

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

**Minutes of the meeting of the Governance, Risk and Audit Committee held on Tuesday, 23 July 2019 at the Council Chamber - 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:**

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

Democratic Services and Governance Officer (Scrutiny), Associate Partner - Ernst Young and Chief Technical Accountant

### **1 TO RECEIVE APOLOGIES FOR ABSENCE**

Apologies were received from The Internal Audit Manager (FH), The Head of Finance and Asset Management, and the Monitoring Officer.

### **2 PUBLIC QUESTIONS**

None received.

### **3 ITEMS OF URGENT BUSINESS**

None received.

### **4 DECLARATIONS OF INTEREST**

None declared.

### **5 MINUTES**

Minutes of the meeting held on 11<sup>th</sup> June 2019 were approved as a correct record and signed by the Chairman.

### **6 FINAL STATEMENT OF ACCOUNTS - UPDATE**

The Chief Technical Accountant introduced the update and apologised that there were no audited accounts to be reviewed by the Committee at its July meeting as expected. It was explained that there were a number of reasons for this, and that at present no auditors were on site as work had been prioritised elsewhere. Members were informed that the accounts sign-off was now expected to take place at the September meeting.

## Questions and Discussion

The External Auditor (MH) stated that the key reason for the delay in completing the audit of NNDC accounts was a difference of opinion between EY and the Council on how investments were treated. He added that the Council had sought a legal opinion on the matter and were awaiting a response. The External Auditor (MH) then confirmed that it was no secret that EY had suffered resourcing issues that had delayed audits elsewhere. As a result, Members were informed that EY auditors had been redirected to other authorities to allow time for an agreement to be reached on the accounting practices first. He added that there was no apportionment of blame regarding the disagreement, but stated that it had to be resolved before the accounts could be signed-off. The Chairman accepted that EY and the Council had a difference of opinion on accounting practices with regards to investments, and asked whether a compromise could be reached. The External Auditor (MH) replied that unfortunately there was no middle ground with regards to the accounting treatment of investments, and either the Council or EY would eventually have to accept the findings. The Chief Technical Accountant stated that both the Council and EY had been aware of the issue for over a year and had been working on a preliminary agreement, but had not been successful. She added that Councils that had sought a legal opinion on the issue had been supported by their findings, and as a result, it had been recommended that the Council did not change its accounts unless a decision was made otherwise. Members were informed that support was also being sought from CIPFA, and that if they backed Council's opinion, audit firms could be expected to alter their opinion.

Cllr S Penfold asked for clarification of the reasons for the delay in signing off the accounts. The External Auditor (MH) replied that the accounting issue was the cause of the delay in signing off the accounts, and as a result, the decision had been made ten days prior to the meeting to divert resources elsewhere to authorities where there had not been a similar disagreement. Cllr S Penfold asked whether EY would be open to the possibility that they could be wrong. The External Auditor (MH) confirmed that it was possible that the legal opinion could change their position. He added that whereas the legal opinion might look at the nature of the investment, auditors approached the situation from an accounting perspective only. The Chief Technical Accountant stated that having to seek a legal opinion suggested that there was a legal aspect to the disagreement.

Cllr J Stenton asked whether there was a legal requirement to publish the accounts, to which the External Auditor (MH) replied that the Council would have to publish its accounts by July 31<sup>st</sup>, with or without an audit opinion. He added that if they were published without an opinion, a reason would have to be given for this, and a statement had been prepared. The Chairman asked whether this would have any impact on investors opinions, to which the External Auditor (MH) replied that the deadline was arbitrary, and that there would be no knock-on impact.

Cllr C Cushing stated that it was his understanding that the legal advice would not be definitive, and asked whether EY would adopt the advice. The External Auditor (MH) stated that EY would take the legal advice into account, but could not guarantee that it would change their position. It was confirmed that other audit firms had taken the same position on the issue as EY. The Chief Technical Accountant stated that this was another reason that the Council had also sought the opinion of CIPFA. She added that it was unlikely that the accounting difference would damage the overall opinion of the accounts, and that she stood by the decision to seek both a legal opinion and the opinion of CIPFA.

Cllr J Toye asked whether both accounting practices would provide a true picture of the Council's accounts, to which the Chief Technical Accountant replied that EY believed that the current treatment was not a fair view. The External Auditor (MH) stated that EY's opinion was that the current practice fell afoul of international accounting standards, but admitted that big companies were different from local authorities.

Cllr N Pearce stated that he was not happy about the issue, and disliked the pressure from EY for the Council to change its practices. He added that he got the impression that priority was being given to the commercial sector, and that he could foresee unfortunate repercussions from the current situation. The External Auditor (MH) replied that EY had been paid a fee to provide its opinion to the Council, and that whilst there was a difference of opinion, it was being resolved professionally.

