

Audit Committee
Minutes of the Meeting held on Thursday 22 September 2016 at
2pm in the Colman Room, County Hall, Norwich

Present:

Mr I Mackie - Chair
Mr B Bremner
Mr H Humphrey
Mr J Joyce
Mr D Ramsbotham
Mr N Shaw
Mr R Smith – Vice-Chair

1 Apologies for Absence

There were no apologies for absence.

2 Minutes

- 2.1 Upon being put to the vote, with 3 votes in favour of approving the minutes and 3 votes against, the Chairman exercised his casting vote and the minutes of the meeting held on 16 June 2016 were agreed as a correct record and signed by the Chairman.

3 Declaration of Interests

- 3.1 Mr I Mackie declared an interest as he was a Director of Norse and a Member of the Yare Education Multi-Academy Trust.
- 3.2 Mr N Shaw declared an other interest in agenda item 12 (Risk Management Report) as he worked in IT.
- 3.3 Mr H Humphrey declared an other interest as a Governor of Marshland St James School, which had joined the Norfolk County Council Pension Fund.

4 Items of Urgent Business

- 4.1 The Chief Internal Auditor advised that, at Norfolk County Council's request, the Information Commissioner's Office would be carrying out an audit of the Norfolk County Council Information Management Systems, particularly within Children's Services and Adult Social Services. The Information Management team was preparing for the Audit with the County Leadership Team monitoring the review. The main focus of the audit was to review data management, its protection and adherence to the Data Protection Act. Once the review had been completed, the report would be published and the results brought to a future Audit Committee meeting.

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

5.1 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.

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

5.2.1 With regard to the "Off-Payroll working in the public sector" update circulated by Ernst & Young, the Executive Director of Finance reassured the Committee that preparations were being made to ensure Norfolk County Council complied with the Regulations, once they were implemented following the consultation.

Off-Payroll working in the public sector. Changes had been proposed to the way individuals who were contracted to work for local authorities by another company paid their tax. Currently, the obligation rested with the intermediary company who was responsible for assessing whether their engagements were subject to IR35 and accounting for PAYE and National Insurance Contributions (NIC). From 6 April, this responsibility, and the liability for paying the correct tax would be shifted to the public sector body which paid the company. In order to simplify this and increase the likelihood of compliance, the Government had suggested that workers were automatically considered to fall within the scope of the new rules if there was the right to personal service and the engager decided, or had the right to decide how the work should be done.

5.2.2 Following the National Minimum Wage audit carried out on an Adult Social Services care provider to ensure the national minimum wage requirement was being complied with, the Chief Internal Auditor agreed to check with the Contract Management and Procurement Management teams that the requirement was being applied across the whole Council.

5.2.3 The National Minimum Wage requirement did not feature on the Corporate Risk Register as a separate risk as it was considered that this fell under risk RM004 (The potential risk of failure to deliver effective and robust contract management for commissioned services). The Committee was reassured that Norfolk County Council was aware of the reputational risk and its responsibilities under the National Minimum Wage requirements.

5.2.4 The Whistleblowing Policy report and the Fraud Analysis report would be brought to the Committee in January 2017 for consideration. The delay had been caused by the need to carry out other urgent work which had meant these reports had been reprioritised. Members were reassured that the current Norfolk County Council Whistleblowing Policy remained fit for purpose.

5.2.5 Members requested that the Fraud Analysis update report be brought to the next meeting, as there had been some considerable delay since the Committee had first requested fraud awareness training be rolled out across the whole Council.

5.2.6 The Committee was pleased to note that the Traded School Audit initiative was working well. Fees were calculated on a cost-recovery basis. Health checks were proving popular and where schools had not received an audit for a number of years, they were sent a letter informing them that a health check was available if they wished to take up the offer. The audits provided assurance for

Governors and Headteachers that their responsibilities for internal controls were being met.

