty.
- There was one unadjusted audit difference resulting from the consolidation of Norse into the Group Accounts as Norse, being a private company had adopted the IFRS 16 lease standards in its single entity accounts, whereas Local Government Accounts did not need to include this standard. Officers had chosen not to unconsolidate it within the adjustment which amounted to £10.35m – well below the materiality level and which would not impact on the overall audit opinion. The Committee was advised to consider the point and concur with management's judgement.

- Regarding Audit Risks, the Committee noted the following:
  - Fraud risks – there were no indications of management override and no specific fraud issues in any of the specified areas had been identified.
  - Pension Liability – The External Auditors were concluding work on this aspect. The McLeod Judgement was an issue for consideration for a second year and this was being worked through with officers to provide a revised IS19 actuarial assessment.
  - Schools Transferring to Academy Status - there were no issues to report.
  - Property, plant and equipment – the only classification issue was a school moving from an asset under construction to an operational asset of £5.8m.
  - Fair Value Assets - Work was being concluded on fair value assets with the External Auditors property experts.
  - Private Finance Initiatives - there were no matters to draw to the attention of the Committee.
  - Dedicated Schools Grant - there were no matters to draw to the Committee's attention regarding the dedicated schools grant, although it was noted there would be no statutory override in relation to 2019-20 and the accounts and therefore the accounting treatment officers had adopted was correct for this period.
  - Going Concern was a major area of consideration for the auditors following covid-19.
  - Going Concern - As no Local Government funding settlement was in place, EY had considered management's assessment appropriate and had considered liquidity to support cash flow; reserve position; budget overruns. The External Auditors had also stress-tested all of those and was comfortable that going concern was the appropriate basis to prepare the accounts.

- The External Auditors confirmed their conclusion of an "Unqualified Opinion".
- The main focus regarding Value for Money had been on financial resilience. The budget process, savings assumptions, savings delivered in the financial year and financial monitoring approaches had been reviewed and there had been no evidence to suggest that the arrangements were unsatisfactory. It was expected that an Unqualified and Value for Money conclusion would be made.

- The external Auditors had not yet received notification from the National Audit Office, about the procedures for completing whole of government accounts and consolidating the Norfolk County Council accounts into UKPLC. The consolidation work would need to be concluded before the audit certificate could be issued.
- The External Auditors thanked the Finance Team for their cooperation over the last 2-3 months.

5.5 The Chairman welcomed the expectation of an unqualified set of accounts which was an excellent achievement, particularly following the covid pandemic and thanked the External Auditors for their work in achieving that position.

5.6 The Committee placed on record its thanks to Ernst & Young for the excellent report which had been completed under very difficult circumstances.

5.7 Mr Hodgson introduced the Norfolk Pension Fund Audit Results Report during which the following points were noted:

- The materiality level the External Auditors were working to for the Pension fund was £36.2m.
- Work had been completed apart from the External Auditors writing to the Admitted Body Auditors as part of the IS19 Assurance work around the triannual valuation and assurance.
- There was one unadjusted audit difference of £13.72m which was due to a timing difference and asset values based on valuation at 31 December 2019. This was not a material factor and not adjusting the figure would not have an impact on the audit opinion, although it was for the Committee to consider and concur with management's view that the figure should not be adjusted.
- There were no numeric adjusted errors to any of the Statements.
- There was one disclosure which was in relation to a going concern; the circumstances of which were set out in the report.
- There was no indication of any management override from the audit testing relating to fraud risk.
- The pooled property fund held by Norfolk Pension Fund had been considered, but it was concluded it was not a significantly proportional balance and would not have an impact given that there were currently some uncertainties around valuation within the property sector.
- The External Auditors had challenged the going concern assessment and was now comfortable that the going concern assessment was the basis the accounts should be prepared on and that the additional disclosure prepared was adequate.
- It was confirmed that the External Auditors would be able to issue an unqualified audit opinion on the Pension Fund statements.
- The Pension Fund finance team were thanked for all their help during the audit.

