

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

**Minutes of the meeting of the Governance, Risk and Audit Committee held on Tuesday, 10 September 2019 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 T Adams	Mr C Cushing
Mrs J Stenton	Mr J Toye

#### **Members also**

#### **attending:**

Cllr N Pearce

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

The Internal Audit Manager, The Democratic Services & Governance Officer (Scrutiny), and the Chief Technical Accountant

### **12 TO RECEIVE APOLOGIES FOR ABSENCE**

None received.

### **13 PUBLIC QUESTIONS**

None received.

### **14 ITEMS OF URGENT BUSINESS**

None received.

### **15 DECLARATIONS OF INTEREST**

None declared.

### **16 MINUTES**

Minutes of the meeting held on 23<sup>rd</sup> July 2019 were agreed as a correct record and signed by the Chairman, subject to Cllr N Pearce being listed as 'in attendance'.

### **17 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY: 1 APRIL 2019 TO 29 AUGUST 2019**

The Internal Audit Manager introduced the Report and informed Members that it covered the period from 1<sup>st</sup> April to 21<sup>st</sup> August 2019. She stated that a total of 26 days work had been completed to date, equal to fourteen percent of the overall plan.

#### Questions and Discussion

The Internal Audit Manager referred to the work summary on page 12 of the agenda, and informed Members that the Internal Audit Team were on-track with the agreed

plan, meaning that the car parking and project management work had been completed. She added that quarters three and four had significantly more work planned and that she would work with officers to ensure that next year's audit plan was more evenly spread across each quarter.

The Internal Audit Manager referred to the yet to be determined IT audit area and informed Members that after a discussion with the Head of IT Digital Transformation, a proposal had been made for a GIS application audit. This would look at the controls around access, administration and support for the software which was key to the Council's planning function. The Chairman stated that he was happy for the audit to go ahead as soon as possible. In addition to the GIS audit, business continuity and cyber security had already been scheduled for quarter 4.

On the car parking audit, the Internal Audit Manager informed Members that six recommendations had been made of which three were important, and three needed attention. The three important recommendations included discrepancies between monthly income reports of mobile app payments and actual income, contractual arrangements for emergency repairs, and the need for regular stock takes of season tickets to avoid losses. Cllr S Penfold asked if the income from car parking covered the costs of the service, to which the Chief Technical Accountant confirmed that the service did return a profit. The Chairman added that the Council's car parking revenue was in excess of £2m. The Internal Audit Manager concluded by stating that a positive assurance had been given.

On project management, the Internal Audit Manager stated that the primary aim of the audit was to ensure that the framework was sufficient. As a result, the focus points were governance arrangements, management, and evaluation. The projects chosen for evaluation were the Digital Transformation Programme and the Cromer Sports Hub. The audit determined that a single location for all project documentation had been established, and that whilst project guidance was available, a recommendation for improvements had been made. It was confirmed that project budgets had been subject to detailed modelling. The key findings were as follows; proposals must be linked to the values and goals of NNDC, each project must be managed in the same way, senior management need a better overview and communication on the progress of each project, and finance expertise must be used to better manage project risks.

Cllr S Penfold asked whether a recommendation had been made for additional training on specialist project management skills, to which the Internal Audit Manager replied there was no evidence to suggest it was required. The Chief Technical Accountant stated that the position statement had been well timed, as the Council was currently reviewing its project management arrangements and had proactively considered training to improve in-house capacity. Cllr S Penfold replied that he had attended project management boards prior to the election, and noted that external project managers had not been in attendance. The Chief Technical Accountant stated that external project managers had reported to officer boards. Cllr J Toye stated that external project managers had been used to provide a brief on the Corporate Plan and aims of the Council. The Chief Technical Accountant added that they had also been used for the Council's leisure strategy, and whilst there was no written procedure for this at present, it could be implemented in the future. Cllr J Stenton asked whether it was cost-effective to use external project managers, to which the Chairman replied that it would be difficult to provide specific training for the various projects.

Cllr C Cushing stated that the current project management methodology appeared

fairly antiquated, and suggested that it might be beneficial to use the agile method for IT related projects. Cllr C Cushing proposed that the agile methodology be given consideration for the management of future IT projects. The proposal was seconded by Cllr J Rest.

