

**Audit Committee**  
**Minutes of the Meeting held on 24 June 2013 at 2pm in the**  
**Colman Room, County Hall, Norwich**

**Present:**

Mr B Bremner  
Mr J Dobson  
Mr A Gunson  
Mr J Joyce  
Mr I Mackie  
Mr M Smith  
Mr R Smith

**Officers Present:**

Mr J Baldwin	Finance Exchequer Service's Manager
Mr P King	Ernst & Young (External Auditor)
Ms K Last	Internal Audit
Ms V McNeill	Monitoring Officer/Practice Director NPLaw
Mr R Murray	Ernst & Young (External Auditor)
Mr A Thompson	Chief Internal Auditor
Mrs J Mortimer	Committee Officer

**1 Apologies for Absence**

- 1.1 An apology for absence was received from Paul Brittain, Head of Finance.

**2 Election of Chairman**

Mr I Mackie was elected Chairman of the Audit Committee for the ensuing year.

**Mr I Mackie in the Chair**

**3 Election of Vice-Chairman**

Mr R Smith was elected Vice-Chairman of the Audit Committee for the ensuing year.

Mr J Dobson wished it to be recorded that he did not agree with the Committee's decision to appoint Mr R Smith as Vice-Chairman of the Committee. No reason was given.

## **4 Minutes**

- 2.1 The minutes of the meeting held on 25 April 2013 were agreed as a correct record and signed by the Chairman.

## **5 Declarations of Interest**

- 5.1 Mr Mackie declared an other interest as a Member of Broadland District Council.
- 5.2 Mr Bremner declared an other interest as a Cabinet Member of Norwich City Council.
- 5.3 Mr Joyce declared an other interest as a Member of Broadland District Council.

## **6 Matters of Urgent Business**

- 6.1 Although there were no matters of urgent business, the Committee wished to record their appreciation and thanks for the work carried out by Paul Brittain, Head of Finance during his tenure at Norfolk County Council. Mr Brittain was due to retire in September 2013.

## **7 Monitoring Officer's Annual Report 2012/13**

- 7.1 The Committee received the annexed report (7) by the Head of Law and Monitoring Officer, summarising the internal governance work carried out in 2012/13 and providing assurance that the organisations control environment, in the areas which were the responsibility of the Monitoring Officer were adequate and effective.
- 7.2 During the presentation of the report, the Head of Law and Monitoring Officer confirmed that no reportable incidents had been dealt with and that the systems of internal control were adequate and effective.
- 7.3 The Head of Law and Monitoring Officer also confirmed that regular meetings had been held with the Standards Committee pre-Localism Act, as well as the post-Localism Act Standards Committee to review a range of standards issues.
- 7.4 In response to questions from the Committee, the following points were noted:
- Following an incident at a recent Cabinet Scrutiny Committee where a Member of the Council made a comment about the impartiality and integrity of officers, the Committee discussed whether any specific follow-up action was required. The Councillor concerned had made an apology at the meeting and had retracted his statement. The Head of Law and Monitoring Officer confirmed that, although she was aware of the incident she had received no notification of a formal complaint.
  - The committee agreed that if such an incident arose in the future, Members may need to be referred to the Code of Conduct and training arranged to remind Members of the importance of treating others with respect.

- The committee asked the Head of law and Monitoring Officer to draft a statement for the Chairman of Audit Committee to send to Group Leaders who would then cascade it to their Group Members, about the requirements to abide by the Code of Conduct and everyone with respect at all times.

7.5 The Committee requested a paper be brought to their next meeting on the elements of the Council's systems of internal audit as endorsed by the Audit Committee on 24 April 2007 on how the Audit Committee reviewed information on the effectiveness of the management processes and corporate control functions as provided by self assessment, customer feedback and any existing external performance reviews. The Committee could then decide if they wished to proceed on the same basis as that agreed by the Audit committee in 2007.

7.6 **RESOLVED** to note the report. Mr Dobson asked for it to be minuted that he did not agree to note the report. No specific reason was given.

