

Minutes of a meeting of the **Audit Committee** held by video link on **Thursday 16 July 2020** at 10.00am when there were present:

Cllr G K Nurden – Chairman

Cllr N J Brennan    Cllr A D Crotch    Cllr S I Holland    Cllr K A Vincent

Also in attendance were the Assistant Director Finance (Section 151 Officer), Assistant Director Governance and Business Support (Monitoring Officer), Corporate Accountant, Internal Audit Manager, ICT and Digital Manager, Democratic Services Officer (LA) and the Democratic Services Officer (JO).

### 39    **DECLARATIONS OF INTEREST UNDER PROCEDURAL RULE NO 8**

Member	Minute No & Heading	Nature of Interest
Cllr K Vincent	43 - Draft Statement of Accounts 2019/20	Non pecuniary interest, spouse of a Director of Broadland Growth Ltd.

### 40    **APOLOGY FOR ABSENCE**

An apology for absence was received from Cllr Bulman.

### 41    **MINUTES**

The Minutes of the meeting held on 12 March 2020 were confirmed as a correct record.

### 42    **MATTERS ARISING**

*Minute No: 30 Matters Arising*

It was confirmed that Risk Management and Cybercrime online training for Members would be arranged as soon as practicable.

The Chairman requested that any feedback regarding the briefing on Broadland Growth Ltd be provided to the Committee.

In response to a query from the Chairman, the Assistant Director Finance confirmed that compliance with the Audit recommendation regarding Purchase Orders was being addressed as a priority. A ten point plan had been put in place and all staff had been made aware of the requirement to

raise Purchase Orders prior to making purchases. Progress had been delayed due to the impact of Covid-19, but was now back on track. He confirmed that there had been no financial impact from this issue

### *Minute No: 35 Annual Report of the Audit Committee*

The Chairman requested that he be sent the final amended version of the Annual Report of the Audit Committee, before it went to Council.

### *Minute No: 35 External Audit Plan Year Ended 31 March 2020*

In response to a query about the cost of additional work by External Audit in relation to the new risk of incorrect apportionment of recharge expenditure overheads between the two Councils, the Assistant Director Finance confirmed that External Audit would probably wait until the end of the Audit before assessing the extent of the impact on their work. Any increase in the fee was likely to be quite small, however. In respect of fee levels generally; Norfolk local authorities had collectively written to Public Sector Audit Appointments to challenge EY's proposals to increase fees substantially.

### *Minute No: 36 Annual Fraud Update*

The Chairman requested that a review of the Council's Counter Fraud and Bribery Policies be placed on the Committee's Work Programme for next year. The Assistant Director Finance confirmed that interviews for a new Fraud Officer had recently taken place and reviewing the policies would be one of the successful candidate's first tasks.

## **43 DRAFT STATEMENT OF ACCOUNTS 2019/20**

The Assistant Director Finance advised the meeting that due to the Covid-19 pandemic publication dates for the Statement of Accounts had been deferred, which provided an opportunity for the Committee to review a draft version of the Accounts before they were brought back to the Committee in October for final approval and publication in November.

Key areas to note in the Accounts were:

- The Comprehensive Income and Expenditure Account, which covered all expenditure for all the services of the Council. At this draft stage the Accounts showed a surplus for the year of £183,000.
- The Movement in Reserves Statement showed a net addition to the General Fund of £1.47m.

