



SOUTH NORFOLK FINANCE, RESOURCE, AUDIT AND GOVERNANCE COMMITTEE

Minutes of a meeting of the South Norfolk Finance, Resource, Audit and Governance Committee of South Norfolk Council, held on Friday, 26 July 2024 at 9.30 am.

Committee Members Present: Councillors: D Thompson (Chairman), T Graham (Vice-Chair), A Evans, T Laidlaw, D Sacks, R Savage and J Webber

Apologies for Absence: Councillors: N Fowler and The Lord Fuller OBE

Substitute: Councillors: J McCloskey (In place of N Fowler)

Cabinet Member in Attendance: Councillor: R Elliott

Officers in Attendance: D Lorimer (Director of Resources), R Fincham (Assistant Director of Finance), C Lawrie (Assistant Director of ICT/Digital and Transformation), T Sharman (Head Of Internal Audit), S Carey (Strategic Advisor and Deputy Monitoring Officer), R Dunsire (Head of Housing and Benefits), M Lemmens (Strategy & Intelligence Manager), N Gourley (Senior Internal Auditor) and J Hammond (Democratic Services Officer)

Also in Attendance: Mr D Riglar (Ernst & Young)

367. APOLOGIES FOR ABSENCE

Apologies for absence were received from Cllr The Lord Fuller OBE, and from Cllr N Fowler, with Cllr J McCloskey substituting.

368. DECLARATIONS OF INTEREST

Cllr T Laidlaw declared an Other Registerable Interest in respect of Minute Item: 372 – *Restructure of the Big Sky Group* as he was a Director of the Big Sky Ventures Ltd Board. He confirmed that he would leave the meeting for the consideration of the item.

369. MINUTES

The minutes of the meeting held on 22 March 2024 were confirmed as a correct record.

370. EXTERNAL AUDIT PLAN 2023/24

David Riglar, Partner at Ernst and Young, presented the report which covered the External Audit Plan 2023/24.

The report summarised the key issues for an effective audit of the Council and considered the likely impact of Government proposals to clear the backlog in local audit.

Members were informed that the Department for Levelling-up, Housing and Communities and Financial Reporting Council had developed measures to address local audit delays. These would consist of three phases:

1. Reset involving clearing the backlog of historic audit opinions up to and including financial year 2022/23 by 30 September 2024.
2. Recovery from Phase 1 in a way that did not cause a recurrence of the backlog by using backstop dates to allow assurance to be rebuilt over multiple audit cycles.
3. Reform involving addressing systemic challenges in the local audit system and embedding timely financial reporting and audit.

Audit risk areas covered in the report were:

- Misstatement due to fraud or error
- Incorrect apportionment of recharged expenditure overheads between South Norfolk District Council and Broadland District Council.
- Pension Valuation
- Valuation of land and buildings

Members were advised that performance materiality (the amount used to determine the extent of audit procedure) was set at £1.14m, which represented 75% of group materiality.

This represented two percent of the Council's 2022/23 gross expenditure on provision of services.

The scope of the report aimed to provide a true and fair view of the financial position on 31 March 2024, and of the income and expenditure for the year then ended, as well as the arrangements to secure value for money in the use of resources for the relevant period.

In response to a query regarding the accounting of the Ella May Barnes Building, Mr Riglar confirmed that EY would complete all standard procedures as part of

the audit, but could look into specific items further if the Committee felt it was appropriate.

It was also confirmed that audit fees were a statutory function delegated to Public Sector Audit Appointments (PSAA), and that the scale fee for 2023/24 would be commensurate with the work being undertaken.

The Assistant Director of Finance confirmed that the audit work was on schedule for delivery of the Auditors Annual report in November 2024.

Discussion turned to the Government proposals to clear the backlog in local audit and members queried how the historical gaps in assurance would be closed as part of the reset. Mr Riglar noted that it would take a number of years to close the assurance gaps, however, EY would be operating with enhanced processes to take account of the un-audited years. When outcomes were due to be reported, EY would map any modifications made as a result of the historical gaps. In response to further questions, Mr Riglar explained that it was expected to take 3-5 years until modifications were no longer required, but that the number of modifications made would diminish year on year.

It was then,

RESOLVED

To note the contents of the report.

371. CUSTOMER COMPLAINTS PERFORMANCE

The Committee considered the report from the Head of Housing and Benefits, which presented a self-assessment of how the Council, as a Registered Provider, complied with the Statutory Complaints Handling Code and requested that it be published and submitted to the Housing Ombudsman to meet legislative requirements.

Members were advised that the Council fulfilled most of the requirements in the Code, but differing time frames between the Local Government Ombudsman and the Housing Ombudsman did cause some discrepancies.

This should be resolved by complimentary guidance to be released later in the year and by a revised Complaints Policy, which would be taken to the 3 September 2024 Cabinet.

