

Audit Committee
Minutes of the Meeting held on Thursday 14 October 2021 at 2pm
at Council Chamber, County Hall, Martineau Lane Norwich

Present:

Cllr Ian Mackie – Chairman
Cllr Terry Jermy
Cllr Saul Penfold
Cllr Robert Savage – Vice-Chair
Cllr Karen Vincent

1 Apologies for Absence

1.1 Apologies were received from Cllr Mark Kiddle-Morris and Cllr Michael Dalby.

2 Minutes

2.1 The minutes from the Audit Committee meeting held on 21 July 2021 were agreed as an accurate record.

3 Declaration of Interests

3.1 Cllr Ian Mackie declared a non-pecuniary interest in agenda item 6 (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 Thorpe St Andrew Town Council and member on Broadland District Council.

3.2 Cllr Robert Savage declared an interest as a Member of the Norfolk Pension Fund.

3.3 Cllr Karen Vincent declared a non-pecuniary interest in agenda item 6 (Annual Statement of Accounts and Annual Governance Statement – List of Members of the Norfolk Pension Fund) as she was a Member of the Norfolk Pension Fund, Norse Board shareholder representative for Norfolk County Council, member of Broadland District Council and member of Spixworth Parish Council and Sprowston Town Council.

4 Items of Urgent Business

4.1 The Chairman read the following statement:

The Audit Committee's role includes considering the effectiveness of the Council's Risk Management Framework so the Committee receives regular updates on the Council's corporate risks. Since the last Audit Committee, in July, a report has been published regarding the significant failings and tragic consequences at Cawston Park Hospital in Norfolk. The Council did not commission these services and its role in Cawston Park Hospital was a safeguarding one – which we carried out to the best of our ability, given the

limitations on our influence. The review highlighted those limitations and the actions to prevent this happening again rest almost entirely with others – mainly the Clinical Commissioning Group (CCG). We didn't have a specific risk against this – because it was not a facility we commissioned from.

The Full Council recently noted that report, which included wider recommendations for the Council, which are being considered to see what steps can be taken. From a risk management perspective the Council has previously considered two risks and the potential for a new risk will now be explored.

We already have a departmental risk **RM14464 – 'Failure of providers to provide care to vulnerable people'** and while it is leaning towards the availability of staff and beds it does mention the risk that, 'Care providers fail to meet needs of residents increasing the risk of a safeguarding issues'. The risk was scored 10 and rated Amber (the target is a score of 5) with prospects of meeting the target score rated as Amber, back in July, when that was reported to Cabinet. Whilst Cawston Park Hospital was not a care facility we commissioned from; the distinction for 'limitations of our influence for 'other care facilities, that we do not commission from', could now be recognised in that risk to add context.

Risk number **RM028**, which was closed by Cabinet in July this year, covered the risk of, '**Any failure to monitor and manage health and safety standards of 3rd party providers of services**'. This related to our legal obligations from H&S legislation. A recent audit of contract management for H&S has shown that whilst there is still improvement to be made in the pre-tender process, all of the areas reviewed had active monitoring in place, where we commission services. This is a considerable step forward from when we developed the risk. We are therefore confident that with the robust audit monitoring process in place, further improvements will be secured and we do not need to resurrect risk RM028.

The Audit Committee can be reassured that

- the recommendations for the Council, from the review, will be carefully considered and followed up once they have had time to be implemented
- the topic will be covered by the Health Overview Scrutiny Committee on 4th November 2021
- The Executive Director of Adult Social Services will consider how risk RM14464 can be amended to also show the distinction for, 'There are limitations of our influence for 'other care facilities, that we do not commission from'; to add context; and to continue to monitor RM14464 and ensure any mitigating actions are completed.

The Committee **agreed** to defer the next agenda item 5 (Risk Management Report) until later in the meeting as the officer presenting was not available until later

6 Norfolk County Council Audit Plan Addendum: Norfolk County Council and Norfolk Pension Fund Audit Results Reports – Audit Committee Summary for the year ended 31 March 2021.

6.1 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 2021. The Assistant Director of Finance (Audit) advised that the cover stated the report was a key decision which was incorrect, and he apologised for the formatting error.

6.2 The Committee welcomed Mark Hodgson from Ernst & Young to the meeting. Mark Hodgson thanked the officers for their work over the past few months in helping conclude the audit processes.

6.3 Mr Hodgson, from External Auditors Ernst & Young introduced the Norfolk County Council and Norfolk Pension Fund Audit Results Report, in three appendixes, during which the following points were noted:

6.3.1 Appendix 1 Ernst & Young Audit Plan Addendum for the Value for Money Risk Assessment.

- An update to the plan was received and the committee were advised that no significant risks were identified to the value for money assessments.
- This assessment brought the committee up to date since the start of the Audit Plan in March 2021.