## **8 External Audit – Understanding how the Audit Committee Gains Assurance from Management.**

8.1 The Committee received the annexed report (8) by the Head of Finance introducing the External Auditor's paper at Appendix A of the report, highlighting a number of questions for the Committee to consider when assessing how the Audit Committee gained assurance from management.

8.2 The following points were noted in response to questions from the Committee to Mr Rob Murray, Ernst & Young (External Auditors):

- The Norfolk Pension Fund was a self governing body, separate from the County Council, with a Pensions Committee overseeing its investments. Members of the Audit Committee expressed some discomfort about having a watching brief on the investments as outlined in the Terms of Reference and the authorisation, publication and release of a separate report within the Statement of Accounts.
- The Pensions External Audit plan had been received and approved by the Pensions Committee at its meeting in June 2013.
- The Committee requested a briefing on the national responsibilities of the Pension Fund as the Committee didn't feel they had all the necessary information to give a considered opinion on the details contained in the Pension Fund part of the report.
- The Committee requested that the Head of the Norfolk Pensions Fund be asked to bring a report to the next meeting of the Audit Committee outlining the governance arrangements of the Pension Fund and to answer questions from the Committee. The paper to include how Ernst & Young were aligned to that governance and a statement on what the Norfolk County Council Pension Fund did when fluctuations in market conditions occurred.
- The Committee also requested information about the responsibilities of the Government relating to Pension Funds, which would assist them in

ascertaining what the government control of the Norfolk County Council Pension Fund was.

- The Chief Internal Auditor to draft a paper outlining the full responses to each of the questions outlined in Appendix A of the report and circulate the information to the Committee for their consideration.
- The Chief Internal Auditor agreed to circulate a copy of the terms of reference for the Audit Committee to Members.

8.3 **RESOLVED** to note the report.

## **9 External Audit Norfolk Pension fund Draft Audit Plan 2012/13**

9.1 The annexed report by the Head of Finance was received by the Committee and introduced the External Auditor's Norfolk Pension Fund draft Audit Plan.

9.2 Mr R Murray, Ernst & Young introduced the report and the following points were drawn to the attention of the Committee:

- The report outlined the changes that had taken place over the last year in the governance arrangements and the planned approach to fulfil the responsibilities of the Audit Committee.
- Peter O'Neill, Ernst & Young had been appointed as auditor for the Norfolk Pension Fund.
- The reporting timetable set out in the report showed the key stages of the audit and the information that had been agreed to be provided to the Audit Committee during 2013. The dates were aligned with deadlines stipulated by the Audit Commission.
- The fees set out in paragraph 3.4 of the report showed a significant reduction following the Audit Commission's outsourcing exercise in 2012.
- There had been no breaches of independence or objectivity identified by Ernst & Young to date.

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

- To ensure full transparency of the procurement process was maintained, risk based audits constantly assessed the risks associated with the effectiveness of management controls when procurement contracts were drafted and put out for tender.
- Ernst & Young had been appointed as custodians for the Valuation Process for the Pension Fund. Custodians were appointed to ensure protection of assets and assurance was maintained.
- The Norfolk Pension Fund draft Audit Plan would usually be considered by the Audit Committee at their meeting in the first quarter of the year. The

reasons for the plan coming to the Committee in June this year was due to the outsourcing carried out by the Audit Commission in 2012.

- The Norfolk Pension Fund draft external audit plan for 2013/14 was currently being prepared at a high level which would lead to the understanding of the overall risks. Once the high level plan had been drafted, the Committee would receive the plan for 2013/14 in the autumn.
- The Committee had already requested that the Head of Norfolk Pension Fund be asked to attend the next Audit committee meeting to present a report on 26 September 2013 (Item 8 above). The Committee also requested that the report include the reasons that Norfolk Pension Fund had running costs for administration among the highest 20 organisations in the country.

9.4 **RESOLVED** to endorse the report.

