

GOVERNANCE, RISK & AUDIT COMMITTEE

Minutes of a meeting of the Governance Risk & Audit Committee held on Tuesday 26th March 2019 in the Council Chamber, Council Offices, Holt Road, Cromer at 2.00 pm.

Members Present:

Committee: Mr J Rest (Chairman) Mr M Knowles
Mr P Rice Mr N Pearce
Ms V Gay

Other Members:

Officers in Attendance: The Internal Audit Manager (FH), the Chief Technical Accountant (LH), the Democratic Services and Governance Officer, and the External Auditor (AR).

49. APOLOGIES

Cllr V Fitzpatrick.

50. PUBLIC QUESTIONS

None received.

51. ITEMS OF URGENT BUSINESS

None.

52. DECLARATIONS OF INTEREST

None.

53. MINUTES

The Minutes from the meeting of the Governance, Risk & Audit Committee held on 4th December 2018 were approved as a correct record and signed by the Chairman.

54. EY CERTIFICATION OF CLAIMS ANNUAL REPORT 2017/18

The External Auditor (AR) introduced the Report and informed Members that its aim was to outline the result of EY's 2017/18 certification work, and highlight any significant issues.

Questions and Discussion

The External Auditor (AR) referred to the summary of findings on page 9 and informed Members that the housing benefits subsidy claim had been amended, with the subsidy increased by £791. She added that elsewhere there hadn't been many errors in the claim, and that it would be unusual not to have some minor errors.

Cllr N Pearce thanked the External Auditor for her work.

RESOLVED

To note the Report.

55. EY EXTERNAL AUDIT PLAN

The External Auditor (AR) introduced the Report and informed Members that the Audit Plan was not dissimilar from previous years.

Questions and Discussion

The External Auditor (AR) informed Members that the implementation of new accounting standards was a new area of focus for EY. The new standards reflected recent changes in Local Government accounting practices, to comply with International Financial Report Standards IFRS 9 on financial instruments, and IFRS 15 on revenue from contracts with customers.

The Chairman referred to page 29 of the Report, and noted that the Council's future budget gap had been identified as a value for money risk.

It was confirmed by the External Auditor (AR) that the EY Audit Team would remain the same as the previous year.

The Chairman referred to the Audit timeline on page 39, and asked how much time would be spent by EY to complete the years audit. The External Auditor (AR) replied that audit would be broken down into three stages comprised of; initial planning, the interim phase that included substantive testing, and the final phase that would take place in June/July. Overall it was expected that this work would take at least six weeks to complete. Members agreed that within this timeframe, the work completed was still good value for the Council. It was noted that the Audit cost had gone down, though Members were assured that EY would provide the same service at a reduced cost. The Chairman asked whether the reduction in cost would be a problem for EY, to which the External Auditor (AR) replied that they would look to increase efficiencies in areas such as data analysis, in order to off-set the reduction in cost.

RESOLVED

To note the EY Audit Plan.

56. PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

The Internal Audit Manager (FH) introduced the Report and informed Members that it covered the period from 23rd November 2018 to 5th March 2019.

Questions and Discussion

The Internal Audit Manager (FH) brought attention to the significant changes that included the corporate governance audit being extended by two days to account for the new GDPR legislation, and the affordable housing audit being postponed.

It was explained that 152 days of the audit program had now been completed, equating to 90% of the plan for the year, and that the team was on target to deliver on time.

Three Reports had been finalised and given substantial assurances as follows; Digital Transformation Benefits Realisation, Council Tax and NNDR, and Housing Benefit and Local Council Tax Support. Council Tax and NNDR had been given a P3 recommendation, to note that the area needs attention and should be acted upon within three months. It was suggested that a strong framework had resulted in a large number of substantial assurances being given.

The Internal Audit Manager (FH) informed Members that 4th Quarter Reports were now available in draft, and would be finalised in time for the next meeting.

Cllr N Pearce referred to the Digital Transformation Programme and noted the large scale of the project, then asked if any risks had been identified as a result. The Internal Audit Manager (FH) replied that this had been considered a risk as part of 2019/20 internal audit planning process. Cllr N Pearce suggested that there could be a risk of data loss when migrating historical information. The Internal Audit Manager (FH) replied that it is typical for any data migration exercise to devise a strategy to ensure that all information was incorporated. She added that she had been reassured to discover that officers were well aware of these risks. Cllr N Pearce asked if anything had come to the Council's advantage, to which the Internal Audit Manager (FH) replied that this could be explored within the scope of any audits in this area.