- The Balance Sheet showed that the Council's Total Net Assets were £15,052,000. There was a significant increase in Assets Held for Sale, due to the properties developed by Broadland Growth Ltd at Rosebery Road. Cash held nearly doubled to £12.98m as a contingency measure during the lockdown. Short term Debtors and Creditors also increased significantly due to the large amount of Community Infrastructure Levy receipts being held by the Council.
- Additional information on financial aspects of the Covid-19 outbreak was included in the Statement of Accounts. It was anticipated that the full financial impact would not be known until 2021/22. A detailed analysis of the Council as a going concern on 31 March 2020, was also included in the report.
- The note on officer remuneration was to be added later, as legal advice was being sought regarding aspects of this. The note would contain a list of senior staff with costs shared between each Council, as well as the costs of any exit packages.
- Details of the pension fund were in the Statement. The value of the assets in the pension fund reduced by £3m to £56m. However, the liability of the scheme had also decreased, down by £10m to £81m in 2019/20.
- The Collection Fund Statement provided details of all the transactions in relation to the collection of Council Tax and Business Rates and their distribution to Norfolk County Council, BDC, the Norfolk Police & Crime Commissioner and the Government.

The Chairman commended officers for their excellent work in putting together the draft Statement. He then raised a number of queries about the production of the Statement of Accounts.

In response the Assistant Director of Finance advised the meeting that Broadland had the Civica accounts system and South Norfolk used the Integra system, which were both standard accounting software. Both systems received regular upgrades and patches. Consideration of using the same software package would be looked at in the future. However it was noted that as the Councils were separate sovereign bodies there would need to be two sets of separate accounts produced.

The accounting software was used to compile the Statement of Accounts, but a lot of the work was also done on spreadsheets.

The allocation of staff costs between the local authorities was done by uploading information from the payroll department into the accounts packages.

A briefing on the accounts system could be organised virtually for Members who would like to understand more about how the Statement of Accounts were put together.

The Chairman requested an amendment to the Statement of Accounts to make clearer how the adjustment between Accounting Basis and Funding Basis of £1,348,000 had been reached.

The Chairman also brought to Members' attention a number of errors that required correcting. These were:

- The collection fund on page 23 should refer to £84.2m, not £84.
- On page 38 NORSE should replace Norfolk (NEWS)
- Clarifying if the trading profit for 2019/20 of Broadland Growth Ltd was before or after tax.
- Provide information to the Committee on the reasons for the increases in short term creditors and debtors.
- Adding Cllr Hempsall to the list of Broadland Growth Ltd Directors.
- Clarification of how £650,000 of interest was achieved.
- Provide further information on Income and Expenditure service movements. For example, in Economic Growth.

In response to further questions, it was confirmed that the disposal of £81,000 in 2019/20 was for Microsoft Windows 7, which had fully depreciated and so could be removed from the Balance Sheet.

The Assistant Director Finance confirmed that since the Covid-19 outbreak the Council was paying creditors even more promptly than the 30 day terms that it usually did, in order to help businesses in these difficult times.

It was confirmed that costs had been reduced following the final payment on the lease of the Waste Collection Vehicles. These were referred to as embedded leases elsewhere in the Statement. The Council had reached an agreement with Veolia that they would be maintained and used for another two years.

*Cllr Crotch left the meeting at 11.10am*

In response to a question in respect of the pension fund the Assistant Director Finance advised the meeting that the figures reflected a recent update from

Norfolk County Council, so he was reasonably confident that the pension fund figures would remain unchanged for the final statement.

It was also clarified that the additional £1m added to general reserves was a one off figure whereas the c£1m funding gap in the Medium Term Financial Plan was an annual figure. The additional money added to the general reserve this year would therefore not cover the full funding gap over the five year period.

In respect of Heritage Assets, the Committee was informed that these assets were included in the balance sheet at historical cost (nil), so were unlikely to change in value. Members would be advised when the basis of valuation had last been reviewed.

The Assistant Director Finance explained that the Council had been anticipating a £1.9m deficit in 2019/20, but had in fact shown a surplus of nearly £1m, which had led to a favourable variance of £2.8m.

In answer to a final question about grant income the meeting was advised that £8,000 in 2019/20 had been received from central Government to cover costs of publishing and promote openness in local government.

### **RESOLVED**

To note the Draft Statement of Accounts.