## 10 **Risk Management Report (1st Quarter 2013/14)**

10.1 The annexed report by the Head of Finance was received by the Committee. The report provided the Audit Committee with an update of the Corporate Risk Register following the latest quarterly review conducted during the first quarter of 2013/14. The updated report also included details of the 19 risks proposed for inclusion within the Corporate Risk Register.

10.2 The following points were noted during the presentation of the report:

- The Corporate Risk Register had last been reviewed and updated in June 2013.
- The risks included within the report had been identified by Chief Officers and were considered the most likely risks to present the highest threat to the County Council at the present time.
- Five new risks had been added to the risk register
  - RM14113 – Failure in the delivery of the Willows Power and Recycling Centre.
  - RM14112 – Failure to meet the requirements of the Improvement Notice from DfE. This risk had previously been considered at a departmental level before being added to the Corporate Risk Register.
  - RM14097 – Shortage of personnel through illness, sustained industrial action, etc. including loss of key senior personnel.
  - RM14100 – Loss of key ICT systems.
  - RM14098 - Incident at key NCC premises or adjacent causing loss of access or service disruption.

- The Corporate Risk Register was reviewed by the Audit Committee regularly and contained risks which affected all departments of Norfolk County Council. The Corporate Risk Register was owned by the Chief Officer Group. Departmental risks were reported to the Overview and Scrutiny Panels regularly.
- Chief Officers identified items which were required to be added to the Corporate Risk Register as well as their own departmental risk registers. The Strategic Risk Management Team also worked with departments to identify risks within services and how those risks could be mitigated.
- Regarding risk RM14112 – Failure to meet the requirements of the Improvement Notice from DfE. This risk had appeared on the departmental risk register several times during recent months. Cabinet had also discussed that particular risk and had considered that it was being managed satisfactorily by the department. The decision to add it to the Corporate Risk Register now had been made by the Chief Officer Group.
- Regarding risk RM14113 – Failure in the delivery of the Willows Power and Recycling Centre. This risk had appeared on the Corporate Risk Register previously, but the emphasis previously had been on recycling and waste strategy. This new risk had been identified specifically to focus on the possibility of the termination of the contract and any associated costs involved.
- Risk Management Reports were considered by the Audit Committee at each meeting.
- Regarding risk RM14097 – Shortage of personnel through illness, sustained industrial action, etc. This risk had appeared previously on the risk register and had been reinstated with respect to the business continuity aspect and the challenges faced by the organisation at the present time.
- Regarding risk RM13917 – Loss of core infrastructure or resources being removed from the corporate risk register and being replaced by three separate risks. The Committee were reassured that there was a strategy in place to ensure that topics were only removed from the register when they had been fully investigated and the risks removed.
- The Committee requested that future Risk Management Reports to the Committee would show all the detail of the risks and the mitigating factors.

10.4 The Committee **RESOLVED** to note:

- the changes to the risk register
- the nineteen corporate risks.
- that the arrangements for risk management were acceptable and fulfilled Norfolk County Council's "Well Managed Risk – Management of Risk Framework".

## 11 Norfolk Audit Services Quarterly Report for the Quarter ended 31 March 2013

11.1 The annexed report by the Head of Finance was received by the Committee. The report summarised the results of the recent work carried out by Norfolk Audit Services (NAS) and gave an overall opinion on the adequacy and effectiveness of risk management and internal control within the County Council to give assurance that, where improvements were required, remedial action had been taken by Chief Officers.