5.2.7 Government advice was still awaited on the impact from the vote to leave the EU on the France (Channel) England Interreg Audit Authority. It was hoped that more information may be contained in the Government's Autumn statement. The key contact for the project was Vince Muspratt, Acting Assistant Director - Economic Development & Strategy.

5.3. 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.

6 Norfolk Pension Fund Governance Arrangements.

6.1 The Committee considered the report by the Executive Director of Finance and Head of Pensions outlining the ongoing governance arrangements of the Norfolk Pension Fund.

6.2 During the presentation of the report, the Committee noted that the Pensions Oversight Board had been established and operational for twelve months. It had held four meetings held to date. A review of the first year is to be undertaken shortly.

6.3 The following points were noted in response to questions by the Committee:

6.3.1 The Pensions Oversight Board had identified no matters that the Audit Committee needed to be aware of. In future reports a comment would be included to identify if there were any issues the Audit Committee needed to consider.

6.3.2 The process to complete the statutory valuation of the Fund as at the 31st March 2016 is currently underway. The valuation will certify the employer contribution rates payable for the three years commencing 1st April 2017. The County Council's employer contribution rate is subject to a Stabilisation Mechanism. This allows employer contribution to increase more slowly at times of funding pressure, with the proviso they decrease more slowly when things improve.

6.3.3 The County Council's 2016-17 employer contribution was made up of two elements; a future service rate of 15.5% of pensionable payroll and a cash deficit recovery element of £10.2m. The Executive Director of Finance confirmed that these two elements will be clearly set out in future budget reports.

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

7 Governance, Control and Risk Management of Treasury Management.

7.1 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.

7.2 During the discussion, the following points were noted:

7.2.1 The Membership of the Treasury Management Panel was confirmed as:

Mr M Baker
Mr B Iles
Mr I Mackie
Mr A Proctor
Ms S Whitaker

Mr T Coke
Mr C Jordan
Mr S Morphew
Mr B Watkins

7.2.2 The Chief Internal Auditor confirmed that he was not aware of any issues identified in the internal audit detailed testing of key controls. [It was confirmed after the meeting by the Chief Internal Auditor, that substantive testing was not required or performed to support the external audit in 2015-16].

7.2.3 Members suggested that the wording "Treasury management in local authorities is extremely well regulated" should be amended to say "Treasury management in local authorities is actively regulated". Members were reassured that Department for Communities and Local Government guidance and codes of professional practice supplement statutory regulation in respect of Treasury Management activities.

7.3 The Committee **noted** the contents of the report, which provided assurance as to the adequacy and effectiveness of the governance, control and risk management arrangements for Treasury Management.

8 Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the Year ended 31 March 2016.

8.1 The Committee received the report by the Executive Director of Finance 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 2016. The Committee welcomed Mark Hodgson, Executive Director - Ernst & Young LLP who presented the report.

8.2 The following points were noted in response to questions by the Committee:

8.2.1 It had been proposed that one uncorrected audit difference which was greater than £0.697m, identified during the audit, should not be amended in the 2015-16 accounts due to the number of records which would need to be amended. This would be amended in the 2016-17 accounts. The Committee was reassured that this was not a material sum and there was no impact on the bottom line.

The Committee **agreed** that the Uncorrected audit difference should not be adjusted in the 2015-16 accounts.

- 8.2.2 The Auditor Fees could not be confirmed as yet until all work had been completed. The Committee was advised that there may be a small additional fee, which reflected the fact that a new audit team was in place and had identified a few things which needed to be done differently.
- 8.2.3 The Executive Director - Ernst & Young LLP thanked the Norfolk County Council officers for their full co-operation throughout the audit.
- 8.2.4 The Committee congratulated the Finance team on its excellent work and in pulling together the accounts.
- 8.2.5 The Committee also recorded its thanks to the Pensions Audit Team for their work in auditing the accounts.
- 8.2.6 The Committee noted that the 2016-17 accounts would be signed off using existing timescales, but the signing off of the 2017-18 accounts would need to be completed by the end of July 2018.
- 8.2.7 The Committee was pleased to note that an unqualified audit opinion was anticipated, and there was a positive value for money conclusion.
- 8.3 The Committee **RESOLVED** to **note** the report and **agreed** that the Uncorrected audit difference should not be adjusted in the 2015-16 accounts.