In response to a query, it was confirmed that the report was being brought to the Audit Committee as Complaints Performance required reviewing to ensure the effectiveness of internal controls at the Council, and it was a key role of the Committee to seek this assurance.

Discussion turned to the contents of the self-assessment, the Committee queried whether exit interviews were carried out with residents of the temporary accommodation. The Head of Housing and Benefits explained that as people exited temporary accommodation for a number of reasons, often at sudden

notice, it would not be possible to carry out an exit interview each time. There was concern that carrying out sporadic exit interviews could lead to skewed data being collected. The Head of Housing and Benefits further advised that residents would be surveyed on an annual basis, as it was felt this approach would lead to more accurate data being collected.

Members queried whether the service had received any complaints in the short time it had been a registered provider. The Head of Housing and Benefits confirmed that no valid complaints had been received to date. One member suggested that the proposed recommendation be amended so that the Committee noted the self-assessment, as they did not feel that the customer complaints performance could be noted without a complaint having been received/handled.

It was unanimously,

RESOLVED

To note the self-assessment and agree that the self-assessment be published and submitted to the Housing Ombudsman for consideration.

372. RESTRUCTURE OF THE BIG SKY GROUP

Cllr T Laidlaw left the meeting for the consideration of this item.

Members considered the report of the Director of Resources which had been agreed in principle by Full Council at its meeting on 20 May 2024. Part of the Council's resolution was for the report to be considered by the FRAG Committee to enable the pros and cons to be debated in full.

The Director of Resources reminded members that the Big Sky Companies were originally set up to deliver two outcomes; development of housing, and to manage property including the commercial assets of the Council, with the aim of providing a return to the Council. While the majority of the return was via the interest the Council received from loans to the companies, other benefits had also been identified, as outlined in the report.

The report proposed a reorganisation of the Big Sky Group by introducing a teckal-compliant company and a new company that was compliant with the definition of a body governed by public control which will employ the Big Sky staff. These changes would enable the Big Sky Group to continue to provide an efficient and effective Property Management Service for the Council, whilst operating within the procurement legislation for public sector bodies. It would also facilitate the direct awarding of contracts without the need for a procurement exercise.

Members were advised of the importance of the Council being able to directly award contracts to Big Sky because of both the significant costs associated with undertaking a procurement exercise, as well as the Council's need for expertise in property management due to its increasing portfolio of temporary accommodation, which had increased from 10 to 42 in the last year.

In response to a query regarding teckal compliancy, the Director of Resources explained that in order to be compliant, two criteria points must be met and maintained, those being:

1. The company must be wholly owned by the Council,
2. More than 80% of the activities carried out by the company were on behalf of the Council.

When originally set up, the Big Sky Group met both criteria and were teckal compliant, however, as the group's commercial and residential portfolios had increased, it was no longer meeting the second criteria point.

One member queried how the company took instruction from the Council. The Director of Resources informed the Committee that the Shareholder Representative (currently Cllr The Lord Fuller) attended the Big Sky Ventures Ltd AGM and signed off the Business Plan on behalf of the Council, which was then brought to FRAG Committee for endorsement. Full Council also approved any loans provided to Big Sky, as part of its annual budget – which substantially impacted the direction of the Company and the work it could deliver.

A number of members further requested clarity on the governance and operation of Big Sky. The Head of Internal Audit advised that the Monitoring Officer was currently reviewing the governance arrangements surrounding wholly owned companies (including Big Sky) and it was suggested that the outcomes of the review be presented to the Committee at a future meeting. The Strategic Advisor and Deputy Monitoring Officer further informed members that Part 4.7 of the Council's Constitution outlined Big Sky's Governance in addition to the make-up of the boards.

In response to a query on member's involvement in the Big Sky companies, the Director of Resources explained that in addition to the Shareholder Representative, two members sat on the board of Big Sky Ventures Ltd. With respect to the appointment of Directors of the two new companies, the Director of Resources explained that the intention was for an Officer, not a member of the Council, to join the Councils Managing Director and the Development Director of Big Sky, as the third Director.

With regard to alternative options available to the Council, the Director of Resources explained that officers had worked alongside Birkett's LLP (the Councils legal services provider) and a tax expert to investigate a number of options and it was deemed that the proposed reorganisation was the most appropriate.

Discussion turned to the Staffing Company and members were advised that all staff who currently worked for Big Sky would be employed by the public body staffing company and would experience no changes to their employment terms, salary, benefits, etc. This would allow Big Sky Officers to work on behalf of the Teckal Company as part of a directly awarded contract, as well as being able to work for Big Sky Developments Ltd and Big Sky Ventures Ltd without affecting the compliancy of the Teckal Company.

After further discussion it was,

RESOLVED

To endorse the recommendations agreed by Full Council on 20 May 2024.

