

**Audit Committee**  
**Minutes of the Meeting held on 30 January 2014 at 2pm in the**  
**Colman Room, County Hall, Norwich**

**Present:**

Mr B Bremner  
Mr J Dobson  
Mr T Garrod  
Mr A Gunson  
Mr J Joyce  
Mr M Smith  
Mr R Smith (Vice-Chairman)

**Also Present:**

Ms A Kemp

**Officers Present:**

Mr S Andreassen	Strategic Risk Manager
Mr H Bullen	Head of Budgeting and Financial Management
Mr P King	Ernst & Young (External Auditor)
Mr R Murray	Ernst & Young (External Auditor)
Mr S Rayner	Strategic Risk Manager
Ms N Young	Ernst & Young - Observing
Mr P Timmins	Interim Head of Finance
Mr A Thompson	Chief Internal Auditor
Mrs J Mortimer	Committee Officer
Mr P Woodward	Principal Client Manager

**Mr R Smith, Vice-Chairman, in the Chair.**

**1 Apologies for Absence**

- 1.1 An apology for absence was received from Mr I Mackie (Tom Garrod substituted).

**2 Minutes**

- 2.1 The minutes of the meeting held on 26 September 2013 were agreed as a correct record and signed by the Chairman, subject to the first sentence in the first bullet point of paragraph 10.2 being amended to read: "The County Council's net assets had reduced due to a large increase in **pension** liabilities. In addition .....".

**Matters Arising**

- 2.2 Opportunities to generate income such as moving into shared Internal Audit services were still being investigated.

- 2.3 At a recent meeting of the Norse Shareholder Committee, it was confirmed that the Norse Group had agreed to move towards a coterminous end of year accounting period with Norfolk County Council by 2016. Norse Group had also confirmed it would fund the Council's extra external audit costs (approximately £15k) of the work involved whilst it was working to the coterminous year end.
- 2.4 Following the letter the Chairman of the Audit Committee had been asked to send to the Chairmen of Overview and Scrutiny Panels, the Chief Internal Auditor agreed to ascertain if the letter had been sent and that the corporate risks and departmental risks were being considered at Panel meetings to ensure regular challenges were made.
- 2.5 The Head of Budgeting and Financial Management would confirm when the Norfolk County Council summary accounts statement would be available.

### **3 Declarations of Interest**

There were no declarations of interest.

### **4 Matters of Urgent Business**

There were no items of urgent business.

### **5 Norse Group – Transfer of Pensions Risk**

- 5.1 The Committee received a report by the Interim Head of Finance briefing members on Cabinet's agreement for the Council to accept the transfer of Pensions Risk from Norse Group and how this related to the Committee's role of consideration and approval of the Council's Annual Statement of Accounts. During the presentation of the report, the following points were noted:

- Cabinet at its meeting on 2 December 2013 had approved the transfer of the pension risk from the Norse Group balance sheet to the County Council's single entity balance sheet, subject to satisfactory agreement regarding the accounting treatment being reached with the external auditors of the County Council and Norse, the respective companies being Teckal compliant and a legal agreement being entered into between the County Council, Norse and the Pension Fund. Following this decision, it was intended that the draft Deed would be signed on 31 January, after which it would come into effect.
- When the proposed transfer had been completed the Norse Group liability would reduce and Norfolk County Council would be eligible to receive a share dividend.

- 5.2 The following points were noted in response to questions from the Committee:-

- The number of staff TUPE'd to Norse had not altered, although their pension liability shortfall would now be transferred to and retained by Norfolk County Council rather than Norse. This applied to 3 Norse companies (NPS Property Consultants, Norse Eastern and NCS Transport).
- The Head of Budgeting and Financial Management confirmed that he was

satisfied that no state aid was being provided, and this had been verified by NPLaw.

- The Pension liability referred to in the Cabinet report related to approximately 1100 staff, although this number would reduce as NPS South East and Norse Commercial Services would not have their pension liability transferred.
- The estimated pension liability of £47.7m in the December Cabinet report related to all staff within the Norse Group who are in a Pension Fund where the Norse Group was liable for any pension deficit.
- If the Norse Group was to experience severe financial difficulties, the Norfolk Pension Fund would expect the County Council to fund any pension liabilities, which would incur a risk element to Norfolk County Council. This was not considered to be an issue in the short-term as Norse were currently trading well, but as the parent company, NCC did need to consider those risks to ensure they were properly managed, and ensure robust governance arrangements were put in place.
- The Interim Head of Finance confirmed that he was happy with the degree of rigour and that as much as possible had been done to ensure that any risk was mitigated.