Appendix 2 Ernst & Young Norfolk County Council Pension Fund Audit Results Report.

- 6.3.2
- The materiality level set for Norfolk County Council Pension Fund was increased to £44.8m
 - There was an increase to the risk designation of level three assets. This was increased to a significant audit risk on the basis of the level and complexity of estimation of the valuation of the assets.
 - The status of the audit identified that IS26 assurance procedures were outstanding which was due to a national issue of input of actuarial data being submitted and valued within the actuarial model. The additional reassurances had been carried out and these correspond with the County Council's own audit processes and data input.
 - All audit assurances had been received and no issues had been identified with regard to fraud risks.

Key findings from the audit:

- There were 3 findings relating to the valuation of level three assets. 1.) Timing was an issue because level three assets are not quoted on a market platform and generally take place on 31st December. During the audit process, updated figures for the level 3 assets were received by the External Auditors which moved the value higher by £43.8m. 2.) Classification was an issue between level 2 and 3 assets. Level 2 assets were overstated by £139m as better clarification was required as to how those assets were considered. 3.) Audit qualification. One fund had an audit qualification as there was insufficient information available to the fund auditor concerning provision made to that fund of a legal case. However, the proportion of liability to the County's holding by the fund managers was not considered to be material, although greater disclosure was sought from the fund manager's auditor.
- The three findings explained the need to increase the audit plan risk to significant status at the start of the audit process.

- The IS26 assurance procedures concluded that the difference between the actual and model calculations related to less than 1% of the valuation.
- There were no material adjusted audit differences noting that the valuation issue was a purely a timing issue only.
- There were a few disclosures differences identified mainly between the classification issues of level 2 and 3 assets.

The External Auditors confirmed their conclusion of an “Unqualified Opinion” and thanked officers for their help and support during the challenging and robust auditing processes undertaken.

6.3.3

Appendix 3 Ernst & Young Norfolk County Council Audit Results Report.

- The report was labelled as provisional as there was some outstanding work to complete and a requirement to issue reports ahead of deadline dates.

6.3.4

Key findings of the report:

- The materiality level for Norfolk County Council was increased to £28m on receipt of the draft accounts.
- A change of risk designation took place from the audit plan established in March 2021. The risk was increased to significant following estimation levels of deprecation values undertaken during the closure procedures by officers for the preparation of the accounts.
- The group consolidation process risk was uplifted to the highest level from the audit plan baseline.
- Going concern had been reduced to an area of focus because the initial assessment work in the audit process did not highlight any issues.

The following updates to the published report were noted:

- Pension Liability – The Auditors have completed their work and there are no issues to report.
- Group work – PWC the component auditor can not provide sign off as an issue is arising with the completion of processes relating to a Norse Group subsidiary. The sign off was due to take place in November 2021. This delay prevents Ernst & Young from completing their audit opinion for the County Council.
- Property, Plant & Equipment – The asset lives and depreciation process applied is appropriate but hasn’t been tested thoroughly enough for sign off.
- Journals - The Auditors have completed their work and there are no issues to report.
- Employee cost work – The work is in progress and there are no issues to report to date.
- Accounts Payable – The work is almost complete but some evidence is awaited for testing invoicing.
- Disclosures - The Auditors have completed their work and there are no issues to report.
- Other income & expenditure – awaited some invoice evidencing from 4 schools out of a sample of 90.
- Bank confirmation – now received and no issues to report.
- Going concern assessment- work is ongoing and almost complete with no issues to report to date.

- The outstanding audit work was to be completed within the next couple of weeks and sign off was then subject to the consolidation assurances received from PWC.

There were no unadjusted audit differences and no adjusted differences above the normal thresholds.

6.3.5

Regarding Audit Risks, the Committee noted the following:

- There were no issues raised against the fraud risk assurances and Covid funding risk which was a significant risk last year.
- The auditors were content with the evaluation process of the asset depreciation accounting.

6.4

The External Auditors confirmed their expected conclusion of an “Unqualified Opinion”.

6.5

The auditors confirmed that they had dismissed two objections from members of the public concerning the audit, having followed the procedure laid down for investigation of such matters.

6.6

The Chairman expressed satisfaction in the anticipated “Unqualified Opinion” with regard to the audit but expressed disappointment at the delays experienced by PWC. Notwithstanding the outstanding assurances sought from PWC, the external auditors did not anticipate any additional issues, although further procedures would be put in place to cover the period to the audit opinion completion which was to be carried forward to mid November 2021. This additional unplanned work to the audit would carry additional cost to the County Council.