## **44 INTERNAL AUDIT PROGRESS REPORT**

The report reviewed the work performed by Internal Audit in delivering the Annual Internal Audit Plan during the period 27 February to 7 July 2020.

During the period one report had been finalised (Planning and Development) and one (Key Controls) had been finished in draft. Reasonable assurances had been given for each. The audits had led to 13 recommendations that had been raised for management attention.

In respect of a recommendation in respect of Planning Applications, it was confirmed that papers files would only be destroyed once digital copies had been filed.

In answer to a query, the Committee was advised that Broadland had a cut off point for planning applications to be 'called-in' to Committee, whereas South Norfolk did not. It had been suggested that in the interest of efficiency alignment of these processes should be considered.

**RESOLVED**

To note the progress in completing the Internal Audit Plan of work and the outcomes of the completed audits for the 2019/20 financial year.

**45 INTERNAL AUDIT FOLLOW UP REPORT**

The report informed the Committee of the progress made in relation to management's implementation of agreed Internal Audit recommendations falling due by 31 March 2020.

The Chairman expressed concern about the number of recommendations that had been given extensions to their due dates. He suggested that officers responsible for the recommendations should draft a plan of how they would implement them by their due date and then submit them to the Managing Director, so that the Committee could get a response from him if recommendations failed to be implemented.

The Internal Audit Manager confirmed that some work on this had already been done with outstanding recommendations being assigned to Assistant Directors in order to resolve them.

The Chairman emphasised that the recommendations should be taken seriously and he expected to see the outstanding recommendations implemented by the next meeting of the Committee in October.

In respect of Audit Recommendation BRD2011-Disaster Recovery, the ICT and Digital Manager informed the meeting that the Council was going through a period of substantial change, with a significant amount of new ICT infrastructure being put in place and a new Disaster Recovery system being implemented by the end of the year. The existing Disaster Recovery infrastructure worked adequately, with the data at Thorpe Lodge being replicated at Carrowbreck, but this was a very manual process.

The new infrastructure would mirror the information at Thorpe Lodge and South Norfolk House and one could switch over to the other automatically if there was an incident. This would negate the need to recover the system, as it would continue to operate as normal.

The ICT and Digital Manager confirmed that the Council was no less vulnerable currently that it had been for a number of years and the system was still tested regularly and worked well.

The Internal Audit Manager confirmed that there was just one Disaster Recovery ICT issue outstanding in relation to defining a formal testing strategy and testing the ability to source install and run a backup generator.

**RESOLVED**

To note the position in relation to the completion of agreed Internal Audit recommendations.

**46 ANNUAL REPORT AND OPINION**

The report concluded the Internal Audit Activity undertaken during 2019/20. It provided an Annual Opinion concerning the Council's framework of governance, risk management and control and concluded on the Effectiveness of Internal Audit and provides key information for the Annual Governance Statement.

The overall opinion in relation to the framework of governance, risk management and controls at Broadland District Council was reasonable, with nine of 10 assurance audits completed within the year concluded in a positive assurance grading.

One report concluded in a limited assurance grading in the area of Homelessness, Housing Options and Private Sector Leasing. One of the areas of weakness identified in this audit was rent accounts for temporary accommodation failing to be monitored, leading to a loss of income for the Council.

In response to a query from the Chairman, it was confirmed that the Transformation Team were working on a high level Risk Register. The Council had a Risk Management Strategy, but it was outdated so a new Risk Management Policy was to be brought to the Committee for consideration later in this meeting.

**RESOLVED**

To

- Receive and consider the contents of the Annual Report and Opinion of the Head of Internal Audit.
- Note that a reasonable audit opinion has been given in relation to the framework of governance, risk management and control for the year ended 31 March 2020.
- Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration, when developing and reviewing the Council's Annual Governance Statement for 2019/20.

- Note the conclusions of the Review of the Effectiveness of Internal Audit.