The Chief Technical Accountant reminded Members that there was no accounts to approve at this stage, and that she expected that the sign-off would take place at the September meeting to avoid the use of delegated authority. Cllr J Toye asked whether the Council had internally audited its accounts, to which the Chief Technical Accountant replied that the Council had the same draft statement of accounts that had been brought to the last meeting, without the auditors opinion. Concerns were raised that next year's accounts could be delayed even further, as a result of a knock-on effect of the delays.

## **RESOLVED**

**To note the update.**

## **7 CORPORATE RISK REGISTER**

The Chief Technical Accountant introduced the Report and informed Members that the Corporate Risk Register would now be reviewed quarterly in order for the Committee to take on the responsibilities of the Risk Management Board.

### Questions and Discussion

The Chief Technical Accountant stated that the MTFP risk score had been reduced, as Central Government had failed to announce a three year spending review. A one year review would likely be undertaken instead, with an expected 2% inflationary increase. This had the potential for the Council's projected £2m deficit to be pushed back a year, allowing more-time to resolve the deficit.

A question was raised on mandatory business rates reliefs for NHS trusts, and it was confirmed that the Local Government opinion was that the trusts were not charities, and would therefore not be entitled to reliefs or returns. The Chief Technical Accountant added that NNDC was part of the business rates pool for Norfolk, meaning that if courts were to decide in favour of the NHS trusts, the Council would be liable for its share of the costs. It was stated that there were reserves of £2.5m set aside for that eventuality, but any shortfall would come from the general reserve. It was also expected that the Central Government should provide relief if the courts were to side with the NHS. The Chairman asked for clarification of the potential amount payable, to which the Chief Technical Accountant replied that nationally, the figure was approximately £1.5 billion, if backdated to 2010. It was suggested that any relief from Central Government would also take into account backdating, however, if the NHS were to win its case, the business rates pool may become less attractive to NNDC, as there were no large hospitals within the district. In response to a question from

Cllr J Toye, it was confirmed that the decision could be appealed in court and this could allow Councils more time to prepare for any shortfalls by increasing their businesses rates reserves.

On coastal erosion, Members were informed that the landscaping scheme had progressed well, and was reducing the risk posed by further coastal erosion.

On the IT outage that took place on the 11<sup>th</sup> and 12<sup>th</sup> June, Members were informed that a review and impact assessment was underway, but had not been prepared in time for the meeting. The Chairman added that to his knowledge, the IT issues had been caused by salt particles in the air used to cool the Council's servers. He added that the issue would be added to the CRR.

On corporate projects, the Chief Technical Accountant informed Members that each project had its own risk register, but high risk issues would be added to the CRR.

## **RESOLVED**

**To note the Corporate Risk Register.**

## **8 INDEPENDENT REVIEW OF LOCAL AUTHORITY FINANCIAL REPORTING AND EXTERNAL AUDIT**

The Chief Technical Accountant introduced the Report and informed Members that Central Government had launched a review to check that external auditors were meeting their obligations, and it had been brought to the Committee for Members to be made aware that it was taking place.

### Questions and Discussion

It was suggested that the central procurement that had been used to realise savings may have led to resourcing issues with external auditors. This suggested that savings had been made at the expense of the quality and timing of audits. It was suggested that the review was a good opportunity for local authorities to highlight their issues with external auditors to Central Government.

In response to a question from the Chairman, it was confirmed that a draft response was expected by December, and that the completion date of the review was set for April 2020. The Chairman informed Members that comments could be sent to the Chief Technical Accountant via email by October, to be ready to send by December.

## **RESOLVED**

**To note the Report.**

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

The Democratic Services and Governance Officer (Scrutiny) informed Members that all items on the action list were complete.

As a result of the Risk Management Board work being taken on by the Committee, the Chairman informed Members that the Committee would soon begin to review the risks of projects prior to their implementation.

In response to a question from Members, it was confirmed that the Committee was

fully independent and could make recommendations to Cabinet, Council or the Overview and Scrutiny Committee.

**RESOLVED**

**To note the update.**

**10 GOVERNANCE, RISK AND AUDIT COMMITTEE WORK PROGRAMME**

The Democratic Services and Governance Officer (Scrutiny) informed Members that he would update the annual Work Programme to reflect the additional work of the RMB, and account for the final statement of accounts coming to the September meeting.

**RESOLVED**

**To note the Work Programme.**

**11 EXCLUSION OF THE PRESS AND PUBLIC**

None.

The meeting ended at 3.04 pm.

---

Chairman