Cllr C Cushing referred to project governance, and stated that monthly meetings with detailed reports should be established for each project, and that updates should be fed to a central Committee. Cllr S Penfold asked why the individual project board meetings had ceased, to which the Chairman replied that the election likely caused meetings to stop, but suggested that the boards should have been more robust. Cllr C Cushing stated that the allocation and release of funds for projects should be measured against monthly targets, and that standardised reports should track these targets. The Democratic Services and Governance Officer noted that concerns had been raised around the governance arrangements of the project boards, and it was possible that project updates would be brought to Committee meetings to improve these. The Chief Technical Accountant added that consideration had been given to these issues during the capability review, and the formulation of a corporate delivery unit was underway as a result. Cllr J Toye stated that project boards were constructive, but had to be comprised of the right people. He then asked whether project reports could be presented more openly at Committee meetings. Cllr S Penfold commented that lower level operational work still had to be carried-out by smaller project boards. Cllr C Cushing asked if any further work would come out of the position statement to provide greater assurance. The Internal Audit Manager replied that the position statement had provided a health check and identified the necessary recommendations.

The Chairman informed Members that he had requested a forensic audit of a select few of the Council's major projects, and stated that Internal Audit were best placed to review these projects. He added that not all projects could be covered, as there was a time and cost implication for each. Member's were provided with options for the review and asked which projects should be given priority. Members agreed that the projects in greatest need of audit were the Egmere Enterprise Zone and Sheringham Splash. The Internal Audit Manager stated that it was important for the auditors to remain apolitical on the projects, and noted that with both projects being high risk/profile, it was important that the terms of reference and objectives of the audit had to be clear. She added that the audits could be added to the existing audit plan at a cost, or replace existing areas that had been identified for audit this year, and push back existing planned audits to the following year. The Chairman stated that his preference was to have the audits completed as soon as possible. Cllr J Rest proposed that Internal Audit undertake an audit of the Egmere Enterprise Zone and Sheringham Splash projects. The proposal was seconded by Cllr J Stenton.

## **RESOLVED**

- 1. That the future project boards should give consideration to the use of the agile methodology for the management of IT projects.**
- 2. That Internal Audit undertake an audit of the Egmere Enterprise Zone and Sheringham Splash projects.**

## **18 CORPORATE RISK REGISTER**

The Chief Technical Accountant introduced the Report and informed Members that there had been no movement on the risks identified in the summary register. She

added that a corporate projects risk had been added, and that any updates throughout the register were highlighted in green.

### Questions and Discussion

The Chief Technical Accountant raised the Medium Term Financial Plan (MTFP) risk, and informed the Committee that the results of the spending review for Local Government had been announced last week. It was suggested that the outcome hadn't brought any substantial good news for district councils such as NNDC. In summary, it was stated that the review equated to the Council's current funding, with an increase for inflation. It was noted however, that it would not cover an increase in costs for several of NNDC's services. The Chief Technical Accountant stated that the Council would continue to lobby ministers on the issues facing Local Government, and added that the planned fair funding and businesses rates review had been delayed for one year, which in effect provided more time to continue lobbying Government.

On recruitment, it was reported that the apprenticeships scheme had been a success, with several new members of staff recruited through the programme.

On the property assets risk, the Chief Technical Accountant informed Members that work at the Grove Lane property in Holt had been completed, and that the site was now being let as office space, providing an income for the Council.

Sheringham Leisure Centre, identified as one of the projects under the corporate projects risks, was noted to have been granted an additional £2m funding. It was stated that recommendations from the project management position statement would become actions to improve the corporate project management framework.

Members were encouraged to provide feedback on the format and content of the Corporate Risk Register, with a view to make improvements. The Internal Audit Manager noted that there was no indication of the Council's risk appetite on the register, and suggested that risks should be articulated in a clearer fashion to reflect the cause and consequence of risks. For example, projects with impact and likelihood scores of 20 or above could be considered outside of the Council's risk appetite, though this would be for the Council to decide. She added that it was not necessary to include low risks on the register. The Internal Audit Manager then referred to the MTFP risk and stated that though the majority of actions had been completed, the risk score had not changed, and suggested that the risk scores should be amended to reflect the current position.