9 Annual Statement of Accounts and Annual Governance Statement 2015-16.

- 9.1 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 2015-16 which had been subject to external audit by Ernst & Young.
- 9.2 The Committee had received training on the approval of the accounts immediately prior to the meeting.

During the presentation of the report, the Committee noted that there had been some minor changes since the publication of the agenda, a copy of which was circulated to the Committee and is attached at Appendix A to these minutes.

- 9.3 The following points were noted in response to questions by the Committee:
 - 9.3.1 The Head of Budgeting and Financial Management agreed to let the Vice-Chair have details of the Children's Services overspend compared with the 2014-15 accounts.
 - 9.3.2 It was confirmed that wording in the Children's Services section of the Annual Governance Statement had been agreed by the Managing Director and the Executive Director of Children's Services.
- 9.4 The Committee **RESOLVED** to:

- Note that, following annual reviews, the system of internal control and internal audit were considered adequate and effective for the purposes of the relevant regulations;
- Approve the Annual Governance Statement (at Appendix 2 of the report) and commend the final statement for signature by the Leader and Managing Director.
- Approve the Council's 2015-16 Statement of Accounts (at Appendix 3 of the report).
- Note the Summary of the Statement of Accounts (at Appendix 4 of the report) to be published alongside the full accounts.

10 Letters of Representation 2015-16

10.1 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 2015-16.

10.2 The Committee **RESOLVED** to

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

11 Revised Internal Audit Plan 2016-17

11.1 The Committee received the report by the Executive Director of Finance setting out the revised Internal Audit Plan 2016-17.

11.2 In response to a question from the Committee, the Chief Internal Auditor confirmed that the figure of 709 days was considered sufficient to support the audit opinion. This figure covered standard work and the Chief Internal Auditor was comfortable that any additional work could be undertaken if required, either by bringing in additional support from BDO LLP or employing temporary staff. Members were reassured that the workload of the Internal Audit Team could usually be adjusted to meet any urgent audits.

11.3 The Committee **RESOLVED** to note:

- Internal Audit's strategy and plan, contribute to an effective system of internal audit and that those arrangements were compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards and the Local Authority Guidance Note 2013 and any other relevant statements of best practice.
- The Internal Audit Strategy remained the same for the second half of the year (Appendix A of the report). The actual days available within the strategy to deliver the audit opinion work remained sufficient to support the opinion.
- The revised Internal Audit Plan to support the opinion for the whole year (Appendix Bi of the report) remained at 709 days, which included contractor time. The opinion work plan would be managed flexibly to support the traded

schools approach, while the service continued to develop. Some audits timed for quarters 1 and 2 were carried into the remainder of the year as work in progress.

- The three year Internal Audit Strategy agreed in January 2016, remained largely unchanged and would be refreshed in January 2017.
- The overall target for 2016-17 final reports and draft reports for audits were 30 and 7 respectively, to be reported in the Annual Internal Audit Report.

12 Risk Management Report

12.1 The Committee received the report by the Executive Director of Finance providing the Committee with the corporate risk register at the end of August 2016, along with an update on the Risk Management Strategy 2016-19, and other related matters, following the latest review conducted during August 2016.

12.2 The Committee welcomed Michael Bateman, Head of Education Inclusion Service and Richard Snowden, Head of School Admissions Service to the meeting. They had been asked to attend the meeting to update the Committee on the action being taken to mitigate Risk RM014a (The amount spent on home to school transport at significant variance to predicated best estimates), during which the following points were noted:

12.2.1 As the service was a “needs led” service, there were real difficulties in trying to reduce spend in this area. The Education Inclusion Strategy had been developed and implemented to assist in trying to educate children with special educational needs (SEN) within their local schools, local mainstream schools or local specialist provision, as this would reduce travel time for children and therefore reduce travel spend also within the SEN element of the overall home to school transport.