5.8 The Chairman welcomed the achievement of another unqualified set of accounts.

5.9 The Vice-Chair, as Chair of the Norfolk Pensions Committee, thanked the Pension Fund staff for completing the work during the covid shut-down and added her appreciation for the effort which had gone into the accounts.

5.10 The Committee placed on record its thanks to everyone concerned in producing the accounts.

5.11 In response to a question from the Committee about the level of volitivity in the net pension liabilities and how the Committee could be reassured the Pension Fund could meet those challenges, the following points were noted:

- The pension liability figure was the amount of money which would be required if everyone in the pension fund needed to be paid out immediately. The Actuary provided Pension Fund officers and the Pensions Committee with quarterly updates as to the extent to which the Fund was funded, which was currently at approximately 90%. The actuarial model fluctuated due to differences in demographics, interest rates and bond rates which made it difficult to model where it would be at any given point.

- The membership of the Norfolk Pension Fund remained relatively static, although backdated additional payments and judgements such as the McLoud judgement could have a significant impact on the liability.

- The Head of Funding & Investment explained the difference in context between the accounting standard IS19 and the actual approach to valuing liabilities on the triennial valuation by the actuary and where they were in accordance with local government regulations and actuarial standards.

5.12 The Committee thanked everyone concerned in the excellent report and for the work completed by the Pension Fund and External Auditors.

5.13 The Committee considered the report and **RESOLVED** to **note**:

- The matters raised in the Ernst & Young Norfolk County Council and Norfolk Pension Fund Audit Results Reports before Ernst & Young issue their audit opinions.

6 Annual Statement of Accounts and Annual Governance Statement 2019-20

6.1 The Committee received the report by the Executive Director of Finance & Commercial Services presenting Norfolk County Council's Annual Statement of Accounts and Annual Governance Statement 2019-20.

6.2 A copy of the updates to the Statement of Accounts since the agenda had been published had been circulated to the Committee before the meeting and are attached at Appendix A to these minutes.

6.3 The following information was noted in response to questions from the Committee:

6.3.1 The valuation of Heritage Assets was based on insurance valuations where known. When the accounting rules were introduced a few years ago regarding heritage assets, there were some assets, eg paintings, that did not have a valuation. Valuations, based on insurance valuations, were available for some wind pumps and windmills and these had been used. Therefore, to comply with the accounting rules and guidance a value was given to the heritage assets and had been added to the balance sheet.

6.3.2 Norfolk County Council held very little investment property. It jointly owned, with Norwich City Council, the Norwich North Industrial Estate near the airport. The vast majority of investments were made up of cash held by banks and money market funds. No money had been invested in pooled property funds.

6.3.3 The Committee considered the report and **RESOLVED** to:

1. **Agree** that, following annual reviews, the systems of internal control and internal audit are considered adequate and effective;
2. **Approve** the Annual Governance statement;
3. **Note** the non-material audit differences set out in paragraph 6 of the report, with further details in paragraph 6.6 of the Annex to the report;
4. **Approve** the Council's 2019-20 Statement of Accounts on the basis that they may be subject to non-material amendments and clarifications resulting from further audit work prior to certification by the Executive Director of Finance and Commercial Services after consultation with the Chair and Vice-Chair of the Audit Committee.

7 Audit Letters of Representation 2019-20

7.1 The Committee received the report by the Executive Director of Finance and Commercial Services introducing the audit letters of representation of Norfolk County Council and of Norfolk Pension Fund for 2019-20.

7.2 A copy of the updated draft Letters of Representation was circulated to the Committee before the meeting started and is attached at Appendix B.

7.3 The Committee noted that the two draft Letters of Representation in respect of the Norfolk County Council and Norfolk Pension Fund would be updated to reflect the views of the External Auditors when they had completed their work, and would be signed by the Chair and Executive Director of Finance & Commercial Services when they were ready.