6.7

The Chairman, on behalf of the Committee placed on record its thanks to Ernst & Young for the excellent report and to officers who had provided help and support to the audit process over the last few months.

6.8

The committee considered the report and **RESOLVED** to **note**:

- The addendum to the audit plan issued by Ernst & Young following their Value for Money risk assessment.
- To agree matters raised in the Ernst & Young Norfolk County Council and Norfolk Pension Fund Audit Results Reports before Ernst & Young issue their audit opinions.

7 **Audit Letters of Representation 2020-21**

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 2020-21.

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 Chairman of the Audit Committee and Executive Director of Finance and Commercial Services to sign the letters on behalf of the Council.

8 **Annual Statement of Accounts and Annual Governance Statement 2020-21**

8.1 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 2020-21. The Chairman advised that the cover of the report reflected an inaccuracy in that this item is not a key decision as stated.

8.1.1 The Chairman placed on record his thanks for the officers who put together the accounts and report given the scale and complexities of the functions of the Council, this was an enormous annual achievement of which they could be proud. Members concurred with the Chairman's comments.

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

- Annual increments in the banding ranges would account for some of the increase in the percentage of officers earning over £50,000 and £75,000 as identified in page 202 of the report. The Council were always mindful of the need to consider value for money against salary costs.
- The France (Channel) England Interreg Va Euro programme would conclude after the current round of funding as the UK Government had withdrawn from the EU (Brexit). The Council had already sought replacement funding from other grant sources such as the UK Share Prosperity Fund. The Chairman committed to circulating the information concerning the amount of funding that was apportioned to Norfolk from the Interreg programme.

8.3.3 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 below, with further detail in paragraph 6.6 of the Annex to this report.

4. **Approve** the Council's 2020-21 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 Chairman and Vice-Chairman of Audit Committee.

Item 5 was taken at this point in the meeting.

5 Risk Management

- 5.1 The Committee received the report by the Executive Director of Finance and Commercial Services referencing the corporate risk register as it stood in October 2021, following the latest review conducted during August 2021.
- 5.2 In introducing the report, the Risk Management Officer highlighted those risks which had been updated and agreed by Cabinet.
- 5.3 It was proposed to close risk **RM028 – Risk of any failure to monitor and manage health and safety standards of third party providers of services** as mitigations had been implemented and services providers had greatly improved their approach. **RM010 – Risk of the loss of key ICT systems including internet, telephony, cloud provided services or Windows and Solaris hosting platforms** had been reduced to score 3. This is now considered a tolerated risk. A new corporate risk **RM033** had been opened as **Failure to receive necessary funding or statutory approvals to enable the Norwich Western Link (NWL) project (at £198m) to be delivered to the agreed timescales (target opening late 2025)** following the agreement by cabinet in June 2021 to undertake a programme of capital works within the agreed budget.
- 5.4 In response to questions from members it was noted:
 - Reputational risk is managed by the Council internally, however areas such as care services provision within adult and children services have their own quality control teams undertaking examination, as well as the Council's own complaints procedure to follow through which could be escalated to the Ombudsman. All these measures were working well and this area of risk is constantly monitored.
 - **RM013** required updating in that the progress update should reflect that a new Chairman and two new independent executive directors have now been appointed and are embedded on the Norse Group Board. In addition, the Norse Shareholder committee has had its terms of reference reviewed and extended and these new terms were approved by the committee in August 2021. The wider remit of the committee is reflected in its new name - Norfolk County Council Owned Companies Governance Panel.
 - The Chairman confirmed that the risks referred to in his earlier statement concerning providers such as Cawston Park Hospital would be broadened out and that further consideration of this risk would be discussed by Health and Overview Scrutiny Committee in November 2021. The Chairman suggested that the Executive Director of Adult Social Care and Community Services would be invited to speak at a future Audit committee.
 - **Risk RM022b** had to focus its relevance around the provision of Norfolk County Council's objectives and the provision of its services. However, a time and task group from the Corporate Select Committee had been set up

5.5 to tackle issues of how the Council can work with organisations such as Local Enterprise Panel to benefit Norfolk PLC. The Risk Management Officer agreed to feedback to the risk owner and reviewer the question of whether a part c) was required for this risk on the wider implications to Norfolk.

5.5.1 The Director of People gave a presentation concerning the upgrading of the risk **RM029** which is available on the [committee's website pages](#). The key reason for increasing the risk to red status is that of the vacancy level for social workers. This was a national challenge and was not unique to Norfolk. Those social workers undertaking assessment (FAST teams) was a particular pressure point.