11.2 The following points were noted during the discussion:

- The alternatives outlined in the project to consider the options for offering schools audits had been discussed at the Schools Forum meeting on 15 May. The Chief Internal Auditor confirmed he was waiting to hear the recommendations from the Schools Forum and that any detailed proposals would be brought to the Committee. The aim of the project was to be able to offer schools risk based coverage supported by an audit service that they wanted to purchase in order to maintain a tight reign on their finances and processes. Members requested that work was carried out to encourage schools to ensure they had their own internal audit controls in place.
- Work was currently being undertaken to take forward the options identified, with particular emphasis on efficiency.
- Schools were identified for audit using a RAG (red, amber, green) monitoring system and a league table which indicated the schools considered to be most at risk.
- The proposals in the project for schools audits were likely to try to focus on high risk schools within the control of the Local Authority. Academies were not audited as part of the routine work of the Internal Audit Team as they did not fall under the control of the Local Authority.
- The Chief Internal Auditor agreed to ascertain the criteria for Local Authority interventions in secondary schools if it was considered intervention was required and also whether the process was mandatory. The criteria would be circulated to the Committee.
- The Chief Internal Auditor confirmed that a principal of spot-checking would be introduced and he would be happy to receive the views from the Committee on any areas they wished the audit team to carry out spot-checks. It was noted that there would need to be a balance maintained between the work done and the greatest risks to the authority. The Committee agreed that it was appropriate to set aside time proportionate to carry out spot checks.

11.3 It was **RESOLVED** to agree

- The overall opinion on the effectiveness of risk management and internal control being 'acceptable' and therefore considered 'sound'.

- A clear policy to include unannounced 'spot' checking in the audit planning being agreed with Chief Officers, including promotion of that policy to ensure understanding by staff and managers that spot checking was possible, was approved and was likely to take place where it was necessary and proportionate and the benefits it provided. Initial areas to be included were cash floats and desirable portable asset verification.

## **12 Norfolk Audit Services – Annual Internal Audit Report 2012-13**

- 12.1 The Committee received the Annual Internal Audit Report 2012 by the Head of Finance.
- 12.2 The Committee noted in particular the proposed future development areas for the internal audit team in 2013-14 and the proposed responsibilities in relation to fraud and corruption. The Chairman thanked staff for the work that had gone into delivering the audit plan.
- 12.3 **RESOLVED** to agree the key messages that:
- based on the report the Head of Finance could assure the committee that the adequacy and effectiveness of the system of internal control including the arrangements for the management of risk during 2012-13 was acceptable and considered sound.
  - Internal Audit was adequate and effective during 2012-13.
  - The work of Norfolk Audit Services for the year and the assurance provided assisted the Committee to reasonably assess the risk that the Financial Statements were not materially misstated due to fraud. The risks of fraud and corruption had been reviewed in the light of the economic downturn and planning and resources were considered adequate.

## **13 Internal Audit Plan 2013-14 for Quarter 3**

- 13.1 The Internal Audit Plan 2013-14 for Quarter 3 report by the Head of Finance was received by the Committee.
- 13.2 The following responses were noted in response to questions from the Committee:
- Any work carried out by the Internal Audit team on behalf of the Norfolk Pension Fund was charged to the Norfolk Pension Fund. The report on this work was submitted to the Pensions Committee.
  - The controls for the Pension Fund had led to an acceptable opinion that their risk management, governance and internal control was sound. Although there was no direct report, if there were any key issues, they would be raised with the Audit Committee.
  - The details of the dedicated schools grant audit would be circulated to the Committee by the Chief Internal Auditor.
  - The funding for the Internal Audit team to carry out school audits was provided



out of the audit base budget which came under the control of the Head of Finance.

- Over the last four years, all schools in Norfolk under the responsibility of Norfolk County Council had been audited on at least one occasion.
- Proposals were being prepared for the Internal Audit Team to provide a service which could be bought in by schools rather than wholly relying on funding from the base budget. This service would focus on the areas considered to be most at risk.
- Audits were not routinely carried out on the completeness and quality of the goods received as the i-procurement system relied on the individual members of staff responsible for approving receipt of orders, highlighting that the goods ordered had been received correctly. It was hoped that anyone responsible for ordering goods would treat the ordering of goods in the same way they would spend their own money.
- The Chief Internal Auditor was asked to ascertain if there was a specific policy relating to Commissioning of Services and if so whether it had been updated and been approved by full Council.

