

## **GOVERNANCE, RISK & AUDIT COMMITTEE**

**Minutes of a meeting of the Governance Risk & Audit Committee held on Tuesday 24th July 2018 in the Council Chamber, Council Offices, Holt Road, Cromer at 2.00 pm.**

### **Members Present:**

<b>Committee:</b>	Mr J Rest (Chairman)	Mr M Knowles
	Mr D Baker	Mr D Young
	Ms V Gay	

### **Other**

**Members:** Mr N Pearce

### **Officers in**

**Attendance:** The Head of Finance and Assets, the Chief Technical Accountant, the Democratic Services and Governance Officer, the External Auditor (MH), and the External Auditor (AR).

### **15. APOLOGIES FOR ABSNECE**

Apologies were received from Cllr V FitzPatrick

### **16. PUBLIC QUESTIONS**

None received.

### **17. ITEMS OF URGENT BUSINESS**

None.

### **18. DECLARATIONS OF INTEREST**

None.

### **19. MINUTES**

The Minutes from the meeting of the Governance, Risk & Audit Committee held on 19<sup>th</sup> June 2018 were approved as a correct record subject to the following amendments:

Change of date in minute 5 to 27<sup>th</sup> March 2018.

Minor typos corrected in minute 8.

In Minute 7 Cllr D Young raised concerns regarding the renewal of the Kier waste management contract. This conversation was removed due to the sensitive nature of information included in the discussion whilst pricing was still being negotiated. This information has since been cleared for publication and it was agreed that the discussion be included in the minutes. The discussion is listed below:

“Cllr D Young referred to page 25 of the agenda on Kier waste management, he stated that there were a number of issues raised and asked whether any recommendation would be made. The Head of Internal Audit replied that available actions were limited, but the Council was holding the company to account for their defaults, and the situation was being managed more effectively. She added that it would be important to keep a close eye on the situation. Cllr M Knowles stated that he was concerned by the Kier situation, and highlighted the fact that data had not been supplied to the Council for an extensive period of time. The Head of Internal Audit agreed that the situation had not been acceptable, which was why the administrative process had now been brought in-house. Cllr D Young asked if the Council had chased Kier for the missing information, to which the Head of Internal Audit replied that the Corporate Director (SB) had attempted to pursue Kier. The Chairman confirmed the significance of the issue and asked whether the portfolio holder had been involved. Cllr D Young added that he was concerned about the options for contract renewal as the Council could be left with nowhere else to go. The Head of Internal Audit replied that she would raise the concerns with the Head of Environmental Health and ask the portfolio holder if they had been involved. Cllr M Knowles asked if there was any form of penalty action available to the Council if Kier were to continue to default, and suggested the possibility of charging for the service provided without the supporting data. The Head of Internal Audit confirmed that a penalty procedure was in place, but informed the Committee that the contract management had improved. Cllr D Young suggested that NNDC may need to consider options for different service providers in the future. The Chief Technical Accountant stated that the decision to renew the contract with Kier had already been made in order to align the end date with other contracts, but added that the Corporate Director (SB) had been negotiating prices. Cllr D Young stated that the Outturn Report had suggested that the extension would cost an additional £800k. The Chief Technical Accountant replied that the contract was stepped so this price would not be surprising. She added that the market had also changed so the contract price could be expected to rise. The Chairman stated that the contract was eight years old, and suggested that in the future all contracts should be flagged for enquiry two years prior to their renewal. The Head of Internal Audit agreed with the need to flag-up contracts prior to their renewal, and added that the 2017/18 contract price with Kier had been £4.3m. It was stated that whilst the price would be lower in 2018/19, the contract would end after this point.”

### Questions and Discussion

The Head of Finance and Asset Management stated that he was unable to attend the meeting when the Kier contract renewal was discussed, but after hearing the Committee's concerns he offered a response. On the Council's position prior to contract renewal, he stated that the opportunity had been taken to do some soft-testing of the market. At which point it was revealed that the existing contract would end during an extremely busy period for the sector, which would limit the number of readily available service providers. Furthermore, even with a potential merging of contracts between NNDC and neighbouring authorities, the contract was still not large enough to attract the leading service providers. As a result, the decision was made to extend the existing contract with Kier as they offered a better price than the alternatives. It was made clear that the decision to renew the Kier contract had not been made as a result of running out of time. Cllr D Young asked if the extension was now going ahead. The Head of Finance and Asset Management replied that Cabinet had now agreed the price and the extension had been put in place to align NNDC with the market. The Chairman questioned whether the agreed price was less than the original estimate, and was informed that the agreed price was £200k-£300k less than the original estimate. The Head of Finance and Asset Management informed the Committee that an alternate

option would have been to go to market earlier, but warned that the price would have been higher as a result. Cllr D Young asked if the decision to renew the contract had been taken whilst these options were still available. The Head of Finance and Asset Management replied that the decision to renew the contract was taken whilst these options were available, but they were not available at the time the pricing agreement was made.

## **20. AUDIT RESULTS REPORT**

The External Auditor (MH) introduced the report and informed the Committee that it had been the first year of Fastflow, which required the audit to be completed by the end of July rather than September.

### Questions and Discussion

The External Auditor (MH) stated that overall the audit was good and congratulated the Finance Team on their work. He added that the Council was on-track to sign off the report on Thursday, and that there were no longer any issues in any specific areas. It was stated that there was one unadjusted audit difference on the draft financial statement relating to a net impact of £26k that was considered non-material. There were two material adjusted audit differences with an aggregated impact of £4.126m. The difference arose from a loan to Broadland housing of £3.5m and £2.06m of support charges that had been disclosed on a gross basis as opposed to net. There were also two further non-material adjusted differences that related to the Norfolk Pension Fund, and a reclassification between short term investment and short term debtors. The External Auditor then gave an overall opinion of approval for the Council's accounts.

