

## **GOVERNANCE, RISK AND AUDIT COMMITTEE**

**Minutes of the meeting of the Governance, Risk and Audit Committee held on Tuesday, 7 December 2021 at the Council Offices, Holt Road, Cromer, NR27 9EN at 2.00 pm**

### **Committee**

#### **Members Present:**

Mr J Rest (Chairman)	Mr S Penfold (Vice-Chairman)
Mr C Cushing	Mr H Blathwayt
Dr P Bütikofer	Mr P Fisher

#### **Members also attending:**

Ms L Withington (Observer)  
Ms V Gay (Observer)  
Mr E Seward (Observer)

#### **Officers in Attendance:**

Democratic Services and Governance Officer - Scrutiny (DSGOS), Head of Internal Audit (HIA), Chief Technical Accountant (CTA), Chief Executive (CE), Democratic Services Manager (DSM), Director for Resources/Section 151 Officer (DFR), Director for Communities (DFC), Assistant Director for Finance, Assets, Legal & Monitoring Officer (MO), Assistant Director for Environment & Leisure (ADEL) and Internal Auditor (IA)

### **35 TO RECEIVE APOLOGIES FOR ABSENCE**

None received.

### **36 SUBSTITUTES**

None.

### **37 PUBLIC QUESTIONS**

None received.

### **38 ITEMS OF URGENT BUSINESS**

None received.

### **39 DECLARATIONS OF INTEREST**

None declared.

### **40 MINUTES**

Minutes of the meeting held on 28<sup>th</sup> September 2021 were approved as a correct record and signed by the Chairman.

### **41 CIVIL CONTINGENCIES REPORT**

The ADEL introduced the report and informed Members that the majority of work undertaken was still in response to Covid-19, alongside other issues such as Brexit, flood warnings and fuel disruption. She added that whilst there had been a long-term staff absence the Team had coped well, with additional resource brought in from the Norfolk Resilience Forum on a part-time basis.

#### Questions and Discussion

- i. The Chairman referred to business continuity issues on p16 and asked whether officers were comfortable that scheduled work could be achieved with the available resource. The ADEL confirmed that this would be possible, with priority given to tasks as and when necessary.

#### **RESOLVED**

**To note the report and the council's contributions to the Norfolk Resilience Forum and the response to the Covid-19 pandemic.**

#### **42 EY EXTERNAL AUDIT PLAN 2019/20**

The EA introduced the report and informed Members that it provided details of the 2019/20 audit that was currently underway. He added that the materiality level being worked to was £1.12m, with any audit differences above £56k to be reported to the Committee at its next meeting. It was noted that the audit risks EY hoped to provide assurance against were outlined on p5-6 with two elevated risks, the first relating to property plant and equipment and the second to non-domestic rates appeals provision. The EA informed Members that the increase in the first elevated risk had been driven by differences between the valuer used by the Council, and the audit undertaken in 2018/19. The second elevated risk was driven by a new requirement for auditors to pay greater attention to audit estimates, which made it an inherent risk.

#### Questions and Discussion

- i. Cllr C Cushing referred to p35 where it was stated that the breach of internal controls had arisen as a result of a whistle blower, and asked whether this was correct, as he understood it was the result of an FOI request. The EA replied that EY had been notified of the issue via the Public Interest Disclosure Act, otherwise referred to as the whistleblowing process. In response to a follow-up question from Cllr C Cushing, the EA stated that he could not confirm whether the Council's Whistleblowing Policy had been followed, as this had not been part of the EY investigation. Cllr C Cushing asked whether any further work was planned to ensure that the Council's procedures had been properly followed. The EA replied that efforts would be made to ensure that as a primary respondent under legislation, EY had been notified appropriately, though there were no plans for a specific enquiry to determine whether the Council's own Policy had been followed. He added that EY did not have a specific duty to determine whether the Council's own Whistleblowing Policy had been fully adhered to, because EY had been notified as a respondent under legislation. Cllr C Cushing suggested that he did not feel the term whistleblowing was being used accurately, and noted that whilst no criminality had been found during the Police investigation, it was possible that there could have been lesser degrees of culpability. He then asked whether EY Forensics would consider these allegations to

identify what internal controls the breaches involved, in order to determine whether allegations were founded, where responsibility fell, the severity of any breaches, and whether any lessons could be learnt. The EA replied that he would engage the EY Forensics Team to review the facts behind the issue raised, and would thereafter report on whether the Council's controls were adequate. It was confirmed that the work was mostly complete, though the report on the findings would not be published until the next meeting. It was confirmed that a draft report would be shared with officers and the Chairman for comment in advance of the meeting.