5.3 **RESOLVED** to note the report.

## 6 **Risk Management Report (3<sup>rd</sup> quarter 2013/14).**

- 6.1 The Committee received the report by the Interim Head of Finance updating the Committee on the Corporate Risk Register and other related matters following the latest quarterly review conducted during the third quarter of 2013/14. The update included details of seventeen risks proposed for inclusion within the Corporate Risk Register as recommended by the Chief Officer Group.
- 6.2 During the presentation of the report, it was noted that no risks were marked red (serious concern), 11 risks were marked amber which was of some concern, and 5 risks were marked green with no particular concerns of meeting the target score by the target date. Five risks had been removed and three new risks had been added in the last quarter and there were emerging risks yet to be added to the Corporate Risk Register, in relation to flooding and the robustness of the authority to manage flooding in the future and risks involved in the move to the new Committee Governance system by the County Council.
- 6.3 An explanation regarding the headings within the risk register report was provided, the details of which are noted below:

Column Heading	Explanation
CDGSPT	Indicated whether the risk was Corporate, Departmental, Service, Team or Programme. Norse risks were reported under Resources.
Area	Related to the department.
Risk Number	The unique risk number which was generated when the risk was entered into the PRISM software system.
Risk Name	A heading for identification purposes.

Risk Description	Full description of the risk.
Date entered on risk register.	Self explanatory.
Inherent Likelihood	These were the scores allocated. 1 being a low risk and 5 being a high risk.
Inherent Impact	
Inherent risk Score	
Current Likelihood	
Current Impact	
Current risk score	
Tasks to mitigate the risk.	Tasks decided by the risk owners to reduce the risk.
Progress update.	Narrative of the action taken since the last risk report.
Target Likelihood	The target scores to be achieved by the nominated target, which is the date that time-frames the risk.
Target impact	
Target risk score.	
Target date.	
Prospects of meeting target risks core by target date.	Once the target had been met, the risk would remain on the report for one reporting cycle. It would then be removed from the report, although the risk would remain visible on previous versions of the report, maintaining an appropriate audit trail, in accordance with the County Council's data retention requirements.
Risk Owner.	The person who had responsibility for managing the risk in order to achieve its target score by the target date, usually a named departmental Chief Officer, with COG collectively reviewing the risks on a regular basis.
Reviewed and/or updated by.	This column recorded who had supplied the information to the risk team, together with the date.
Date of review and/or update.	The date the next review was due.

6.4 The following points were noted in response to questions from the Committee:-

- The risk register was a management tool to assist Norfolk County Council record and mitigate risks and take any appropriate action. The register was owned and reviewed regularly by the Chief Officer Group with the individual risks being updated by the relevant risk owners.
- The information within the report had been correct when the accounts were approved by the Audit Committee at its September 2013 meeting.
- Mr J Dobson requested sight of the minutes from Chief Officer Group meetings to ascertain when the risks relating to the Willows had been identified and included in the risk register. The Head of Finance commented that risks could arise and be addressed such that they did not appear in the register when it was published quarterly.
- The Committee noted that the next review of the risk register was due soon, but due to the reporting timescales the information was nearly a month out of date.
- The Postwick Hub and the Northern Distributor Road risks were intrinsically

linked. Once work had commenced on the Postwick Hub it was hoped to split the risks so each could be considered separately.

- The Committee was reassured that if the current risk score changed, the risk owner comments would reflect what actions had been taken to mitigate and reduce risk.
- The risks relating to the Willows contract had been mitigated by approval of the Waste Contingency planning paper approved by Cabinet on 4 November 2013 which recommended the provision of a contingency fund relating to the potential planning failure compensation, initially some £11m was identified and set aside in this fund and further provision had since been approved.
- The Interim Director of ETD was the owner of the risks relating to the Willows and a risk had been identified relating to the increase of waste to landfill. This risk was currently shown red because the expected fall in waste to landfill had not materialised and had actually increased slightly. This risk was currently on the Departmental risk register and reviewed monthly by the ETD management team.
- Risk RM14079 – Community Services Transformation showed a target date of 2030. This was considered a long-term risk but had been brought to the attention of the Overview and Scrutiny Panel to review it periodically. It was confirmed that Community Services Senior Management Team reviewed the risks relating to that department at each of their meetings.
- The Vice-Chairman, referring to risk RM13918 – Staffing – The Speed and severity of change in work activities, thanked officers and staff for their continued commitment during the changes and the uncertainty faced in the current climate of austerity.

