Norfolk County Council
at your service

Audit Committee
Minutes of the Meeting held on Thursday 24 April 2014 at 2pm in the Colman Room, County Hall, Norwich

Present:

Mr I Mackie (Chairman)

Mr B Bremner
Mr J Dobson
Mr A Gunson
Mr J Joyce
Mr R Parkinson-Hare
Mr R Smith (Vice-Chairman)

Officers Present:

Mr R Murray	Ernst & Young (External Auditor)
Mr S Rayner	Strategic Risk Manager
Mr P Timmins	Interim Head of Finance
Mr A Thompson	Chief Internal Auditor
Mrs J Mortimer	Committee Officer

The Chairman welcomed Mr Parkinson-Hare to his first Audit Committee meeting. Mr Parkinson-Hare had replaced Mr M Smith on the Committee.

1 Apologies for Absence

1.1 No apologies for absence were received. Mr Joyce informed the Chairman that he would need to leave the meeting as he had been invited to attend a meeting with the Minister for Skills and Enterprise, the regional flood envoy, who was visiting Norfolk.

2 Minutes

2.1 The minutes of the meeting held on 30 January 2014 were agreed as a correct record and signed by the Chairman, subject to the following amendments:

- The list of attendees to read Ms N Smith instead of Ms N Young.
- Paragraph 5.1, second bullet point amended to read "When the proposed transfer had been completed, the Norse Group liability would reduce and Norfolk County Council would be eligible to receive an increase in its dividend on shares.

3 Declarations of Interest

There were no declarations of interest.

4 Matters of Urgent Business

4.1 The Committee were advised that Cabinet, at its meeting on 12 May would be receiving a report titled “Residual Waste Treatment Contract – funding options” about the risks surrounding the financing of the cancellation of the Willows contract.

4.2 The Committee expressed considerable concern about the recent corporate failure in ICT services, particularly with email accounts and the amount of time it was taking to resolve the problem. The Committee felt that this failure was a business continuity issue and asked that checks should be carried out to ascertain if risks were included within emergency planning procedures.

The Committee requested a report be brought to its June meeting, from the Head of ICT on its business continuity arrangements, particularly around email provision in the event of future service failure. The report to include information about whether the potential risks had previously been assessed and any actions that had been taken to mitigate those risks and what processes had been put in place to prevent similar occurrences in the future.

Members also requested that the risk register be checked to see if ICT failure had featured previously on the risk register.

5 Audit Commission – Protecting the Public Purse

5.1 The Committee received a report by the Head of Law, covering the Protecting the Public Purse (PPP) 2013 questions for members, the PPP checklist for Councillors and others charged with governance, and providing an update on the extended NFI Personal Budget pilot.

During the presentation of the report the Chief Internal Auditor confirmed that the overall checklist responses had been positive, which highlighted that the right areas were being covered.

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

- District Councils were responsible for the collection of business rate payments, which meant that they would also be liable for any resultant fraudulent activities. The District Councils would be aware of their responsibilities in detecting and preventing fraud and it would be up to them to determine how much resource they wished to allocate to this responsibility.

Mr J Joyce left the meeting at 2.15pm.

- The Committee acknowledged that, although Norfolk County Council held the risks around the new proportional arrangement for pooling business rates, it had not been given the powers to raise business rates or council tax to cover this responsibility. It was also acknowledged that if a business appealed against its business rates, Norfolk County Council had no role in the appeal process but would have to fund any repayments awarded.

5.3 **RESOLVED** to note the report.

6 Risk Management Report (4th 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 fourth quarter of 2013-14. The update included details of twenty risks proposed for inclusion within the Corporate Risk Register.

6.2 During the presentation of the report, it was noted that three new risks had been added to the report :–

RM14156 – Liability for legal challenge to procurements conducted by ESPO.
RM14154 – Introduction of committee system.
RM14155 – Embedding the committee system.

