

Audit Committee
Minutes of the Meeting held on Thursday 26 January 2017 at
2pm in the Colman Room, County Hall, Norwich

Present:

Mr I Mackie - Chairman
Mr H Humphrey
Mr J Joyce
Mr D Ramsbotham
Ms C Rumsby
Mr N Shaw
Mr R Smith – Vice-Chairman

1 Apologies for Absence

An apology for absence was received from Mr B Bremner (Ms C Rumsby substituted).

2 Minutes

2.1 The minutes from the Audit Committee meeting held on 22 September 2016 were agreed as an accurate record and signed by the Chair.

3 Declaration of Interests

3.1 Mr N Shaw declared an other interest in agenda item 6 (Risk Management Report) as he worked in IT.

3.2 Mr I Mackie advised that he had sought advice from the Monitoring Officer and would leave the room when the Committee discussed item 12 (County Farms Update).

3.3 Mr I Mackie declared an other interest in item 7 (Norfolk County Council's Insurance Cover as he was a Director of Norse).

4 Items of Urgent Business

4.1 Sailpoint system.
The Chief Internal Auditor would circulate an update on the roll-out of the Sailpoint System. Sailpoint was the Identity Access Management System which would be used to monitor new employees and leavers, as well as ensure equipment was retrieved from staff who had left Norfolk County Council employment.

4.2 Information Commissioner's Office (ICO) Audit.
A summary of the recent ICO Audit could be found on the ICO website - <https://ico.org.uk/action-weve-taken/audits-advisory-visits-and-overview-reports/norfolk-county-council/> Members were pleased to note that reasonable

assurance that processes and procedures were in place and delivering data protection compliance had been given by the ICO. An action plan had been developed to cover the 25 audit findings and these would be monitored by the ICO and Audit Team. The Committee would receive an update at its meeting in April as to how the action plan was progressing.

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

5.1 The Committee received the report by the Executive Director, Finance and Commercial Services setting out how Internal Audit's work had contributed to the Council's priorities.

5.2 In introducing the report the Principal Client Manager informed the Committee that 26 Traded Schools Audits had been completed during this financial year. Feedback had been very positive from those schools who had taken up the service.

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

5.3.1 The nine completed complaints which related to County Farms had been on a range of topics, including tenancy and contracts. The themes of the complaints had been included in the Key Lines of Enquiry report, published in the County Farms Report considered by the Audit Committee in April 2016.

5.3.2 Following the Referendum on EC Membership, the France (Channel) England Programme would be monitored closely so that any exchange rate risks to the budget could be identified quickly. The Government had advised that they would be honouring all agreements already signed up to. In the meantime full use would be made of all available funding.

5.3.3 At the present time, academies employed their own external audit function. If there was sufficient demand from academies for using the traded schools audit service, Internal Audit would consider developing a service.

5.3.4 The Chief Internal Auditor would provide the Committee with some additional information about the Whistleblowing referral, being mindful not to undermine the Whistleblowing Policy.

5.3.5 The Head of Place Planning and Organisation, Children's Services, had been asked to provide reassurances that processes were in place for the schools capital building programme. Once reassurance had been received, the project could be assessed and if relevant it would be added into the Audit Plan.

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

- The overall opinion on the effectiveness of risk management and internal control being '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.
- That plans are being established in the audit team to strengthen corporate development themes of: Strategy into Action / Accountability,

Commerciality/Business Like, Data Analytics/ Evidence Based and Collaboration/Influencing for the internal audit function.

6 Risk Management Report

- 6.1 The Committee considered the report by the Executive Director, Finance and Commercial Services providing it with the corporate risk register at the end of December 2016, along with an update on the Risk Management Strategy 2016-19 and other related matters following the latest review conducted during December 2016.
- 6.2 The following points were noted in response to questions by the Committee:
- 6.2.1 Target dates depended on the nature of risks and were key to monitoring progress with risk mitigation actions. When a target date could not be met, a revised target date was agreed with the risk owner and that change would be reported to Members.
- 6.2.2 The word “effectively” in respect of risk RM006 (The potential risk of failure to effectively plan how the Council will deliver services over the next 3 years commencing 2015-16) was questioned. It was clarified that, in this instance, the term “effectively” meant that the results achieved the desired outcomes.
- 6.2.3 Once the pilot training programme had been completed, further information on the evaluation results and roll-out as set out in the progress update on risk RM007 (Potential risk of organisational failure due to data quality issues) would be provided to the Committee.
- 6.2.4 With regard to risk RM014b (The savings to be made on Adult Social Services transport are not achieved) Members were reassured that annual benchmarking took place looking at other comparable authorities to ascertain what they were doing and to see where we could make savings on Adult Social Services transport. The Committee was reassured that work was continually carried out to ascertain new ways to improve services and cut costs.
- 6.2.5 Work was being carried out to see if some transport services could be shared between Children’s Services and Adult Social Services.
- 6.2.6 The Committee requested further details about risk RM018 (Potential failure to meet the needs of children in Norfolk) which would be developed when the new Interim Executive Director of Children’s Services took up the post on 6 February 2017.
- 6.2.7 No particular concerns had been raised regarding risk RM020a (Failure to meet the long term needs of Norfolk citizens).
- 6.3 The Committee welcomed Tracy Jessop (Assistant Director Highways and Transport) and David Allfrey, Major Projects Manager who attended the meeting to provide the Committee with an update on risk RM017 (Failure to construct and deliver the Norwich Northern Distributor Route (NDR) within agreed budget (£179.5m).