12.2.2 The £26m home to school transport budget was broken down as follows:

SEN element	£9.9m
Post 16 element	£3.3m
Mainstream transport	<u>£13.4m</u>
Total:	£26.6m

12.2.3 Work was undertaken with the Passenger Transport Unit to identify and use the cheapest appropriate transport available.

12.2.4 Norse held a large contract to transport children to special needs schools.

12.2.5 13,500 children were transported to mainstream schools every day with a further 1,950 children transported under our SEND duties. The vast majority of Post-16 transport was undertaken on public transport with Norfolk County Council paying a contribution towards the cost.

12.2.6 Every student requiring specialist transport would be subject to an assessment to ensure the method of transportation remained suitable for individual needs and that it was the most appropriate means of transporting a child to and from school.

- 12.2.7 The Committee was reassured that the Passenger Transport Unit procured both Children's Services and Adult Social Care and link transport requirements wherever possible, although the school transport requirements in Children's Services required transport to meet school sessions and this may not link readily with the needs of users in Adult Social Care. The Chief Internal Auditor confirmed consideration would be given to where transport costs risk mitigations could complement each other.
- 12.2.9 The Committee asked the Head of Education Inclusion to contact Members if there were any areas in which they could help.
- 12.2.10 The Committee thanked the Head of Education Inclusion and the Head of Schools Admissions Service for attending and providing the update.
- 12.3. In response to questions by the Committee, the following points were noted:
- 12.3.1 All risks assigned to Anne Gibson, Executive Director of Resources, would be reallocated, as this post had been deleted.
- 12.3.2 With regard to RM010 (The risk of the loss of key ICT systems including Internal connection, telephony, communications with cloud provided services, or the Windows and Solaris hosting platforms), it was suggested that the target score of 3 was unrealistic. In response, the Committee requested that Geoff Connell, the Head of ICT and IM attend a future meeting to update the Committee on the actions being undertaken to mitigate the risk, particularly with regard to the risk of hacking and Ransomware.
- 12.4 The Committee considered and **noted** the report.

13 Local Audit and Accountability Act 2014 – External Auditor Appointments Implementation.

- 13.1 The Committee received the report by the Executive Director of Finance setting out the options for the Council to appoint a local auditor by 31 December 2017, to be in place by April 2018, to undertake the audit of the Council's financial statements for 2018/19 onwards.
- 13.2 In response to a question, it was confirmed that those Norfolk Councils that had responded to the request for information about whether they would be opting into the scheme had confirmed they would be taking part in the Public Sector Audit Appointments Ltd (PSAA) scheme.
- 13.3 The Committee **RESOLVED** to

Note

- The requirements and timescales set out in the Act.
- The advantages and disadvantages of the available options for procuring an External Auditor (Local Auditor) as required by the Act.

Agree:

- To recommend the Council to direct the Executive Director of Finance to formally "opt in" with the Government's designated appointing person (in

this case Public Sector Audit Appointments Ltd (PSAA)), as allowed under Section 17 of the Act, as the preferred option offering the greatest potential economic and efficiency savings.

14 Audit Committee Work Programme

- 14.1 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 January 2017 meeting:

Summary of the review by the Independent Commissioners Office.
Update on the roll out of the fraud awareness training.
Whistleblowing Policy Review report.

After receiving advice from the Monitoring Officer, Mr I Mackie left the meeting for the next item and Mr R Smith, Vice-Chair, took the Chair.