7.4 The Committee considered the report and **RESOLVED** to:

- **Note** the unadjusted audit differences set out in paragraphs 6.2 and detailed in paragraph A5 and A7 of the draft Letters of Representation attached to the report.
- **Endorse** the Letters of Representation in respect of the Pension Fund and of Norfolk County Council and, on the basis that they may be subject to non-material amendments and clarifications resulting from further audit work prior to signature, delegate the Chair of the Audit Committee and Executive Director of Finance & Commercial Services to sign the letters on behalf of the Council.

8 Norfolk Audit Services Report for the Quarter ending 30 September 2020.

8.1 The Committee received the report by the Executive Director of Finance & Commercial Services updating it on the overall opinion on the effectiveness of risk management and internal control and setting out the work to support the opinion and any matters of note.

8.2 In introducing the report, the Committee's attention was drawn to the following:

- Two further audit opinion reports had been completed since the report was published.
- Work was progressing on the audit opinion work for the current year.
- The audit plan had been adjusted to reflect that, if a second wave of covid did happen, the work of frontline or back office services would not be hindered by audit work.
- Grant certification work should not be affected by a second wave of covid and processes had been established to enable the work to continue.
- Risk assessments were currently being completed to recommence school audit visits. It was expected this work would restart after the October half-term.
- Parliament was half-way through a second reading of the Public Disclosure Act and plans were underway to ensure that if the Bill became law the team was ready to implement any changes.

8.3 In response to a question, the Committee was reassured that any corporate high priority recommendations following audits were followed up with the departmental owner of the recommendations. Where recommendations were medium or low priority, they were not routinely followed up but covered off at the next audit as a matter of routine. The Committee also noted that if recommendations were not progressed, there were other routes the Internal Audit Team could explore to escalate problems.

8.4 The Committee considered the report and **RESOLVED** to:

- **Agree** the key messages featured in the quarterly report; that the work and assurance meet their requirements.

9 Risk Management

9.1 The Committee received the report by the Executive Director of Finance and Commercial Services referencing the corporate risk register as it stood in October 2020, following the latest review conducted during September 2020.

9.2 In introducing the report, the Risk Manager highlighted those risks which had been updated since the last meeting.

9.3 Regarding Risk RM023 (Failure to respond to changes to demography, funding and government policy, with particular regard to Adult Services), the target date had moved to March 2022. The Risk Manager apologised for not including the update in the risks updated since the last meeting and explained that the previous target date had reflected the expectation that Adult Social Care would have received the Government Green Paper. The Executive Director of Finance & Commercial Services reiterated that it was hoped some certainty would be received by 2022, but in the meantime, services would continue to be delivered to Norfolk residents in the current budgetary constraints.

9.4 The Committee considered the report and **RESOLVED** to **agree**:

- The key messages as per section 2.1 of the report.
- The key changes to the generic corporate risk register (Appendix A)
- The corporate risk heat map (Appendix B)
- The latest generic corporate risks (Appendix C)
- Scrutiny options for managing corporate risks (Appendix C)
- Background Information (Appendix E).

10 Work Programme

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

16.2 The Committee **agreed** that the proposed report on Covid-19 Recovery Update would be included as part of the NAS Quarterly Report for Quarter ended December 2020, as long as it contained sufficient information and detail for the Committee to consider.

16.3 The Committee considered and **noted** the report.

The meeting ended at 3.15 pm

Chairman

Appendix A

Changes to statement of accounts text since draft circulated

Note 47 Going Concern: Additional text

The Council has undertaken cash flow modelling through to March 2022 which demonstrates the Council's ability to work within its Capital Financing Requirement and Cash management framework, with a minimum headroom of £192 million.

The Council thereby concludes that it is appropriate to prepare the financial statements on a going concern basis, and that the Council will be a going concern, 12 months from the date of the audit report, based on its cash flow forecasting and the resultant liquidity position of the Council, taking account of the cash and short term investment balances of £177 million at 30 September 2020 and the ability for additional borrowing under the Treasury Management Policy of up to £140 million. This demonstrates that the Council has sufficient liquidity over the same period, assuming forecast additional borrowings of £140 million.