- ii. It was confirmed, following a question from the Chairman, that EY had not been asked to review any other matters relating to the Police investigation.
- iii. Cllr S Penfold referred to comments on p41 that suggested that EY would postpone audits if information could not be provided within the agreed timeframe. He then asked what would happen if EY were not able to meet key dates within the timeframe, as the agreement appeared to be one-sided. The EA agreed that whilst the agreement did appear one-sided, the onus was on EY to issue an audit opinion, which it could not do without the necessary information. He added that the contract was between the Council and Public Sector Audit appointments (PSAA) Ltd, rather than directly with EY, to ensure independence. It was noted that any delays caused by EY would be explained to the Council, in order to agree a revised timetable.
- iv. The CTA sought to reassure Members that the increased risks raised by the EA relating to valuations for property plant and equipment had led to the introduction of new procedures, which would resolve the issue. She added that she would also question whether risk in relation to the NDR appeals provision had genuinely increased.

## **RESOLVED**

### **To review and note the EY External Audit Plan.**

#### **43      PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY: 21 SEPTEMBER 2021 TO 29 NOVEMBER 2021**

The HIA introduced the report and informed Members that 71 days of programmed work had been completed, equating to 42% of the Internal Audit plan for the year. She added that reports had been finalised on Performance Management, Corporate Policy and Business planning, which had been given a reasonable assurance grading with four priority three recommendations. The Income Report had also received a reasonable assurance grading, with two priority two recommendations and one priority three. The HIA noted that some delays had been encountered due to sickness and resourcing issues, though she was confident that the audit plan was now back on track in quarter three. It was noted that the important recommendations raised on the Income Report sought to ensure that agreed amounts were regularly deposited according to a pre-determined schedule. The HIA informed Members that evidence had been provided to show that the recommendation had been resolved, which helped to strengthen controls relating to cash handling.

#### **Questions and Discussion**

- i. Cllr C Cushing referred to appendix 2 on p69, and noted comments that targets had not be set for several objectives within the performance report,

and asked whether greater detail could be provided on which objectives this related to. The HIA replied that she would confirm by email to the Committee, though managers had taken steps to address the issue.

- ii. Cllr E Seward referred to an audit undertaken on the Covid-19 Business Grants and asked whether any shortcomings in the process had been found. The HIA replied that whilst it was too early to confirm, no significant issues had been found to date.

## **RESOLVED**

**To notes the Internal Audit progress within the period covered by the report.**

### **44 FOLLOW UP ON INTERNAL AUDIT RECOMMENDATIONS 21 SEPTEMBER 2021 TO 29 NOVEMBER 2021**

The HIA introduced the report and informed Members that as agreed at the last meeting, the follow-up report was now received quarterly, for more frequent updates on the number of outstanding recommendations. She added that recommendations relating to project management and the Cromer Tennis Hub were in the process of being revisited for additional testing, to ensure that newly implemented controls were adequate. It was noted that it would be difficult to provide evidence that the new project management framework was being utilised, without practical examples available.

#### Questions and Discussion

- i. Cllr C Cushing referred to residual actions on S106 agreements with long outstanding recommendations and asked whether the priority two recommendation could be upgraded to a priority one, and what confidence officers had that these actions would be completed by March 2022. The HIA replied that the important priority recommendations had been agreed by officers and it was no longer possible to regrade the recommendations without reviewing the issue. She added that in regards incomplete actions, updates were provided by relevant officers, though some progress had been reported.

## **RESOLVED**

**To note the management action taken to date regarding the delivery of audit recommendations.**

### **45 EXTERNAL AUDIT PROCUREMENT EXERCISE**

The CTA introduced the report and informed Members that the Council was legally required to appoint an external auditor to review its annual financial statements. The PSAA had been established for this purpose and had undertaken its last national procurement exercise in 2015 to cover the period up to 2023, on behalf of Councils. It was noted that the Council were strongly advised to opt-in to the PSAA arrangement again, in order to avoid failing to appoint an external auditor. The CTA noted that whilst there were issues with the process, including a lack of contractual transparency, the risks of not opting-in were far higher.

