NORWICH City Council

AUDIT COMMITTEE

Date: **Tuesday 19 November 2013**

Time: **(Members' training 4.30pm to 5.00 pm)**
5.00 pm – Committee

Venue: **Westwick room, City Hall**

COMMITTEE MEMBERS:

Councillors:

Little (Chair)
Wright (Vice chair)
Bremner
Boswell
Driver
Kendrick
Neale
Waters

FOR FURTHER INFORMATION PLEASE CONTACT -

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Democratic services
City Hall
Norwich
NR2 1NH

AGENDA

Page No.

1. Apologies

To receive apologies for absence

2. Public Questions

To receive questions from the public (notice to be given to the committee officer by 10am on the day before the meeting)

3. Declarations of Interest

(Please note that it is the responsibility of individual members to declare any interest prior to the item if they arrive late for the meeting).

The following item is attached for members' information:

11 November 2013

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NORWICH City Council

MINUTES

AUDIT COMMITTEE

4.30pm to 5.45pm **24 September 2013**

Present:	Councillors Little (chair), Wright (vice chair), Boswell, Driver, Kendrick, Neale and Waters
Apologies:	Councillor Bremner

1. DECLARATIONS OF INTEREST

There were no declarations of interest.

2. MINUTES

RESOLVED to approve the accuracy of the minutes of the meeting held on 23 July 2013.

3. INTERNAL AUDIT AND FRAUD TEAM 2013-14 – JUNE TO AUGUST UPDATE

The audit manager (LGSS) presented the report.

During discussion the audit manager referred to the report and answered members' questions. He explained that the council had not taken into account a claimant's private pension, despite it being logged, and this had resulted in the overpayment of £6,371 in housing benefits, which would be recovered. Members were advised that that the benefits team would clear the backlog and not hold up the work of the fraud team. The partnership arrangements with Northampton Borough Council and its assistance to improve the benefits service would be beneficial to the council.

Discussion ensued on the risk based approach to identify areas of internal audit and that an advantage of LGSS was that it was able to provide additional resources if required.

RESOLVED to note:

(1) the work of internal audit between June and August 2013;

(2) progress on the internal audit plan;

(3) the work of the fraud team between June and August 2013;

(4) the latest position on the national fraud initiative (NFI).

4. AUDIT RESULTS REPORT (ISA260 REPORT) 2012-13

(The director and audit manager of Ernst & Young LLP, the council's external auditors, attended the meeting for this item. Apologies were received on behalf of the partner.)

The external auditor (director (Ernst & Young LLP)) presented the appended report and explained that the audit results ISA260 report replaced the previous annual governance report. The external auditors expected to issue an unqualified audit opinion on the council's accounts. There were a number of minor completion issues which would be dealt with before he issued his opinion on 30 September 2013. The external auditors' fees would be reported back to the committee as part of the annual audit letter but would be less than previous years as a result of working with the finance team. Members were advised that "000" should be deleted from the column headings in the table in paragraph of the appended report.

During discussions the external auditor, chief finance officer and chief accountant answered members' questions. Members noted that the general fund reserves were £5.2m, well above the prudent minimum level of reserves, which was £4.35m. The chief finance officer said that she did not expect that the fixed asset register would be produced in time for inclusion in the current years' accounts (2013-14) but should be available from 1 April 2014. Members praised the work of the external auditors working together with the finance team to reduce errors. The external auditors said that this built on work in previous years and there was a lower materiality level.

RESOLVED to:

(1) review and notes the attached report from the council's external auditor;

(2) approve the draft letter of management representation presented in Appendix B of the report; and,

(3) note the unresolved issues detailed in section 3 of the report under "significant qualitative aspects of accounting practices".

5. STATEMENT OF ACCOUNTS 2012-13

(Copies of the table containing the movement in reserves statement, which had not been included in the statement of accounts due to a production issue, were circulated at the meeting. Members were also advised that the reference in paragraph 12 of the covering report should refer to paragraphs 8 to 10. Members were also advised that there were formatting issues in the document which had caused text to slip and that the pagination of the statement of accounts document had been lost and therefore the contents page could not be used. Subtotal figures were missing on the table on page 62 of the agenda papers.)

The chief accountant presented the report and pointed out that there were a small number of changes this year to the way that the accounts were presented.

During discussion the chair referred to the committee members' training held on 18 September 2013 which comprised the role of the committee in scrutinising the statement of accounts in the context of the legislation. The chief accountant referred to the statement of accounts and answered members' questions. She explained that all figures had been adjusted since the last version of the statement of accounts had been published (audit committee, 23 July 2013) and had taken into account the members' comments. Members noted that additional text had been inserted to explain the housing revenue account and the general fund. The comprehensive income and expenditure statement was one of the changes in the way the accounts were presented this year to reflect changes to the corporate leadership team and services being transferred to LGSS. In response to a question about funding for a rapid bus transport link which had not been implemented, the chief accountant referred the committee to the comprehensive income and expenditure statement and said that the (surplus)/deficit on provision of services was £4,916k. The accounts had been revised to separate out the NNDR for clarification and figures for this were shown in the accounts at section 37 *Grants income* (page 136 of the agenda pages). An explanation of changes to business rates and special grants was provided in section 6 *Events after the Balance Sheet date*.