Note 44 Assumptions made about the future and Other Major Sources of Estimation Uncertainty

- **Amended text**

Since 31 March 2020, Norfolk County Council has been in regular contact with its valuers. At no stage has any evidence come to light that the value of the Norfolk County Council properties portfolio has materially reduced or increased since valuations were undertaken during the 5 year valuation cycle. This is supported by external indices including Office for National Statistics house price inflation, and BCIS indices which underpin a significant proportion of the valuation of such operational Land and Property. The council has been informed that the 'material valuation uncertainty' clause has now been lifted for more recent certain valuations, with the RICS statement amended to state that "some property markets have started to function again, with transaction volumes and other relevant evidence returning to levels where an adequate quantum of market evidence exists upon which to base opinions of value". As a result of all these factors, the Council considers its 31 March 2020 property valuation remain materially accurate.

Group accounts introduction

A short note added stating that Educator Solutions Ltd was "dissolved on 13 October 2020".

Audit Committee 15 October 2020 – tabled information

Representations added to the draft Letter of Representation at request of auditors

Paragraph	Representation added
A1 Financial Statements and Financial Records	We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
A5 Unadjusted audit differences	Group account provisions: provision for repayment of a grant to Norse Development Company which according to the terms of the grant could be recalled. The amount of the grants is approximately £3m. As this is the maximum exposure it is not considered material to the Group accounts.
C7 Information Provided and Completeness of Information and Transactions	From the date of our last management representation letter to you, through the date of this letter, we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.
F Accounting Estimates	1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. 2. In respect of accounting estimates recognised or disclosed in the financial statements: • We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent. • The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework. • The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures. • No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.
H1 Going Concern	The Group and Council has prepared the financial statements on a going concern basis and that Note 47 to the Council's financial statements discloses all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our future financial plans and the veracity of the associated future funding allocations from the Department of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.
L1 Retirement benefits	On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.

Appendix B

Representations added to the draft Letter of Representation at request of auditors

Paragraph	Representation added
A1 Financial Statements and Financial Records	We have disclosed to you any significant changes in our processes, controls, policies and procedures that we have made to address the effects of the COVID-19 pandemic on our system of internal controls.
A5 Unadjusted audit differences	Group account provisions: provision for repayment of a grant to Norse Development Company which according to the terms of the grant could be recalled. The amount of the grants is approximately £3m. As this is the maximum exposure it is not considered material to the Group accounts.
C7 Information Provided and Completeness of Information and Transactions	From the date of our last management representation letter to you, through the date of this letter, we have disclosed to you any unauthorized access to our information technology systems that either occurred or to the best of our knowledge is reasonably likely to have occurred based on our investigation, including of reports submitted to us by third parties (including regulatory agencies, law enforcement agencies and security consultants), to the extent that such unauthorized access to our information technology systems is reasonably likely to have a material impact to the financial statements, in each case or in the aggregate.
F Accounting Estimates	1. We believe that the significant assumptions we used in making accounting estimates, including those measured at fair value, are reasonable. 2. In respect of accounting estimates recognised or disclosed in the financial statements: • We believe the measurement processes, including related assumptions and models, we used in determining accounting estimates is appropriate and the application of these processes is consistent. • The disclosures relating to accounting estimates are complete and appropriate in accordance with the applicable financial reporting framework. • The assumptions we used in making accounting estimates appropriately reflects our intent and ability to carry out specific courses of action on behalf of the entity, where relevant to the accounting estimates and disclosures. • No subsequent event requires an adjustment to the accounting estimates and disclosures included in the financial statements.
H1 Going Concern	The Group and Council has prepared the financial statements on a going concern basis and that Note 47 to the Council's financial statements discloses all of the matters of which we are aware that are relevant to the Group and Council's ability to continue as a going concern, including significant conditions and events, our future financial plans and the veracity of the associated future funding allocations from the Department of Housing, Communities and Local Government, the sufficiency of cash flows to support those financial plans.
L1 Retirement benefits	On the basis of the process established by us and having made appropriate enquiries, we are satisfied that the actuarial assumptions underlying the scheme liabilities are consistent with our knowledge of the business. All significant retirement benefits and all settlements and curtailments have been identified and properly accounted for.