In response to members questions it was noted:

- All employees on furlough during the pandemic were now back in post. The Director of People committed to furnish the committee with the exact numbers of those who were placed on furlough. These furloughed roles were exclusively where private funding of roles took place.
- The recruitment process does not capture data of existing skill sets of new employees although it is hoped that the introduction of myOracle shortly will help with that process. Data of this nature from apprenticeships has been established. However, documented careers paths were noted and provide potential employees with the assurance of the ability to learn and gain qualifications within the Council's structure.
- Social worker levels within Children's Services are of the most immediate concern and changes to help retention were shortly to be proposed to the employment committee. Agency workers also fill any gaps but reliance on that provision had been successfully reduced.

5.5 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 D)
- Background Information (Appendix E)

9 **Norfolk Audit Services Report for the Quarter ending 30 September 2021.**

9.1 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.

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

- The arrangements for internal control, governance and risk management were all considered to be acceptable.
- School audits had continued to be conducted remotely albeit that face to face teaching had returned from the period of the pandemic.

9.3 In response to a question, the Committee was reassured to note that audit days cancelled or deferred was largely due to a long term officer absence through sickness and that the dynamics of the audit plan often require a different focus from the initial plan as risks and priorities change. The overall plan including the key areas of audit were sound and satisfactory.

9.3.1 The Assistant Director of Finance (Audit) advised that options were being considered regarding the use of data analytics software. The abilities of the software are vast and sampling and trailing will take place before any further decisions are made. A follow up report will follow to the committee in due course.

9.4 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.

10.0 **Norfolk Audit Services Terms of Reference (Charter) and Code of Ethics 2020/21**

10.1 The Committee received the report by the Executive Director of Finance and Commercial Services presenting the revised terms of reference and code of ethics.

10.2 The committee consider the report and **RESOLVED** to:

- **Agree** the NAS Terms of Reference (Charter) as set out in Appendix A, and the Code of Ethics as set out in Appendix B of this report.

11.0 **Yearly Update of the Audit Committee**

The Committee received the report by the Executive Director of Finance and Commercial Services which summarised and reflects upon the work of the committee from 1 April 2019 to 31 March 2021 and confirmed that its function has been consistent with best practice demonstrating and explaining how it adds value to the Council.

11.1 In response to a question the committee were advised that government guidance was still awaited regarding the appointment of independent individuals to audit committees.

11.2 The committee considered the report and **RESOLVED** to:

Agree that the arrangements are satisfactory and note that the Committee has terms of reference which are consistent with guidance and best practice, subject to further strengthening by:

- including in the Committee's Terms of Reference (as consequential changes) these roles from the CIPFA position statement:
- considering the effectiveness of arrangements and the control environment and risk related issues in relation to partnerships and collaborations with other organisations
- monitoring the effectiveness of the control environment, including arrangements for ensuring value for money and supporting standards and ethics
- supporting standards and ethics arrangements

- considering a future report on the CIPFA's position statement for 'wider roles' and agree if there are any actions that need to be taken
- receiving updates on regulations and guidance concerning independent members and, if required, consider any such requirement
- considering a future report on the CIPFA 'assessment tool – evaluating effectiveness.

12 Anti-Fraud, Bribery and Corruption Report for the Quarter ending 30 September 2021

The committee received the report by the Director of Governance which updated the committee in respect of pro-active and reactive Anti-Fraud, Bribery and Corruption activity.

- 12.1 The Chairman thanked the County Council's Investigative Auditor, whose work on these subjects have been nationally recognised, for all his hard work and diligence.
- 12.2 Members were reassured that current investigations being carried out were being conducted with the necessary proper practices in place. Once these investigations are closed and concluded further details can be submitted to the Council and committee.
- 12.3 The committee considered the report and **RESOLVED** to:
Agree the key messages featured in part 3 of this quarterly report, that the work and assurance meet their requirements and advise if further information is required.

13 Work Programme

- 13.1 The Committee received the report by the Executive Director of Finance and Commercial Services setting out the work programme.
- 13.2 The Chairman committed to issuing a note to members to advise once the issues concerning PWC assurances for the Norse Group accounts had been signed off and that the Council's audit processes for 2020/21 had been completed satisfactorily. The Chairman requested that the Executive Director of Adult Social Care and Community Services be invited to speak at a future Audit committee regarding monitoring of risk RM14464 and that any mitigating actions are completed.
- 13.3 The Committee considered and **noted** the report.

The meeting ended at 4.03pm

Ian Mackie Chairman



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