### 47 REVISED INTERNAL AUDIT PLANS 2020/21

The Internal Audit Manager introduced her report which provided an overview of the rationale for the revision of the Strategic Internal Audit Plan for 2020/21 to 2022/23 and the Annual Internal Audit Plan for 2020/21.

The Coronavirus has had a significant impact on the Council, with staff being re- deployed to front line services, the pausing of key Council projects, the issuing of business grants at short notice, pressure put upon the technological capabilities of the Council to allow staff to work from home during the pandemic and requirements from Government to temporarily house rough sleepers.

In addition, the Internal Audit contractors TIAA took the decision to furlough most of their workforce until 1 July 2020.

It had, therefore, been determined that the most effective way to provide assurance for the risk and control framework for the Council in 2020/21 was to cover five key themes in a revised plan.

The themes were:

**Assurance Mapping:** A questionnaire style enquiry to gather information and determine any changes to the control environment and document any available assurance that these controls were working effectively.

**Key Controls:** An enhanced annual testing regime using assurance mapping to develop testing for new controls.

**Response and Recovery:** A review to be carried out across the Audit Consortium comparing the approaches taken by each Council in areas such as: supporting the local economy, staff reintegration, financial modelling, business plan revision and preparedness for ongoing disruptions.

**Partnerships:** A position statement to evaluate the impact of the pandemic on the Council's ability to deliver key projects and services through third party contracts during and in the recovery phase of the coronavirus.

**Essential Assurance:** To ensure that areas integral to forming an opinion on the governance, risk management and control framework for 2020/21 were still carried out.

The report included an appendix setting out the audit reviews that had been deferred from the original Audit Plan to 2021/22.

The revised plan was seen as a pragmatic approach to providing an opinion on the governance, risk and control framework of the Council in the face of the disruption caused by the Covid-19 pandemic.

The Chairman expressed some concern that the Internal Audit Contractor had furloughed staff for three months and that this might have an effect on the quality of audits.

In response the Internal Audit Manager confirmed that it had soon become apparent that it would not be possible to continue with audits as normal, due to staff being redeployed or having reduced access to information, which changed the whole operational outlook during the period of lockdown. Quarter 2 would, therefore, be a very light coverage, whilst it was intended that Quarter 3 and 4 would be much the same as in previous years.

The Internal Audit Manager confirmed that the Internal Audit contractors were very experienced and that working from home would not reduce the quality of the audit work they were carrying out. The plan has been reduced by 15 days to respond to the challenges of the Coronavirus pandemic representing the minimum amount of assurance coverage required to give an opinion on the governance, risk management and control framework for 2019/20.

Members were also advised that ICT staff were under enormous pressure to maintain services, whilst also introducing new systems across both Councils so it was not considered appropriate to place an additional burden on them by conducting a service desk audit prior to Quarter 4. However, bringing forward the audit to provide assurance that the systems were in place to maintain Council services in the event of a second spike in the pandemic could be looked at. This would also be included in the assurance mapping information to be incorporated in Quarter 2, so Members would receive some information regarding the status of the joint IT platform.

In response to a query from the Chairman the Internal Audit Manager confirmed that the joint audit of Economic Development would be carried out over ten days at Broadland and ten days at South Norfolk.

### **RESOLVED**

To note and approve:

- The approach to providing assurance for 2020/21 due to the Coronavirus Pandemic;
- The Revised Strategic Internal Audit Plans 2020/21 to 2022/23; and

- The Revised Annual Internal Audit Plan 2020/21.

### **48 RISK MANAGEMENT POLICY**

The report presented a draft Risk Management Policy for consideration and review by the Committee.

It was suggested that the Policy incorporated features of a Strategy as well and would be better drafted as two separate documents one strategic and generic and the other how this was being applied to the corporate priorities of the Council.

It was also noted that in the draft Policy at paragraph 3.1 it stated that Cabinet had responsibility for approving the Policy, but the recommendation in the report stated that Audit Committee was being asked to recommend the Policy to Council for approval.