The audit manager (LGSS) referred to the annual governance statement in the statement of accounts, which referred to the *internal audit assurance reviews* and explained that a limited assurance opinion had been issued for contract management in citywide services because of inadequate procedures for controlling large value contracts. A recent follow up by internal audit confirmed that all the recommendations had been implemented.

In response to a member's question, Councillor Waters, as deputy leader and cabinet member for resources, said that the performance of the planning service and revenues and benefits service were regularly monitored, as were all service areas, by the scrutiny committee, cabinet and audit committee. He congratulated the chief finance officer, chief accountant and the finance team for producing the accounts on time.

RESOLVED to:

(1) approve the statement of accounts 2012-13, and,

(2) delegate to the chief finance officer, in consultation with the chair, the final approval of the statement of accounts 2012-13.

CHAIR

Report to	Audit committee	**Item**
	19 November 2013	5
Report of	Head of internal audit and risk management, LGSS	
Subject	Proposed risk management policy and risk management strategy	

Purpose

To enable members to review the proposed risk management policy and risk management strategy prior to their presentation to cabinet for approval.

Recommendation

To recommend cabinet to approve the council's risk management policy and risk management strategy.

Corporate and service priorities

The report helps to meet the corporate priority Value for money services

Financial implications

None

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

Steve Tinkler, head of internal audit and risk management, LGSS	01604 367055
Steve Dowson, audit manager, LGSS	01603 212575

Background documents

None

Report

Background

1. The council's risk management strategy and corporate risk register are key elements of the corporate plan delivery structure, ensuring that risks to the achievement of the council's corporate and service priorities are identified and effectively managed.

2. The risk management strategy was last updated in December 2011 and is due for review.

3. In June 2013 the corporate leadership team (CLT) decided to adopt the LGSS risk management model, which was based on best practices at Northamptonshire and Cambridgeshire county councils.

4. A small officer team, including some members of CLT, have adapted the LGSS model for use by the city council. This exercise was facilitated by the LGSS risk manager.

5. The LGSS risk management model is in two parts – an overarching risk management policy supported by risk management procedures, which is what is being proposed for the council.

6. The draft policy and strategy were considered by the business management group on 31 October, and a number of changes were made as a result of the discussions. The latest versions are attached at annex 1 and annex 2 for members' review.

Risk management policy

7. The policy contains a definition of risk, the principles and benefits of risk management, and a scoring matrix based on the widely-accepted 5 x 5 grid.

8. The policy also refers to the council's appetite for risk, and cabinet will be recommended to agree a maximum level of residual risk which it is prepared to accept as 15 on the scoring matrix, ie there should be no 'red' risks after mitigating controls have been taken into consideration.

Risk management strategy

9. The strategy is intended to guide officers through the identification, recording, scoring and action planning for the mitigation of risks, and can be used at both corporate and service level.

10. A fundamental change in the new strategy is that risk will now be scored in two stages:
    - at inherent risk level, ie an initial base level which ignores any controls which might already be in place
    - a residual level which will take account of any controls already in place

11. The inherent risk stage is necessary to identify all of the main risks faced and to reinforce a risk owner's responsibility to ensure mitigation is effective in practice.

12. As previously mentioned, the minimum appetite is expressed as not accepting a residual score of 16 or more unless actions are planned to reduce the score to below this level on a timely basis.

13. However, in exceptional circumstances cabinet can approve a residual risk in excess of the risk appetite if it is agreed that it is impractical or impossible to reduce the risk level below 16.

14. Appendix 1 of the strategy details the roles and responsibilities in risk management. This includes the role of audit committee, which is:

    - Monitoring adherence to the risk management policy
    - Reviewing risk management policy
    - Reviewing reports on the council's risk management processes in order to provide independent assurance of the adequacy of the risk management framework and the associated control environment
    - Raising any concerns on risk management with cabinet

Corporate risk register

15. The council's corporate risks will be thoroughly reviewed by senior managers using the principles in the risk management strategy. In accordance with appendices 2 and 3 of the strategy risks will be categorised, rather than being listed in order of risk score as at present.

16. The new register will show key controls plus residual scores, together with any additional actions managers consider necessary to further manage the risks.

17. The register will then be reported to audit committee prior to its presentation to cabinet.

Conclusion

18. Effective risk management is a key element in delivering the council's corporate plan.

19. The proposed risk management policy and risk management strategy are derived from those adopted by Northamptonshire and Cambridgeshire county councils and are based on best practice.