373. STRATEGIC RISK REGISTER

Cllr T Laidlaw rejoined the meeting before the consideration of this item.

The Assistant Director of ICT/Digital and Transformation presented the report, which provided an overview of the current position of the Strategic Risk Register for South Norfolk Council.

The salient points of the report were outlined, with attention drawn to the changes in the status of risks and additions to the register, since the last update to the Committee.

Members noted that no new risks had been added onto the register.

Discussion turned to the one strategic risk which had had its score increased this quarter. Risk SNCP3: The level of funding allocated from DEFRA to cover the costs of the vehicles required to roll out a food waste service was insufficient to cover the costs in full. A further challenge had been sent back to DEFRA, setting out the costs associated with needing to expand the current depot to accommodate the required additional vehicles.

With regard to risk SNCM12 (which related to cyber security), the Assistant Director of ICT/Digital and Transformation explained that a new mitigating action had been added which reduced the risk score. This mitigating action was to conduct a cyber security awareness session for members, to be delivered by Norfolk Constabulary's Cyber Team. She further advised the Committee that the Cyber Assessment Framework, which was a third-party review of the Council's security posture, had been completed and the draft report received.

In response to a query on the recent worldwide Microsoft outage, the Assistant Director of ICT/Digital and Transformation informed members that the Council was not affected as it did not use CrowdStrike as its cyber security provider. Members further queried whether the Register should be updated to reflect the risk of a similar issue with the Council's supplier, they were advised that the Council had an Incident Response Plan in place to deal with unexpected issues such as this.

Regarding Nutrient Neutrality, one member raised concern that the Council or its joint venture company (Norfolk Environmental Credits (NEC)) could be saddled with costs relating to prefunded credits should there be changes to the mitigation scheme. The Assistant Director of Finance advised that most of the risk lay with Broadland District Council as the accountable body, the only investment made by South Norfolk Council was the initial £30,000 loan which, to date, had not been called upon. With respect to the NEC, as it was mostly funded through grants the risk level was low. In response to further concerns raised, the Assistant Director of ICT/Digital and Transformation agreed to liaise with the Director of Place regarding the risks related to Nutrient Neutrality and whether any alterations to

the Strategic Risk Register or the Directorate Risk Register were required.

It was then unanimously,

RESOLVED

To note the Strategic Risk Register update for the Council.

374. SELF-ASSESSMENT ACTION PLAN AND TRAINING NEEDS ANALYSIS RESULTS

Members considered the report of the Head of Internal Audit, which outlined the action plan compiled following the results of the self-assessment exercise, which was presented to the Committee at the last meeting.

The report also set out the results of the knowledge and skills self-assessment questionnaires completed by members and the suggested areas for training.

The Assistant Director of Finance advised members that they had the opportunity to request any specific training they felt beneficial to the Committee. Members discussed the topics they wished to have covered and it was agreed that the nine areas covered in the self-assessment exercise encompassed all needs. It was proposed that training on one or two of the areas be provided just prior to each formal committee meeting.

One member requested that the training be open to all Councillors as it was important for potential substitute members to receive this additional training. The Chairman agreed that all members be advised of the training and informed that they were welcome to attend.

It was then,

RESOLVED

1. To approve the action plan and agree that it captured all improvement actions.
2. To note the collated results of the knowledge and skills self-assessment questionnaires.
3. That training covering all 9 areas of the self-assessment be provided prior to each formal Committee meeting.

375. ANNUAL REPORT OF THE FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE

The Chairman introduced the Annual Report of the FRAG Committee, which outlined the work undertaken by the Committee during 2023/24.

One member felt that the summary of the discussion regarding the Statement of Accounts was not accurate, whilst other members present at the meeting in

September 2023 felt that the summary accurately, if diplomatically, reflected the discussion and views of the Committee.

It was unanimously,

RESOLVED

TO RECOMMEND TO COUNCIL that it approves the contents of the Annual Report of the Financial, Resources, Audit and Governance Committee for 2023/24.

376. INTERNAL AUDIT - PROGRESS AND FOLLOW UP

Members considered the report, which reviewed the work performed by the Internal Audit in delivering the Annual Internal Audit Plan for 2023/24 during the period 1 January to 16 July 2024, and details of outstanding internal audit recommendations.

The Head of Internal Audit advised the meeting that during the period, seven reports had been finalised and two were in draft. Currently, there were 32 outstanding recommendations. One was rated as 'urgent', ten as 'important' and 21 as 'needs attention'. A further 27 were not yet due for implementation.

The Assistant Director of Finance advised the meeting that it was disappointing that the two reports in draft (Key Controls and Assurance, and Accounts Receivable and Income) had received only limited assurance and he would be impressing on officers the importance of ensuring that checks were accurately recorded.