- 6.3.1 The project was approximately half-way through construction. Environment, Transport and Development Committee had received regular reports on the progress of the project, including any potential risks of keeping within the budget as the second half of the project was approaching, which was becoming more difficult. Mitigation measures had been identified and put in place, one of which was recruiting an additional manager to provide support to the project.
- 6.4 The following points were noted in response to questions from the Committee:
- 6.4.1 The appointed Commercial Manager had a lot of experience about how large contracts worked. A Norfolk County Council employee with a construction background had also been appointed which reinforced the appointment of the Commercial Manager.
- 6.4.2 A weekly project team meeting was held to monitor finances, management of the contract delivery, construction and robust systems were in place to monitor the administration of the contract.
- 6.4.3 A number of cost pressures were reported to Members, for example excessive rainfall in June 2016 had caused some delay which had impacted on the budget. Other pressures included the requirement for a rail bridge which needed negotiating with Network Rail; land acquisition which sometimes incurred delays due to the negotiation of price, as well as estimating costs relating to work with utility companies.
- 6.4.4 The actual amount of risk to the project was approximately £6.7m of the additional project costs if all the identified risks came to fruition. Some of the risks could be resolved quickly, others could be delayed, for example if land acquisition negotiations were protracted. The Committee was reassured that Norfolk County Council's interests were being protected at all times in ensuring Members knew the risks and the action being taken to mitigate those risks.
- 6.4.5 The Executive Director of Finance and Commercial Services advised that the Capital Programme would include an additional sum to set money aside to cover identified risks if they did come to fruition.
- 6.4.6 The Committee thanked the Assistant Director Highways and Transport and the Major Projects Manager for attending the meeting and for providing the update.
- 6.5 The Committee **RESOLVED** to **note**:
- a) The changes to the Corporate Risk Register and the progress with mitigating the corporate risks;
 - b) The scrutiny options for managing corporate risks.
 - c) The summary of results from the Risk Management Benchmarking Club report.
 - d) The actions being taken to improve flood risk management for Norfolk County Council owned properties.

7 Norfolk County Council's Insurance Cover

- 7.1 The Committee received the report by the Executive Director, Finance and Commercial Services providing it with information relating to the current position

of the insurance provision for Norfolk County Council. The report provided Members with assurance as to how the insurance provision was delivered for the County Council and how claims against the Council were managed by the Insurance Team.

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

7.2.1 Property valuations were reviewed every three to four years on a rolling programme. The last valuation had been carried out approximately 18 months ago and the Head of Finance Exchequer Services was confident that the cover value in place was reasonable.

7.2.2 Norfolk County Council was in the second year of a three year policy term with Zurich Insurers. When the Property Insurance portfolio ran out in approximately 12 months time, a decision would be made as to how to procure future insurance requirements.

7.2.3 The benefit of handling claims internally allowed Norfolk County Council to quickly settle or defend claims. The Committee was reassured that robust systems were in place and reasonable steps were taken to defend all claims. A statutory defence of highways claims was in place and although this was not always popular it was a fair system.

7.2.4 A procurement process was currently being carried out to identify a single broker who could manage the Norfolk County Council insurance portfolio and it was hoped a Broker would be identified by August 2017.

7.2.5 The amount of reserves for future insurance claims was assessed by Marsh, the current Actuary.

7.2.6 No work had been undertaken with Parish Councils about offering them a service to help them with insurance costs.

7.2.7 A written response would be provided to the Committee about the statement in the report "Contract works premium has increased significantly. This is because the value of construction works currently being undertaken required cover to be increased from £2.0m to £10.0m per construction activity".

7.2.8 Following a procurement exercise, four specialist restoration companies had been contracted to cover specialist flood and fire recovery services in the event of major losses. These contractors provided a specialist drying and cleaning service before a decision could be made as to whether a building could be repaired, for example after flooding, the fire service would pump out the water and the specialist firm would then come in and dry and clean the building before a decision could be made as to whether a building could be repaired.

7.3 The Committee **RESOLVED** to **note** that proper insurance existed where appropriate, as confirmed by external and internal reviews and accept the report.

8 Internal Audit Strategy, Approach, Strategic Plan 2017-20 and Internal Audit Plan for first half of year 2017-18.

8.1 The Committee received the report by the Executive Director, Finance and Commercial Services setting out the Strategy and Internal Audit Plan for the first half of the year 2017-18.

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

8.2.1 As the Internal Audit Plan was for the first half of the year, there would be opportunities to gather further information on Looked After Children (LAC) and develop the plan to include LAC during the second half of the year.