On the corporate projects risks, the Internal Audit Manager stated that little detail was available for the individual projects, and suggested that risks needed to be linked to the Council's corporate and strategic objectives. The Chairman added that whilst the corporate projects risk was new to the summary register, he was concerned that it appeared immediately as a high risk. He agreed that the corporate projects risk was too broad for the summary, and needed to be broken down into individual projects. Cllr J Rest proposed that a review of the content of the CRR be undertaken by the Section 151 Officer, and that corporate projects be presented individually on the summary register. The proposal was seconded by Cllr S Penfold.

Cllr C Cushing stated that risks over 60% were not usually considered a risk, but an assumption. The Internal Audit Manager replied that this again highlighted the need to identify the Council's risk appetite, and suggested that anything over the risk appetite should not be progressed.

Cllr J Toye referred to the coastal erosion risk and asked whether the Council had any control over what was a natural phenomenon. The Chairman replied that there was a financial risk to the Council, as a consequence of the erosion. The Internal Audit Manager stated that in this case, the risk itself required clarification.

The Chairman asked whether resources were available to make the necessary improvements to the CRR, to which the Internal Audit Manager replied that she would be happy to assist the Section 151 Officer to make the changes. The Chief Technical Accountant stated that improvements to the CRR had to be given priority to avoid overlooking any future risks.

## **RESOLVED**

**That a review of the content of the CRR be undertaken by the Section 151 Officer, and that corporate projects be presented individually on the summary register.**

## **19 ANNUAL ACCOUNTS UPDATE**

The Chief Technical Accountant provided a verbal update on the status of the annual accounts sign-off and informed Members that no further work had been completed by the external auditors. It was noted that opportunities to progress the audit had been missed in August, and with little further contact from EY, it looked as though opportunities to complete the audit in September would also be missed. Members were informed that the Committee could either wait until the December meeting to sign-off the annual accounts, subject to completion of the audit, or grant the Chairman delegated authority in conjunction with the Section 151 Officer, to sign-off the accounts as soon as the audit was complete. The Chairman proposed that he and the Section 151 Officer be given delegated authority to sign-off the annual accounts once audited. The proposal was seconded by Cllr J Toye. The Chief Technical Accountant informed Members that she would update them on the status of the accounts sign-off as and when necessary.

The Chairman asked whether not signing annual accounts had any effect on the Council's status or any financial impact, and whether the Council had already paid the external auditors. The Chief Technical Accountant replied that the external auditors had been paid, as this was a contractual requirement. In terms of financial impact, Member were in informed that the Council could not be reimbursed for expenditure by Central Government, which necessitated borrowing and caused a loss of investment income. The Chairman asked whether the delay was still due a disagreement between EY and NNDC on the treatment of the Council's investments. The Chief Technical Accountant suggested that this was likely an excuse, as the work could be completed without the final sign-off. She added that the reason for the delay was more likely resourcing issues at EY.

In response to a question from Cllr J Stenton, it was confirmed that the Chief Technical Accountant had not been permitted to view the Council's external audit contract by the PSAA, and could not therefore claim compensation for the delay. The Chief Technical added that she expected that the performance indicators outlined in the contract were likely based on audit quality, therefore delays would be inconsequential. Cllr J Stenton asked if next year's invoice for the external audit service could be disputed, to which it was suggested that this would be difficult without reviewing the contract.

Cllr S Penfold asked whether any indication of timescale could be given for the external auditors to complete the audit, to which the Chief Technical Accountant replied that no formal date had been set. It was suggested that a worst case scenario would result in the accounts being signed off after October. Cllr N Pearce asked whether there would be a domino effect for next year's audit as a result of the delay. The Chief Technical Accountant replied that she had raised the issue with EY, and efforts were being made to recruit staff to avoid reoccurrence. She added that it was possible that the audit timeframe might revert back to the previous 30<sup>th</sup> September deadline, though this was not guaranteed. Cllr N Pearce asked what legal recourse the Council had, to which the Chief Technical Accountant replied that little was available as EY had a legitimate excuse to explain the delay.

## **RESOLVED**

**That the Chairman of the Audit Committee and the Section 151 Officer be given delegated authority to sign-off the Annual Statement of Accounts once the external audit is complete.**

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

The Democratic Services & Governance Officer informed Members that all items from the action list had been completed and that there were no further updates.

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

The Chief Technical Accountant confirmed that the Work Programme was up to date, but stated that it was likely that the Annual Grant Certification Report could be delayed.

### **22 EXCLUSION OF THE PRESS AND PUBLIC**

The meeting ended at 3.25 pm.

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Chairman