15 County Farms Update

- 15.1 The Committee received the report by the Executive Director of Finance providing an update to the report presented to the Committee at its meeting on 16 June 2016.
- 15.2 The following points were noted in response to questions by the Committee:
- 15.2.1 The Chief Internal Auditor would circulate, to members of Audit Committee, the Terms of Reference for the County Farms Follow Up Audit, which had previously been circulated to the County Farms Advisory Board (CFAB) for their comments.
- 15.2.2 The Chief Internal Auditor confirmed that the 10 days allocated on the Audit Plan was to follow up on the recommendations from the audit report and check that robust plans were in place. The 10 days included reviewing the general systems, for example collection of rent and how exceptions were reported and should be sufficient to plan the work and produce the report. If more than 10 days was needed, additional time would be allocated as necessary.
- 15.2.3 The results of the County Farms follow-up audit would be reported to the Section 151 Officer and the Head of Property. The follow-up audit would provide assurance on the specific findings, recommendations and action plans agreed following the original audits.
- 15.2.4 The Committee was advised that no new complaints had been received since the audit reports had been published.
- 15.2.5 The Executive Director of Finance explained that he had requested an audit into the Governance of County Farms so he could understand how the estate had been run.

The audit had identified a number of issues in the management of County Farms, with 30 recommendations relating to the need for Norfolk County Council to be a better landlord. The remaining 7 recommendations were around the governance arrangements. The Economic Development Sub-

Committee had debated the report and the update from the County Farms Advisory Board. The Economic Development Sub-Committee had asked for some work to be undertaken on options. A report would be presented to the Policy & Resources Committee at its meeting on 26 September about the principle of establishing a Property Committee, which, if it was agreed by Policy & Resources Committee would ask the Constitution Advisory Group to consider the role and functions of such a Committee, as well as any required changes to the Constitution. This option could fulfil some of the decision-making requirements identified in the County Farms audits. The recommendations from the Constitution Advisory Group would be presented to full Council for approval.

- 15.2.6 The Committee was reassured that the Executive Director of Finance would always instruct his officers to adhere to the Norfolk County Council Constitution.
- 15.2.7 The Chief Internal Auditor advised that the Audit Committee needed to consider an additional recommendation from the Economic Development sub-Committee and he apologised for omitting this from the recommendations. The additional recommendation was to:
- Agree that it was no longer necessary to convene a Task and Finish Group, as the review by the CFAB and Economic Development sub-committee had effectively undertaken that role.
- 15.2.8 Some Members felt that, following the audits, County Farms could work well in the future as long as the recommendations were actioned.
- 15.2.9 The Recommendations in the report, including the additional recommendation set out in paragraph 15.2.8 above, were put to the vote. With 3 votes in favour and 3 votes against, the Vice-Chair exercised his casting vote in favour and it was **RESOLVED** to:
- Note that full and final responses had been made to all but four complainants, and
 - Note that a County Farms systems audit had been included in the 2016-17 Internal Audit Plan for November/December 2016, which would include following up the agreed actions, to be reported to the Audit Committee in January 2017.
 - Agree that it was no longer necessary to convene a Task and Finish Group, as the review by the CFAB and Economic Development sub-committee had effectively undertaken that role.

The meeting ended at 5.05 pm.

CHAIRMAN



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Changes made to Statement of Accounts after Audit Committee agenda published

Agenda page	Note / Line	Type of correction	Detail
102	Narrative report, Service overspends and underspends	Narrative clarification	Narrative implied overspend costs were associated with delivery of savings: now clearer that overspends were <u>offset</u> by savings.
134	Note 5. Material Items of Income and Expense	Drafting error in detailed line item.	Total shown for net loss on disposal (£34.057m), not correctly updated in draft, and not required for disclosure, therefore removed.
151	Note 15 Financial instruments, Financial liabilities table.	Additional disclosure	Short term creditors (£104,873) added to financial liabilities table. Total updated accordingly.
167	Grants and Contributions less than £200,000	Drafting error in detailed line item and table total.	Line item corrected from “880” to “1,035” Total line item corrected from “94,011” to “94,166”.

Other general drafting improvements:

“Automatic” cross referencing to note 12 did not all carry across to the agenda paper: these have been reinstated.

There are a number of alignment and layout adjustments to improve document presentation prior to publication.

Ernst & Young’s “Independent Auditors’ Report to the Members of Norfolk County Council” will be added when received.