The Committee was also advised that it was the view of the Environment, Transport and Development department that risk RM14113 (Failure in the delivery of the Willows Power and Recycling Centre) should remain on the risk register until the contract had been officially terminated.

6.3 The Committee discussed the draft Terms of Reference which had been drawn up by the Chief Internal Auditor at the request of the Committee's Chairman, relating to the Internal Controls and Risk Management of the Payment of Costs and Associated Risks about the Willows Contract.

- The Committee requested that a report be brought to a future meeting of the Audit Committee, outlining the risks to Norfolk County Council from the inception of the project. The report should include when the risk had been identified and governance issues.

- The risks relating to the Willows had originally been identified in 2006 as a Group risk when Environment, Transport and Development department were considering solutions for dealing with the disposal of Norfolk's waste, particularly the risks surrounding the reduction in the amount of waste being sent to landfill. It was confirmed that the risk had been added to the Corporate Risk register in May 2006 and had been reviewed on a regular basis by the Audit Committee as well as Environment, Transport & Development O&S Panel.

- The risks relating to the waste management project had been added to the electronic risk management system in 2007. Members were reassured that those risks had been regularly reviewed by the Audit Committee and the Chief Officer Group. Senior Managers in Environment, Development & Transport department had reviewed the risk regularly and the ETD O&S Panel had also received regular reports relating to the Willows risk management. Cabinet Scrutiny Committee had also called-in matters relating to the Willows.

- The Committee requested that a report be brought to the next meeting of the Audit Committee outlining the history of the risks relating to the failure to divert waste from landfill.

6.4 The risk review "date updated" heading in the report was the date that the report had been compiled. The column to the far right of the register "date of review and/or update" was the date on which the risk owner actually undertook the review and made any appropriate comments or changes. It was noted that not all the risks would achieve their target score by the target date. The Committee **agreed** that future reports should include a commentary on whether the risks could meet the target dates, particularly if they had financial implications.

6.5 **RESOLVED** to:

- note the changes to the risk register.
- Note the twenty corporate risks
- Note that the arrangements for risk management were acceptable and fulfil Norfolk County Council's "Well Managed Risk – Management of Risk Framework".
- Actively endorse risk management training throughout the County Council.
- Agree to risk management training for members prior to the June meeting.

7 External Audit – Audit Plan

7.1 The Committee received a report by the Interim Head of Finance introducing the External Auditor's (Ernst Young) Audit Plan. The Chairman welcomed Rob Murray from Ernst & Young to the meeting.

7.2 During the presentation of the report, the following points were noted:

- The wording included in paragraph 1.4, first bullet point would need to be updated to reflect the resilience following the decision made by Cabinet to terminate the Willows contract.

- The sum included in the report for materiality of 2%, had been agreed between the employing company and the accountants. Ernst & Young considered for Local Government that the materiality figure should be in the range of ½% and 2% of the gross expenditure of the company. At the time of drawing up the audit plan, the figure for materiality had not yet been agreed so this may reduce.

- The Value for Money (VfM) conclusion, completed as part of the audit, had formally concluded that Norfolk County Council had plans in place to safeguard financial resilience.

- The localisation of business rates risk related to the Norfolk County Council share of successful National Non-Domestic Rates (NNDR) appeals. It was difficult to predict the success rate of appeals so some provision needed to be made to cover any possible future liability, although the Committee noted that Norfolk County Council would face the liability of refunding business rates overpayments to those companies who had successfully appealed.

- The Pension Valuation was estimated by the Actuary. As a result of the large sums of money involved, the Audit Commission commissioned its own Actuary - Price WaterHouse Coopers (PWC). Ernst &

Young also carried out their own review. The costs for this work were spread nationally across the audit regime so individual council costs were likely to be small. It was noted that there may be increased costs in the future, although it was anticipated these would not be significant.

7.4 It was **RESOLVED** to note the report.

8 Norfolk Audit Services Quarterly Report for the quarter ended 31 December 2013.

8.1 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.