Cllr V Gay stated that as part of the DTP, projected savings had been reported, though it remained unclear where these savings had been made. She then asked whether the savings had been itemised for audit purposes. The Chief Technical Accountant (LH) replied that the savings had been itemised, and the total figure could be broken down if necessary. It was accepted that there was an issue with the way that this information had been reported to Members. Cllr M Knowles reiterated the point, and said that the reported savings of £91k was a fairly precise figure, that suggested that further details would be available. He added that it would be very useful to see this information. Cllr V Gay stated that after the Council had voted to fund the DTP, it would be very useful to see where the savings had been made.

The Chairman referred to the Council's debt write-off procedure identified on page 14. He asked if any changes had been made or proposed, and whether the auditors were still comfortable with the Council's debt write-off procedure. The Internal Audit Manager (FH) stated that she had raised an issue with the procedure and suggested that greater segregation of duties might be necessary, though she was happy with the level of risk accepted by officers. The Chief Technical Accountant (LH) confirmed that there was a final figure available for the debt write-off and this could be sent to Members. Cllr P Rice asked how the debt write-off figure was reached. The Chief Technical Accountant (LH) replied that there was no standard write-off budget, but the figure had remained relatively static, with a slight increase in business rates write-offs. Cllr V Gay asked if there was a debt write-off limit, to which the Chief Technical Accountant (LH) replied that she was unsure of the limit, but knew that large sums had to be cleared by the S151 Officer. She added that she would seek to find the limit and inform Members.

The Chairman asked if officers were familiar with the debt recovery policy, to which the Chief Technical Accountant (LH) replied that the Council had a good recovery policy in

place, and that it was only used as a last resort. It was confirmed that debt recovery agencies were used in some cases, and that business rates debt was largely due to businesses becoming insolvent. The Chairman asked whether there was a national registry of debts that could be used by other Council's if debtors were to leave the district. The Chief Technical Accountant (LH) replied that this service was available indirectly, and was being run by the Cabinet Office. She added that the service was already operational with housing services, and that debt issues were flagged by NFI Reports.

RESOLVED

To note the outcomes of the assurance audit completed between 23rd November 2018 and 5th March 2019.

57. STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS 2019/20

This Report provides an overview of the stages followed prior to the formulation of the strategic internal audit plan for 2019/20 to 2021/22 and the internal audit plan for 2019/20.

Questions and Discussion

The Internal Audit Manager (FH) explained to Members that the Internal Audit Charter was a mandatory document that the Committee was required to approve. She added that the document remained generally the same as the previous year's with some minor amendments.

Members were informed that the additional documents had been updated to reflect the work planned for 2019/20 and that the Committee was required to approve these also. The Internal Audit Manager (FH) stated that NNDC was embarking on a number of significant projects that she would provide a position statement on in the project management framework in the first quarter of 2019/20. A number of service area audits were identified as key risks for the Council, including coastal management and leisure services due to the significant projects that were underway. Further service areas were identified for annual audits such as car parks, planning, and section 106 agreements. The last of which still had an outstanding recommendation that would be reconsidered in Q2.

IT audits were briefly discussed and it was noted that cyber security threats were increasing, which could have an impact on associated risks.

Cllr M Knowles stated that the audit plan appeared to be very thorough, but raised concerns that two issues remained unresolved. The first was that the Council still didn't receive parking data from KLWNBC, which meant that it had no way to confirm the parking revenue it received. The second was S106 agreements, where it was suggested that no progress was being made. The Internal Audit Manager (FH) referred to the S106 agreements allocation within the audit plan, and stated that she had discussed this issue with the Head of Planning. She had been informed that new software was being introduced that could help to manage these issues. Cllr M Knowles asked that his concerns on S106 agreements and the Council's car parking data being noted. He then suggested that KLWNBC managed more than just NNDC's car parks, and asked if other Councils had similar issues. The Internal Audit Manager (FH) suggested that it was possible that there were wider issues, and stated that would she seek to get more details for the Audit Team to consider. Cllr P Rice stated that he had concerns regarding value for money with the Council's parking service, and noted that information from KLWNBC

was needed to determine this. The Chief Technical Accountant noted that income reconciliation had been difficult in the past. The Internal Audit Manager (FH) stated that she would look to provide additional scope in the audit.

Cllr V Gay stated that the audit plan was a good reflection of the Council's undertakings, but raised some issues regarding the Council's project management framework and delivery dates. She suggested that more specific information should be provided on projects, and that delivery dates should be monitored to ensure work is being carried-out on time, as opposed to focusing solely on transparency. The Internal Audit Manager (FH) agreed and suggested that a strategy document should be sought, alongside efforts to determine whether risks were being considered, whether timelines were being adhered to, and whether costs were being monitored adequately.

Cllr V Gay referred to the issues with S106 agreements, and stated that these had been managed prior to the introduction of new software, and asked why it was needed now. The Internal Audit Manager (FH) replied that she could not give assurances at this time, and therefore work would be carried-out to achieve this.

The Chairman asked for the Committee to take the recommendations en bloc.