#### Questions and Discussion

- i. The Chairman asked whether officers would be given an opportunity to review and scrutinise the new external audit contract prior to agreement. The CTA replied that under the current arrangements there was no opportunity to review the contract as it was between PSAA and the external auditor. She added that in opting-in to any new contract, strong representations would be made that the Council expected greater transparency around the procurement specification and the ability to review the contract and any KPIs within it. It was noted that many Councils were in the same position and would also be seeking these assurances.
- ii. The DFR informed Members that the issue had recently been discussed at a meeting of Norfolk Council's CFOs, where it was unanimously agreed that all Councils should opt-in to the process.
- iii. The Chairman asked the MO to consider whether there were legal implications for officers not being allowed to review the existing contract.
- iv. Cllr S Penfold asked whether the Council was lobbying the PSAA on proposed changes to the procurement and contract process alone, or as part of a wider group of Councils. The CTA replied that the Council lobbied the PSAA both independently and as part of the District Councils Network, though joint requests to review the contracts with other authorities had not been successful. She added that whilst this would have been difficult mid-contract, the Council were in a better position to request changes in advance of contract renewal. It was noted that the proposed key changes would include improved KPIs and an escalation process that could be followed if these were not achieved. In response to a further question from Cllr S Penfold, it was suggested that officers were hopeful that the requests would be implemented.
- v. Cllr S Penfold asked when the 2019/20 audit process would be complete, to which the CTA replied that auditors had begun their work and completion was expected in March 2022.
- vi. The recommendation was proposed by Cllr H Blathwayt and seconded by Cllr C Cushing.

#### **RESOLVED**

**To recommend to Full Council that NNDC opt-in to the PSAA joint procurement exercise, while also providing feedback to them on how the process could be improved.**

#### **46 PROCUREMENT EXEMPTIONS REGISTER 1ST SEPTEMBER - 11TH NOVEMBER 2021**

The MO introduced the item and informed Members that there were no procurement exemptions to report.

#### **RESOLVED**

**To note the Procurement Exemptions Register.**

#### **47 CORPORATE RISK REGISTER**

The DFR introduced the report and informed Members that the opening of the Reef Leisure Centre signalled completion of the largest self-funded project the Council had undertaken, which meant a significant reduction in the associated risks. He added that across the report risks could be managed in four ways, which included treating, tolerating, transferring and terminating. It was noted that whilst high level risks were listed as 'treat', more specific risks such as the impact of changes to the global economy were not treatable, and would instead be tolerated, with efforts made to mitigate any impacts.

### Questions and Discussion

- i. The Chairman referred to operational risks and noted that the risk score was sixteen whilst the target was four, and asked how this score would be reduced. The DFR replied that assessing the risk required some subjective analysis in terms of likelihood and consequence, against the mitigation measures put in place. He added that in this case, most mitigation measures were complete, and whilst it was possible that more mitigation may be required, it could also be that under the current circumstances, the target was unachievable. It was suggested that further consideration would be given to whether the existing target was achievable, or whether it needed to be reviewed. In response to a question from the Chairman, it was noted that reviewing the target would not necessarily require input from Internal Audit, though this could be beneficial.
- ii. The Chairman referred to control, contingency and mitigating actions and noted that one action had not been completed. The DFR replied that this was likely a previous target as the Customer Strategy had now been approved.
- iii. Cllr C Cushing stated that in some areas the report was unclear on the risks presented and lacked detail in how risks would be mitigated. The DFR replied that he would look to adjust the report to make risks and mitigation measures more clear. The CE noted that risks referred to relating to the economic growth strategy had been impacted significantly by officers supporting delivery of the Covid-19 business grants. He added that in terms of changes to the reports, the new format provided information over a substantially higher number of risks than previously reported, and efforts would continue to find the balance on the level of detail required.
- iv. Cllr S Penfold suggested that it would help if more clarity was provided on the nature of each risk and any mitigation measures.

### **RESOLVED**

**To review and note the Corporate Risk Register.**

#### **48 GOVERNANCE, RISK AND AUDIT COMMITTEE UPDATE AND ACTION LIST**

The DSGOS informed Members that all actions from the previous meeting were complete.

#### **49 GOVERNANCE, RISK AND AUDIT COMMITTEE WORK PROGRAMME**

The DSGOS informed Members that the external audit results report for 2019/20 was expected in March and officers were confident that it would be complete. He added that the Anti-Money Laundering Policy had been moved to the June meeting,

alongside an annual review of the Council's risk management framework.

**50 EXCLUSION OF THE PRESS AND PUBLIC**

The meeting ended at 2.58 pm.

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Chairman