8.2 The following points were noted during the discussion:

- Members of the Audit Committee had not been asked to complete the NAS Customer Satisfaction Questionnaire, although the Chief Internal Auditor stressed he would be happy to receive any adhoc individual feedback from any member of the Committee.

Mr J Joyce rejoined the meeting at 3.20pm

- The new High Priority Findings monitoring process would take time to embed and for the impact to be quantified. Due to the experience and knowledge of the Audit team, areas of greatest risk were identified; therefore the number of high priority findings noted in the report had not come as a surprise. The number of audits driving these totals had been spread out over the course of the year with varying timetables for actions to be completed. Future reports would be developed to include trends.

8.3 The committee considered the recommendations within 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 being ‘acceptable’ and therefore considered ‘sound’.
- The changes to the approved 2013-14 and 2014-15 internal audit plans, as set out in Appendix D of the report.
- The summary high priority findings results at 4.4, table 1 of the report being satisfactory.
- The satisfactory progress regarding the traded schools audits and the preparations for an Audit authority for the France Channel England Interreg Programme.

9 An Annual Update of the Audit Committee

9.1 The Committee received the report by the Chairman covering the work of the Audit Committee in the year ended 31 March 2014.

9.2 During the discussion the Chief Internal Auditor agreed to remove the entry at item

11 “non-advisory role” and to ascertain the exact definition of that part of the self assessment checklist.

9.3 **RESOLVED** to note that the Audit Committee:

- Was independent of the executive function and reported directly to full Council.
- Terms of Reference were consistent with CIPFA’s guidance and best practice.
- Provided effective challenge across the Council and independent assurance on the system of internal control, including the management o risk, to members and the public.
- Could demonstrate the impact and value of its work.
- Was monitoring the Secretary of State’s plans for the Future of Local Public Audit.
- Had completed a best practice self-assessment checklist annually which confirmed good performance.

10 Norfolk County Council Summary – Statement of Accounts 2012-13

10.1 The Committee received a report by the Interim Head of Finance presenting the Summary Statement of Accounts 2012-13, details of which had been extracted from the 2012-13 Statement of Accounts approved by the Audit Committee on 26 September 2013.

10.2 **RESOLVED** to note the Summary Statement of Accounts for 2012-13.

11 NCC 2014-17 Budget Book

11.1 The Committee received the report by the Interim Head of Finance setting out the draft format of a Budget Book that presented details of the approved budget for 2014-15 and indicative budgets for 2015-16 and 2016-17.

11.2 The Chief Internal Auditor agreed to speak with the Interim Head of Finance about the apparent discrepancy in the figures quoted in Table 3 on pages 127 and 128 of the agenda papers. The Interim Head of Finance would email the response to the Committee.

11.3 In response to a question about the budget for the Corporate Programme Office in the draft budget book, it was confirmed that it had been established to provide a professional service and a central focal point in coordinating major change projects across the whole County Council and to ensure corporate priorities remained in focus. Prior to the establishment of the Corporate Programme Office, there had been no central collation of projects.

11.4 **RESOLVED** to note the draft Budget Book 2014-17.

12 Audit Committee Work Programme

12.1 The Committee received a report by the Interim Head of Finance setting out the work programme.

12.2 The following training topics were agreed:

- June 2014 – Risk Management.
- September 2014 – Accounts approval.

12.3 Following the decision by the Committee, the following three items were added to the agenda for the June meeting:

- Report on the failure of ICT in April 2014 and what business continuity arrangements had been put in place to mitigate any future occurrences.
- Report on the risks surrounding the Energy for Waste project from its inception to the date Cabinet made its decision to cancel the contract.
- Report on Internal Controls and Risk Management of the Payment of Costs and Associated Risks about the Willows Contract.

12.4 **RESOLVED** to note the report.

The meeting ended at 3.50pm

CHAIRMAN

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