RESOLVED

- 1. To note and approve the Internal Audit Charter.**
- 2. To note and approve the Strategic Internal Audit Plans 2019/20 to 2021/22.**
- 3. To note and approve the Annual Internal Audit Plan 2019/20.**

58. CORPORATE RISK REGISTER

The Chief Technical Accountant introduced the Report and informed Members that it aimed to provide an update on changes to the Corporate Risk Register (CRR).

Questions and Discussion

The Chief Technical Accountant informed Members that the Medium Term Financial Plan identified on the summary register on page 102 had been revised down from 20 to 15, to reflect the Council successfully setting the budget. She added that a new risk had been added to the register that identified the Council's corporate project risks, which would be fed with information from individual project registers.

Cllr P Rice stated that the waste management contract had been discussed at the previous meeting, and asked if there was any update. The Chief technical Accountant replied that the borrowing figures had been incorrect, and that they had been updated to reflect the additional £50m borrowed by the contractor. She added that she was expecting further updates and that the Council still had a contingency plan in place.

Cllr V Gay referred to the recruitment risk, and asked whether it had become a long-term problem for the Council. The Chief Technical Accountant confirmed that it was an ongoing problem that the HR Manager was working to address, but warned that the location of the Council was a key issue for recruitment. It was noted that there was still a national shortage of planners, and that pay reviews had been carried-out alongside work to improve people's perception of NNDC as an employer. The Chief Technical Accountant stated that whilst it was difficult to find people with the right qualifications,

financial incentives were being managed effectively to encourage potential employees to the district. She added that the Council also actively promoted trainee and apprenticeship positions, especially in Eastlaw. Cllr M Knowles stated that many businesses along the coast faced difficulties attracting staff, though they often stayed once here.

The Chairman referred to procurement risks regarding a lack of value for money, and asked whether this should have been identified as a more serious risk. The Chief Technical Accountant replied that this was an accurate representation of the Council's current position, and that the Council did have a Procurement Officer to manage these issues, and a Procurement Board for large concerns. The Internal Audit Manager (FH) informed Members that procurement was in the audit plan for next year, and that she was comforted that it was already on the register. It was suggested that a recommendation should be made for the GRAC Chairman to sit on the Risk Management Board to provide input and feedback to the Committee.

It was proposed by Cllr J Rest and seconded by Cllr V Gay that the Chairman should sit on the Risk Management Board.

RESOLVED

- 1. To recommend that the GRAC Chairman sits on the Risk Management Board.**
- 2. To note the Report and changes made to the CRR.**

59. RISK MANAGEMENT FRAMEWORK

The Risk Management Framework was included for reference and was scheduled to be reviewed in March 2020.

RESOLVED

To note the Risk Management Framework.

60. ACCOUNTS CLOSEDOWN 2018/19 – TECHNICAL UPDATE

The Chief Technical Accountant introduced the Report and informed Members that it had been provided to give an update on the accounts closedown process for the 2018/19 financial year, as the first year of the new accounting deadlines.

Questions and Discussion

The Chief Technical Accountant informed Members that new accounting standards had been adopted by CIPFA which included IFRS 9 and IFRS 15. The first of which was on financial instruments, and covered the Council's investment portfolio. It was noted that the External Auditors didn't necessarily agree on the investment treatments, and that this would need to be resolved. IFRS 15 on revenue from contracts with customers was aimed to standardise when revenue was accounted for at the point that all performance obligations for the relevant revenue had been satisfied. The Chief Technical Accountant stated that this shouldn't have a large impact on the Council, but it would still need to be reviewed.

IFRS 16 on leases was discussed, and it was explained that a new standard would come into effect in the coming years. This standard would require a significant change to the way leases were accounted for, with operating and finance leases being replaced by a lease for a right of use asset.

RESOLVED

To note the update.

61. GOVERNANCE, RISK AND AUDIT COMMITTEE UPDATE AND ACTION LIST

The Democratic Services and Governance Officer stated that there were no outstanding actions from the previous meeting. He added that the GRAC annual Report had been postponed to include items from the current meeting, and that it would not go to Full Council until after the upcoming election.

The Chief Technical Accountant stated that training would be provided by the Internal Audit Team, prior to the Committee's first meeting in the new municipal year. She added that CIPFA may provide additional training prior to the Committee's review of the Council's final accounts.

It was confirmed that an introduction to the Committee could be included in the Members induction programme.

62. GOVERNANCE, RISK AND AUDIT COMMITTEE WORK PROGRAMME

The Work Programme had been updated with a new format for the next municipal year and the Democratic Services and Governance Officer asked for Members and Officers to agree its content.

RESOLVED

To note the GRAC Work Programme.

63. EXCLUSIONS OF THE PRESS AND PUBLIC

None.

The meeting ended at 3.30 pm

Chairman