In response to a query, it was confirmed that it was taking longer to standardise reconciliations than anticipated following the implementation of several new IT systems. These had now been bedded in, so these issues should be resolved going forward.

Members were also advised that the Head of Internal Audit was focused on completing a self-assessment against the new Global Internal Audit Standards, which would become effective on 1 January 2025. A report would be provided to the Committee during 2024/25 on conformance with the Standards and any actions that might arise from this.

It was then,

RESOLVED

To receive the final report covering progress in delivering the internal audit plan of work for the 2023/24 financial year, and review responses to outstanding internal audit recommendations.

377. INTERNAL AUDIT ANNUAL OPINION AND REPORT 2023/24

The Committee considered the report which provided an annual opinion of the Council's framework of governance, risk management and control.

Members' attention was drawn to page 181 of the agenda where there was a summary of the audit work in 2023/24. This showed ten positive opinions four of which were substantial and two as already discussed above were limited. There were no urgent recommendations issued.

The Opinion of the Head of Internal Audit had been informed by third-party assurance from the Cabinet Office regarding the Council's connection to the Public Services Network and its infrastructure security, as well as the outcomes of all completed audits, and management's progress with addressing outstanding recommendations.

The status of the Contractor delivering internal audits for the Council was rated 'Amber', as only six out of 11 performance indicators had been met. Members queried whether any of the Contractor's fees had been withheld as a result of their performance. The Head of Internal Audit explained that 10% of the overall fee was performance related. It had been decided that the 5% (or half of the performance related pay) in recognition that some of the delays were Council related.

Members were also informed that not many client feedback surveys had been returned. It was proposed that future surveys would be abridged to encourage their completion.

The following actions were being taken or considered to improve performance:

- The appointment of another team to complete 2024/25 quarter 1 audits to prevent delay.
- A Protocol, setting out the expectations of the Council and the Contractor to ensure that audits were completed as planned and including timescales for responding and escalation action.
- As the Contractor did not have exclusivity, consideration was being given to engaging with another Contractor to complete some audits during 2024/25.
- The Contractor was appointing another Client Manager on the contract to ensure that audit work was progressed in a timely manner.

It was confirmed that the Council had a five-year contract with its Internal Audit Contractor, however, as it did not include exclusivity or a guaranteed minimum amount of work the Council could explore the marketplace for other options if necessary.

It was noted that the report before members was for the year end and that the number of outstanding recommendations could be different to those in subsequent reports as outstanding ones were shut down and new ones raised. It

was confirmed that the final figures would be reconciled and set out in future reports.

After further discussion it was,

RESOLVED

To,

1. Receive the contents of the Annual Opinion Report of the Head of Internal Audit.
2. Note that a reasonable / limited audit opinion had been given in relation to framework of governance, risk management and control for the year ended 31 March 2024.
3. Note that the opinions expressed together with significant matters arising from the internal audit work should be given due consideration when developing and reviewing the Council's Annual Governance Statement for 2023/24.
4. Note the outcomes of the Internal Audit's performance measures and the Quality Assurance and Improvement Programme (QAIP).

378. ANNUAL GOVERNANCE STATEMENT 2023/24

Members considered the report from the Strategic Advisor and Deputy Monitoring Officer, which presented the Council's Annual Governance Statement for approval.

The Committee was advised that the key sources of assurance which had been used to prepare the Annual Governance Statement were:

- Performance management information
- Risk management
- Legal and regulatory assurances
- Members' assurances
- Assurance Statements for key senior officers, reviewed and approved by Directors
- Financial control assurance
- Internal audit
- External audit

The Annual Governance Statement demonstrated the Council's compliance with the principles of good governance, and the review of effectiveness for 2023/24 concluded that the Council's corporate governance arrangements in place during the year were fit for purpose and in accordance with the governance framework.

Members' attention was drawn to section 5 of the Annual Governance Statement, which set out a few minor control weaknesses that were not considered to be significant issues, but where action would still be taken.

The Internal Audit section would be completed following the meeting, taking account the Head of Internal Audit Opinion for 2023/24.

It was,

RESOLVED

To approve the Annual Governance Statement for 2023/24.

379. FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE WORK PROGRAMME

The Committee considered each item within the Work Programme.

The Assistant Director for Finance advised the meeting that the Statement of Accounts and Audit Results Reports 2021/22 and 2022/23 would slip to January 2025.

One member queried what budget training was available to the Committee, the Assistant Director of Finance informed the Committee that the Local Government Association (LGA) had a wide range of resources available to members on their website, he agreed to circulate the details after the meeting.

It was agreed that the quarterly review of Big Sky would be added to the work programme.

The Assistant Director of Finance agreed that the draft Statement of Accounts for 2023/24 would be brought to the meeting on 20 September 2024.

(The meeting concluded at 11.36 am)

Chairman