On section five of the report relating to value for money, the External Auditor (MH) clarified the assessment of the Council's reserve position. It was explained that the Council's current reserve position was £23m and that NNDC had a history of underspending. There was an expected savings plan shortfall of £0.16m but it was suggested that the Council had a good history in regards to savings. It was stated that the new homes bonus funding had been taken out from the data as this was not yet guaranteed income. Overall it was suggested that there was considerable headroom left in the reserves, and they were adequate for the Council's requirements. The External Auditor confirmed that all audit work had been completed within the set fee, then thanked the Head of Finance and Asset Management, the Chief Technical Accountant, and their team for their hard work during the audit process. Cllr D Baker asked for the External Auditors to give their opinion on what would be considered an adequate reserve for a similar sized authority and whether the Council should be spending the reserves. The External Auditor (MH) referred the Councillor to the earmarked reserves and stated that he would expect these reserves to be spent within approximately three years. He added that if the £18m remaining had not been spent in three years then clearly there would be a problem. Cllr V Gay questioned whether three years was a reasonable period to spend earmarked reserves over, which was confirmed. The Head of Finance and Asset Management suggested that it would be helpful to note that some earmarked reserves had been set aside for projects that the Council was not leading, therefore the Council was not in control of when the money would be spent. He added that the business rates reserve was also a contingency, and that NNDC's leisure projects may require considerable funding from the reserves to cover some of the expected £15m costs.

Cllr M Knowles referred to page 23 of the report and questioned why the £3m budget gap expected over the next 3 years was different to the stated £2.1m budget gap on page 24. The External Auditor (MH) explained that the first figure was from the audit plan, whereas the latter was from the actual audit. The Head of Finance and Asset Management added that the £2.1m was a cumulative deficit over three years and advised the Committee that using reserves to fill this gap would be unwise, and a sustainable alternative was required.

The Chairman apologised to Cllr D Young for the late addition of the Audit Report to the agenda, and asked him to forward any questions to be answered in writing.

## **Resolved**

**To note the Audit Report.**

## **21. FINAL STATEMENT OF ACCOUNTS**

The Final Statement of Accounts was included in the agenda for review, a draft version had also been given to the Committee for review in June.

### Questions and Discussion

The Head of Finance and Assets thanked the Committee for facilitating the new deadlines and apologised for the very short timeframe given to read the reports that were sent out on Friday. He explained that the new deadline meant that the sign-off of accounts that had previously taken place in September would now take place in July. It was stated that it was now the responsibility of the Governance, Risk and Audit Committee to approve the accounts, as it was recognised as best practice, and the terms of reference had been changed to allow the Committee to make this decision. The Head of Finance and Asset Management reiterated that the draft accounts had been available to view since June and the main changes had been outlined by the External Auditor (MH). He thanked his team for all their hard work and accepted that there had been concerns raised about the new deadline. It was stated that improvements had been made to the working papers and that the new audit portal used by Ernst and Young had worked very well.

The Chief Technical Accountant provided a summary sheet of the changes that had been made to the Draft Statement of Accounts. Cllr M Knowles asked for more background on what had changed and suggested that it would be good to see how the items had changed. The External Auditor (MH) explained that if the changes were significant then they were included in the Audit Report. The Head of Finance and Asset Management informed the Committee that the first two changes listed were in the Audit Report and had previously been explained. The Chief Technical Accountant introduced the third change on the IRFS 9 Statement and explained that it was a change to how the Council accounted for investments. The next change on NDR Provision in Contingent Liabilities was explained as a business rate provision that had been removed as it had now been provided for. She explained that the other changes were small adjustments where the correct figures had not been picked up.

The Chairman asked the Committee to vote on the approval of the accounts. The vote was proposed by Cllr M Knowles and seconded by Cllr D Baker, the accounts were unanimously approved.

## **Resolved**

**Final Statement of Accounts approved.**

## **22. LETTER OF REPRESENTATION**

It was explained that the Letter of Representation was a requirement of the Section 151 Officer to address and confirm the issues that arose during the year.

### Questions and Discussion

The chairman asked if there were any comments on the letter. Cllr D Young asked if the format had differed or if there were any major differences. The Head of Finance and Asset Management informed the Committee that very few changes had been made but there was more focus on the security of information. The External Auditor (MH) confirmed that the letter remained fairly standard but some estimates had been added.

### **Resolved**

**The Letter of Representation was signed by the Chairman and the Head of Finance and Asset Management.**

## **23. GOVERNANCE, RISK AND AUDIT COMMITTEE UPDATE & ACTION LIST**

The Action List was included in the agenda for review by the Committee.

### Questions and Discussion

Cllr V Gay stated that it had been a long time since there had been an all Member briefing on the audit process and asked if this would be possible. Cllr M Knowles suggested that this could be done as a pre-Council briefing. The Head of Finance and Asset Management stated that he would be happy to give this briefing. The Chairman reminded the Committee that the Governance, Risk and Audit Annual Report had been presented at the Full Council meeting in June, but stated he would ask for a pre-Council briefing to be given on the audit process. Cllr N Pearce stated that he fully commended the efforts of the Committee to encourage greater understanding of the audit process amongst Members

## **24. GOVERNANCE, RISK AND AUDIT COMMITTEE WORK PROGRAMME**

The Work Programme was included in the agenda for review by the Committee.

### Questions and Discussion

The Head of Finance and Asset Management asked that the Draft Statement of Accounts be added to the Work Programme for 2019.

## **25. EXCLUSIONS OF THE PRESS AND PUBLIC**

None.

The meeting ended at 14.55 pm

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Chairman