6.5 Following a vote on whether to accept the recommendations in the report, with 6 votes in favour and 1 vote against, the Committee

6.6 **RESOLVED** to:

- note the changes to the risk register.
- Note the seventeen corporate risks.
- Note any further actions that may be required.
- Note that the arrangements for risk management were acceptable and fulfilled Norfolk County Council's 'Well Managed Risk – Management of Risk Framework'.
- Actively endorse risk management training throughout the County Council.

## **7 Norfolk Audit Services Quarterly Report for the Quarter ended 30 September 2013.**

7.1 The Committee received a report by the Interim Head of Finance summarising the results of recent work by Norfolk Audit Services (NAS) to give an overall opinion on the adequacy and effectiveness of risk management and internal control within the County Council and to give assurance that, where improvements were required, remedial action had been taken by Chief Officers. The report also provided an update on changes to the approved internal audit plan and the future schools audit

offering, and the preparations for an Audit Authority for the France Channel England Interreg VA Operational Programme.

7.2 The following points were noted in response to questions from the Committee:

- The Chief Internal Auditor confirmed that his team had carried out a lot of work to mitigate data protection breaches. If a breach did occur within a school, any levied fine would fall to the school for payment. The fine for data protection breaches depended on the severity of the breach and could amount to a maximum fine of £500k.
- The Internal Audit Team had carried out checks at County Hall, including 'clear desk arrangements' during out of hours periods to ensure that no personal data was left on display. A report on the findings of these checks had been compiled and would feed into the latest Annual Governance Statement.
- Schools were responsible for managing their own data systems and regular audits were carried out at schools to see how this information was being managed. A report would be produced on the findings from the audits which would be presented to the School Governors and Children's Services Department. Advice would also be offered to the schools to ensure they knew the correct protocols and what action they needed to take to mitigate risks associated with data protection.
- 134 High Priority Findings had been identified and included in the internal audit reports since the start of 2013. These were being managed by Heads of Service and a monthly update report was reviewed by the Chief Officer Group.

7.3 Following a vote on whether to accept the recommendations in the report, with 6 votes for and 1 vote against it was **RESOLVED** to note:

- the overall opinion on the effectiveness of risk management and internal control was 'acceptable' and therefore considered 'sound'.
- the changes to the approved 2013-14 internal audit plan, described in Appendix D of the report.
- The Annual Audit Letter (previously published) at Appendix E of the report.
- The satisfactory progress regarding the schools audit offering and the preparations for an Audit Authority for the France Channel England Interreg VA Operational Programme.

## **8 External Auditor – Certification of Claims and Returns 2012-13.**

8.1 The Committee received and **noted** the report by the Interim Head of Finance briefing members on the External Auditor's Certification of Claims and returns 2012-13 letter dated 16 January 2014.

## **9 Work Programme**

9.1 The Committee received the report by the Head of Finance setting out the work programme for 2014.

9.2 The following training topics were **agreed**:

- April 2014 – Anti-Fraud and Corruption.

- September 2014 – Governance.

9.3 **RESOLVED** to note the report and to agree that each meeting would be preceded by a training session for Committee Members, based on a topic from the Committee's Terms of Reference.

## **10 Anti-Fraud and Corruption Strategy – January 2014 Edition**

10.1 The Committee received the report by the Practice Director Norfolk Public Law (NPLaw) introducing the January 2014 version of the Anti-Fraud and Corruption Strategy.

10.2 **RESOLVED** to endorse the revised format, the Strategy, its Policies and supporting guidance.

## **11 Anti-Fraud and Corruption Update – June-December 2013**

11.1 The Committee received the report by the Practice Director Norfolk Public Law (NP Law) providing an update for the Committee on how the Council's Anti-Fraud and Corruption Strategy and how it added value.

11.2 The following points were noted in response to questions from the Committee to the Principal Client Manager, Norfolk Audit Services:-

- With the current severe austerity climate and the potential rise in the instances of fraud, particular consideration was given to this risk. It was confirmed that systems of control were in place to mitigate all types of fraud.
- The Chief Internal Auditor confirmed that adequate resource was in place within Internal Audit Team to take on additional investigations if necessary and that there were sufficient skills available within the team. The costs of investigations and the officer time and cover required, was proposed to be paid for by the individual departments. All investigations of fraud were noted by the Chief Internal Auditor and outcomes monitored. If a school reported a minor problem, the Schools Finance Team would carry out an initial investigation. If the case involved significant loss or was more complex, the Internal Audit Team would become involved and would work with the Schools Finance Team to carry out a full investigation.
- Any incidents of fraud which involved money or finance (as per Financial Regulations) would be reported to the Internal Audit Team, who was also responsible for updating and maintaining their fraud register.
- The Audit Committee would receive a copy of a Fraud Benchmarking comparator report (as a result of their annual Protecting the Public Purse survey) produced by the Audit Commission, at its next meeting.
- The Internal Audit Team had carried out a check on the Register of Interests and the Register of Hospitality and Gifts which had not highlighted any concerns. Also, the continued vigilance on Member Allowances had raised no cause for concern.