8.2.2 The France Channel England Audit Authority work would be managed within the available budget.

8.3 The Committee **RESOLVED** to note:

- That internal audit's strategy and plan, contribute to an effective system of internal audit and risk management and that those arrangements are compliant with all applicable statutes and regulations, including the Public Sector Internal Audit Standards (2016) and the Local Authority Guidance Note of 2013 and any other relevant statements of best practice.
- The strategy and plan being the Internal Audit Strategy 2017-20 (Appendix A), the Approach 2017-18 (Appendix B), the Three-year Strategic Audit Planned Days to support the Audit Opinion (Appendix C), the Summary Internal Audit Plan for the first half of the year 2017-18 for work supporting the Internal Audit Strategy (Appendix D) and the Detailed Internal Audit Plan for the first half of the year 2017-18 (Appendix E).

9 External Auditor's Annual audit Letter 2015-16 and Audit Committee Briefings.

9.1 The Committee received the report by the Executive Director, Finance and Commercial Services introducing the External Auditor's Annual Audit Letter 2015-16.

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

9.2.1 The External Auditors were pleased that their advice had been actively sought in the required material adjustment to the financial statements within the Property, Plan and Equipment Register and thanked the Executive Director of Finance and Commercial Services for taking their comments on board.

9.2.3 The 2016-17 Accounts would need to be signed off by 30 September as in previous years, although the Committee noted that the 2017-18 Accounts would need to be signed off by 31 July 2018.

9.2.4 The Committee placed on record its appreciation of the Finance and Audit Teams for their collaborative working with the External Auditors.

9.3 The Committee **RESOLVED** to note:

- The External Auditor's Audit Letter 2015-16.
- The key messages in the briefings.

10 Anti-Fraud and Corruption Update

10.1 The Committee received the report by the Chief Legal Officer providing an update on the Council's Anti-Fraud and Corruption activity for the period from January 2016 to December 2016.

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

10.2.1 A proposal on how anti-fraud e-learning training could be deployed to all staff was currently being developed to ascertain if there was a case for mandatory training across the council. The Chief Internal Auditor hoped to bring an update to the Committee at its April meeting. The Committee was unanimous in its frustration that there had been yet another delay in implementing one of its core recommendations regarding mandating fraud training.

The Committee was pleased to note that all staff within the Finance Department had been mandated to undertake anti-fraud e-learning training as would staff in the departments which had recently come under the control of the Executive Director of Finance and Commercial Services.

10.2.2 Mr I Mackie proposed, seconded by Mr N Shaw, that the Audit Committee request anti-fraud training be mandated for all Norfolk County Council staff. The Committee **agreed** the proposal.

10.3 The Committee **RESOLVED** to note the report and requested anti-fraud e-learning training be mandated for all Norfolk County Council staff.

11 Audit Committee Work Programme

11.1 The Committee received and **noted** the report by the Executive Director, Finance and Commercial Services setting out the programme of work for the Committee and agreed the following items to be included on the agenda for the April 2017 meeting:

Children's Services and Department for Education activity.
Update on progress with the ICO Action Plan.

Mr I Mackie left the meeting and Vice-Chairman, Mr R Smith, took the Chair.

12 County Farms Update

12.1 The Committee received the report by the Executive Director, Finance and Commercial Services, providing an update to the report received by the Committee at its meeting on 22 September 2016.

12.2 The Executive Director of Finance and Commercial Services advised that BDO LLP would be asked to carry out a further audit to check that the changes they had recommended had been effectively implemented. This audit was likely to

be carried out after the next round of County Farms Lettings had been completed.

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

12.3.1 The Executive Director confirmed that he agreed the findings in the report, although he considered some of the interpretation had been a bit severe.

12.3.2 In response to a comment that the report was a “whitewash”, the Executive Director disagreed and advised that the audit had been commissioned using an independent auditing contractor (BDO) and there was no attempt to cover up any wrong-doing. He added that the department would continue to subject itself to internal and external scrutiny on the recommendations until they received confirmation that all processes and procedures were effectively carried out. The Finance team was working to draft amendments to the Norfolk County Council Constitution to reflect the comments made by Members and their wishes. The amended Constitution would be agreed by the Constitution Advisory Group before being adopted by Policy & Resources Committee and finally adopted by County Council.

12.3.3 Appropriate sanctions had been taken against the Member of Staff who had been suspended. The person had returned to work and remained working for County Farms Team. Reassurance was given that all avenues of the complaint had now been exhausted; the individual concerned had undergone extensive training and knew the formal duties and responsibilities required when working for Norfolk County Council.

12.3.4 Although some Members welcomed the audit, they felt that the report was three years too late and that no-one was being held to account.

12.3.5 Once BDO had completed their follow-up audit, the Committee requested a progress report be brought to a future meeting.

12.4 The Committee **RESOLVED** to:

- Note the follow-up Audit Report and Action Plan.
- Note that an update would be reported to the Economic Development Sub-Committee and Audit Committee when appropriate.

The meeting ended at 4.15pm.

CHAIRMAN