**13.4 RESOLVED to:**

- Note that there had been no overall change to the 1,840 audit days (plus £25,000 contractor allowance) in the total strategy. As a result of some changes in planned audits for Quarters 1 and 2, there were 490 overall audit days proposed for quarter 3 (322 to support the audit opinion).
- Note that the proposed audit plan met the legislative requirements of the Accounts and Audit (England) Regulations (2011).
- Note the allocation of days set out in Appendix A of the report to meet the various elements of the strategy approved by the Audit Committee on 31 January 2013.
- Note that it did not wish to amend the schedule of audits, for 322 days, set out in Appendix B1 of the report and to note the outline topics in Appendix B2 (for Quarter 4) to deliver the audit work to support the opinion.
- Note that the internal audit plan for Quarter 3 of 2013-14 made adequate provision for the risk arising from organisational change, the economic downturn and that resources are sufficient to accomplish the plan.

**14 Anti-Fraud and Corruption Update**

14.1 The annexed report by the Practice Director NPLaw was received by the Committee. The report provided an update for the Committee on the Council's Anti-Fraud and Corruption Strategy and how it added value.

14.2 The following points were noted during the discussion:

- The Anti-Fraud and Corruption Strategy was continually reviewed and would be brought to a future Audit Committee meeting for consideration by Members.
- The possibility of developing an e-learning programme on fraud awareness for all staff was being considered although there was a need to be mindful about the amount of time used in getting all staff to complete on-line learning. The Committee noted that the focus recently had been on data protection and information security learning.
- The Audit Team were looking to promote a fighting fraud locally toolkit and rolling it out to assess its usability through ongoing promotion.

**14.3 RESOLVED** to note:

- The work to date, that there had been adequate progress and there was a plan for future work.
- That the strategy was consistent with best practice (including Fighting Fraud Locally) and that
  - It still met both internal measures and external inspection requirements.
  - Was effective, and
  - Added value.
- That the strategy had been considered in light of the economic downturn and was still considered to be adequate.

**15 Statement of Accounts**

15.1 The Committee received a verbal update by the Chief Internal Auditor regarding the preparation work on the Statement of Accounts, during which the following points were noted:

- The Statement of Accounts were currently under preparation after which they would be approved by the Head of Finance before being made available to the external Auditors and being published in draft on the website.
- The Statement of Accounts and Annual Governance Statement would be presented to the Committee at their meeting in September and it was expected that there would be no variations to the already agreed deadlines.

15.2 Any Committee member who wanted training prior to the next meeting when the Statement of Accounts would be considered was asked to contact the Chief Internal Auditor, or the Head of Finance, who would be happy to arrange this.

**16 Work Programme**

The Committee received a report by the Head of Finance setting out the work programme for the Audit Committee until April 2014.

The Committee requested sight of the Terms of Reference relating to the Audit Committee's involvement with the Pension Fund to ensure an appropriate level of scrutiny was maintained.

**RESOLVED** to note the report.

The meeting ended at 4.20pm

**CHAIRMAN**



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Agenda Item Number	Report Title	Action	By Whom	Response
7	Monitoring Officer's Annual Report 2012/13.	The committee asked the Head of law and Monitoring Officer to draft a statement to Group Leaders for cascading to their Members about the requirements to abide by the Code of Conduct at all times, by treating everyone with respect. The statement to include some examples of acceptable and unacceptable behaviour.	Head of Law and Monitoring Officer	A statement was sent to Group Leaders for cascading to their members.
7	Monitoring Officer's Annual Report 2012/13	The Committee to receive a paper at their next meeting on the elements of the Council's systems of internal audit as endorsed by the Audit Committee on 24 April 2007 on how the Audit Committee reviewed information on the effectiveness of the management processes and corporate control functions as provided by self assessment, customer feedback and any existing external performance reviews. The Committee could then agree if	Chief Internal Auditor	Details on the elements of the Council's Systems of Internal Audit as endorsed by the Audit Committee on 24 April 2007 have been included in the Norfolk Audit Services quarterly report on the September 2013 Audit committee's Agenda.