It was also suggested that the Risk Registers listed under paragraph 4.3 should be reflected again in paragraph 8 (Risk Ownership) and that a discussion is held at Cabinet level regarding the joint risk appetite of Broadland and South Norfolk. The Assistant Director Governance and Business Support (Monitoring Officer) confirmed that the Audit Committee could only recommend to Council, but it would be ensured that the Policy would go to Cabinet for approval prior to that.

It was agreed that the Risk Management Policy needed further work and the Committee:

#### **RESOLVED**

That an informal meeting of the Committee would be convened on a date to be agreed to consider the development of the Risk Management Policy further and to clarify the route that it would take for final approval.

### **49 ANNUAL GOVERNANCE STATEMENT 2019/20**

The Assistant Director Governance and Business Support (Monitoring Officer) introduced her report, which presented the Annual Governance Statement 2019/20.

She advised the meeting that accountability and responsibility had now been allocated far more widely across the Senior Management Team, with Assurance Statements for all Assistant Directors that looked at all the key areas that they were responsible for and confirmed if they had the right controls in place for them.

This would provide a common framework across the Council and allow any issues or trends to be identified, which was a major improvement over the previous governance structure.

Key areas in the Statement were: the closer relationship with South Norfolk Council and the development of management assurance statements, which had been signed off for each specific area. It was notable that business continuity was one of these areas and that the Covid-19 pandemic had been a live learning opportunity to assess how effective the measures had been.

A section in the Statement set out how the control environment had changed during the Covid-19 disruption and the steps taken by the Council. The main one had been 90 percent of staff working from home, with secure ICT systems allowing officers the same level of access to Council files as when in the office. There had also been changes to the Constitution to allow for remote meetings.

The impact of COVID-19 had also enabled the teams to review processes and practices when working from home, which had realised positive impacts, such as improved times to process benefit claims.

In response to a suggestion regarding Government legislation the Assistant Director Governance Business Support (Monitoring Officer) confirmed that she would add reference to the Health Protection (Coronavirus) Regulations 2020 to the Statement.

Members confirmed that they would endorse the draft Annual Governance Statement, but would wait until it was finalised and presented with the Final Accounts and had been looked at by External Audit before they approved it

It was also requested that Risk Management should reference training for Members as well as staff and that more details of commercial initiatives be included.

### **RESOLVED**

To endorse the Annual Governance Statement for 2019/20, subject to the proposed amendments.

## **50 AUDIT SCALE FEE 2020/21**

The Assistant Director Finance drew Members' attention to the letter from Public Sector Audit Appointments which set out an Audit scale fee of £32,022 for 2020/21, the same as for 2019/20. However, the letter went on to explain that although the scale fee had been set at the same level as last year, they did not expect the final audit fee to remain at that level for a variety of change factors.

EY had confirmed that they would want to increase their fee significantly which would result in a charge in the region of £50,000. Stricter auditing guidance was one of the key reasons for the increase. Negotiations were ongoing with EY over the exact fee. Members were asked to note that Audit fees had been significantly cheaper in recent years; for example, in 2012/13 the Audit Fees were £54,000.

The increase of the fee was composed of three elements: increased audit risk – the requirement for more detailed testing and client readiness and support. The latter was the smallest element but the only one that the Council had any control over.

The Committee was advised that Norfolk S151 officers had written collectively to Public Sector Audit Appointments expressing their concern about the increase in audit fees and were awaiting a response.

### **RESOLVED**

To note the contents of the Audit Scale Fee letter.

## **51 WORK PROGRAMME**

The Committee was advised that Fiona Dodimead (Director of Audit TIAA) would be attending the 22 October 2020 meeting of the Committee, whilst the Internal Audit Manager was on maternity leave.

The Final Annual Governance Statement 2019/20 was added to the Agenda for October and a review of Fraud Policies was added to the Work Programme with a date to be confirmed.

*The meeting closed at 1.13pm.*