11.3 **RESOLVED** that:-

- there had been adequate progress in the work to date.
- the plan for future work as set out in section 8 of the report be noted.
- the revised Strategy was consistent with Fighting Fraud Locally, best practice and that
  - it still met both internal measures and external inspection requirements.
  - Was effective.
  - Added value.
  - That it had been considered in light of the austerity and service transformation agenda and was considered to be adequate.
- the Council's Whistle-blowing and Money Laundering Policies were adequate and effective although minor amendments were required with respect to updates to the legislation, and
- full consideration of the Audit Commission's publication Protecting the Public Purse until the April meeting of the Committee, as outlined in Section 2.3 of the report) be deferred.

## **12 Norfolk Audit Services. Review of the Internal Audit Terms of Reference and Code of Ethics.**

12.1 The Committee received a report by the Interim Head of Finance reviewing the Internal Audit Terms of Reference and the Code of Ethics in accordance with the new CIPFA and IIA's UK Public Sector Internal Audit Standard, which came into force on 1 April 2013.

12.2 The following points were noted in response to questions from the Committee:

- If an investigation required skills which did not exist within the Internal Audit team, for example ICT or Health and Safety audit, temporary staff could be employed. If agency staff were required, their knowledge and background would be checked for suitability using their CV. There was also a checklist to ensure there was no conflict of interest and that they were aware of the need for confidentiality.
- Complex IT audits would be carried out by Price Waterhouse Cooper who would be expected to carry out their own checks on their staff as part of their contractual obligations.

12.3 **RESOLVED** to approve the amended Terms of Reference set out in Appendix A of the report and the Code of Ethics as set out in Appendix B of the report.

## **13 Audit Committee Terms of Reference**

13.1 The Committee received the report by the Chairman proposing that the Terms of Reference, agreed at the Audit Committee meeting of 26 September 2013, be considered as part of a regular formal review.

13.2 The following points were noted in response to questions from the Committee:-

- The Chief Internal Auditor agreed to let Members have a copy of the Council's response to the Government's recent 'Future of Local Audit' consultation, together with a copy of the Consultation document, a letter to the Secretary of State and the County Council's response which had been reported to the Audit



Committee in June 2011.

- The National Audit Office would take over the oversight of the auditing function, but would no longer appoint external Auditors.
- The new Auditors Code of Practice, which would be subject to the Local Audit and Accountability Act 2014 agreed by Parliament would be drafted by the National Audit Office.
- The Committee asked the Chairman to send an email to the Chairman of the Committee Governance Steering Group asking for information about where the Audit Committee would sit under the new Committee Governance System and to remind him of the necessity of the Audit Committee reporting to full Council.

13.3 **RESOLVED to** agree the revised Terms of Reference and commend them to Council for agreement.

**14 Norfolk Audit Services: Internal Audit Strategy, Approach, Strategic Plan 2014-2017 and Annual Internal Audit Plan 2014-15**

14.1 The Committee received the report by the Interim Head of Finance setting out the Internal Audit Strategy, the approach and Strategic Plan for the three year period from 2014-15 to 2016-17 and the detailed Annual Internal Audit Plan for 2014-15.

14.2 The following points were noted in response to questions from the Committee:-

- The 33% reduction in the internal audit net expenditure since the 2008-09 baseline, was mainly due to a change in the approach to schools audit and the efficiencies already made.
- The reduction in audit days this year had been a result of the budget reduction. All audits were identified using a risk-based approach, in consultation with Chief Officers Group.
- The Chief Internal Auditor reassured the committee there would be sufficient resources to carry out all the planned audits for 2014-15.

14.3 **RESOLVED to:-**

- approve the Internal Audit Strategy, the Approach, the Proposed Delivery of the Internal Audit Strategy for 2014-15, the Strategic Plan to support the audit opinion for 2014-17 and the Annual Internal Audit Plan 2014-15.

**15 Norfolk Pension Fund – Governance reports relevant to the Audit Committee**

15.1 The Committee received and **noted** a report by the Interim Head of Finance updating members on Norfolk Pension Fund governance reports relevant to the Audit Committee in accordance with the Audit Committee's Terms of Reference.

The meeting ended at 4.10pm

## **CHAIRMAN**



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