		they wished to proceed on the same basis as that agreed in 2007		
<b>Agenda Item Number</b>	<b>Report Title</b>	<b>Action</b>	<b>By Whom</b>	<b>Response</b>
8	External Audit – Understanding how the Audit committee gains assurance from management.	The Committee requested that the Head of the Norfolk Pensions Fund be asked to bring a report to the next meeting of the Audit Committee outlining the governance arrangements of the Pension Fund and to answer questions from the Committee. The paper to include how Ernst Young were aligned to that governance and a statement on what the Norfolk County Council Pension Fund did when fluctuations in market conditions occurred.	Chief Internal Auditor to arrange	A report has been included on the September 2013 Audit committee' agenda outlining the governance arrangements of the Pension Fund including a note on the running costs for administration.
8	External Audit – Understanding how the Audit Committee gains assurance from management	The Committee also requested that the report include the reasons that Norfolk Pension Fund had running costs for administration among the highest 20 organisations in the country.	Chief Internal Auditor to arrange	<a href="http://intranet.norfolk.gov.uk/insight/Investment%20&amp;%20Admin%20Costs.pdf">http://intranet.norfolk.gov.uk/insight/Investment%20&amp;%20Admin%20Costs.pdf</a>
8	External Audit – Understanding how the Audit Committee gains assurance from management.	The Chief Internal Auditor to draft a paper outlining the full response to each of the questions outlined in Appendix A of the report and circulate the information to the Committee for their consideration.	Chief Internal Auditor	A full response was circulated, agreed and submitted to each of the questions outlined in Appendix A of the report.

Agenda Item Number	Report Title	Action	By Whom	Response
8	External Audit – Understanding how the Audit Committee gains assurance from management.	A copy of the terms of reference for the Audit Committee to be circulated to Committee members	Chief Internal Auditor	A copy of the terms of reference for the Audit Committee appears on the September 2013 Audit Committee's agenda.
11	Norfolk Audit Services Quarterly Report for the Quarter ended 31 March 2013.	The Head of Internal Audit agreed to ascertain the criteria for auditing secondary schools if it was considered intervention was required and also whether the process was mandatory. The criteria would be circulated to the Committee.	Chief Internal Auditor	The Committee asked for the Chief Internal Auditor to ascertain the criteria for intervention in secondary schools if it was considered intervention was required and also whether the process was mandatory. For financial interventions, Children's Services use Norfolk's Scheme for Financing Schools (the scheme), which gives us powers under S151 (of the Local Government Act 1972) to intervene, where we have reason to believe that schools are not managing their resources effectively. Reasons can include; failure to adequately set or keep to a school's budget, significant non-compliance with the scheme or consistent unsatisfactory financial management. We have a number of intervention strategies, including removal of delegated authority from governors to manage their own finances. Schools Finance Team have received positive comments on their intervention strategies and the speed with which they act. The criteria for choosing which secondary schools to audit include the Children's Services RAG rating, with Red or Amber being given priority, linked to the length of time since the last audit.

<b>Agenda Item Number</b>	<b>Report Title</b>	<b>Action</b>	<b>By Whom</b>	<b>Response</b>
13	Internal Audit Plan 2013-14 for Quarter 3.	The details of the dedicated schools grant audit would be circulated to the Committee by the Chief Internal Auditor	Chief Internal Auditor	The Committee asked for details of the 'Dedicated Schools Grant Audit'. Following more detailed planning work the name of this audit has changed to 'School Improvement'. This audit aims to review how possible signs of poor school performance is recognised by the various teams and how the teams work together to ensure schools receive the support, where required.
13	Internal Audit Plan 2013-14 for Quarter 3	The Chief Internal Auditor to ascertain if there was a specific policy relating to Commissioning of Services and if so whether it had been updated and been approved by full Council.	Chief Internal Auditor	The Committee asked if there was a specific policy relating to Commissioning of Services and if so whether it had been updated and been approved by full Council - we have reference to a commissioning framework in the constitution but all contracts are subject to the councils standing orders.