NORWICH CITY COUNCIL

RISK MANAGEMENT POLICY

Document control

Version	Author	Date	Summary of changes
V0.1d	S Dowson	5/9/13	First draft
V0.2d	S Dowson	10/10/13	Updated following comments from Anton Bull and John Davies
V0.3d	S Dowson	31/10/13	Updated following comments from BMG
V1.0	S Dowson	11/11/13	Final version for committee

Next review date:	

NORWICH CITY COUNCIL

RISK MANAGEMENT POLICY

1. INTRODUCTION BY CHIEF EXECUTIVE

Norwich City Council seeks to ensure that services, delivered either directly or through others, are of a high quality, provide value for money and meet evidenced need.

We are a complex organisation that works with a wide variety of other organisations in different and varying ways. As a result we need to ensure that the way we act, plan and deliver is carefully thought through both on an individual and a corporate basis.

The council defines what it seeks to achieve in the form of corporate priorities and details how it expects to deliver them through the corporate plan, as well as service and team plans.

There are many factors which might prevent the council achieving its plans, therefore we seek to use a risk management approach in all of our key business processes with the aim of identifying, assessing and managing any key risks we might face. This approach is a fundamental element of the council's code of governance.

This risk management policy is fully supported by members, the chief executive and the corporate leadership team who are accountable for the effective management of risk within the council. On a daily basis all officers of the council have a responsibility to recognise and manage risk in accordance with this policy and the associated risk management strategy. **Risk management is everyone's business.**

The Accounts and Audit Regulations 2011 state:

The relevant body is responsible for ensuring that the financial management of the body is adequate and effective and that the body has a sound system of internal control which facilitates the effective exercise of that body's functions and which includes arrangements for the management of risk.

In Norwich City Council risk management is about improving our ability to deliver our strategic objectives by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing operational activities.

I am committed to the effective management of risk at all levels of this council. This policy, together with the risk management strategy, is an important part of ensuring that effective risk management takes place.

Laura McGillivray
Chief Executive

2. WHAT IS RISK?

The council's definition of risk is:

"Factors, events or circumstances that may prevent or detract from the achievement of the council's corporate priorities and service plan objectives."

3. RISK MANAGEMENT OBJECTIVE

Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the council's governance framework.

The council will operate an effective system of risk management which will seek to ensure that risks which might prevent the council achieving its plans are identified and managed on a timely basis in a proportionate manner. In practice this means that the council has taken steps to ensure that risks do not prevent the council achieving its corporate priorities or service plan objectives.

4. RISK MANAGEMENT PRINCIPLES

- The risk management process should be consistent across the council, clear and straightforward and result in timely information that helps informed decision making
- Risk management should operate within a culture of transparency and openness where risk identification is encouraged and risks are escalated where necessary to the level of management best placed to manage them effectively
- Risk management arrangements should be dynamic, flexible and responsive to changes in the risk environment
- The response to risk should be mindful of risk level and the relationship between the cost of risk reduction and the benefit accruing, ie the concept of proportionality
- Risk management should be embedded in everyday business processes
- Officers of the council should be aware of and operate the council's risk management approach where appropriate
- Members should be aware of the council's risk management approach and of the need for the decision making process to be informed by robust risk assessment, with cabinet members being involved in the identification of risk on an annual basis.

5. APPETITE FOR RISK

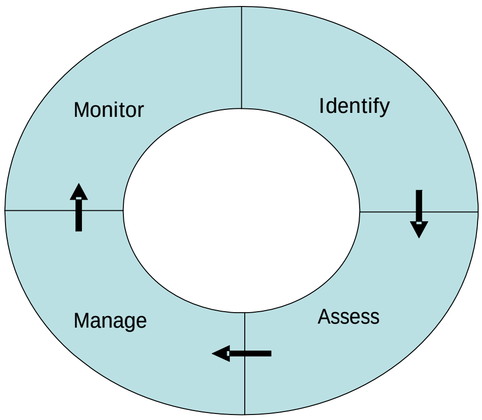
As an organisation with limited resources it is inappropriate for the council to seek to mitigate all of the risk it faces. The council therefore aims to manage risk in a manner which is proportionate to the risk faced based on the experience and expertise of its senior managers. However, cabinet has defined the maximum level of residual risk which it is prepared to accept as a maximum risk score of 15 as per the scoring matrix attached at **appendix 1** (for corporate priority and service plan objective risks). Other areas of risk, such as small projects or health and safety, may have a different risk appetite depending on the circumstances, but only if they do not impact on corporate priorities or service plan objectives.

6. BENEFITS OF RISK MANAGEMENT

- Alerts members and officers to the key risks which might prevent the achievement of the council's plans, in order that timely mitigation can be developed to either prevent the risks occurring or to manage them effectively if they do occur.
- Risk management at the point of decision making should ensure that members and officers are fully aware of any key risk issues associated with proposals being considered.
- Leads to greater risk awareness and an improved and cost effective control environment, which should mean fewer incidents and other control failures and better service outcomes.
- Provides assurance to members and officers on the adequacy of arrangements for the conduct of business. It demonstrates openness and accountability to various regulatory bodies and stakeholders more widely.
- Allows the council to take informed decisions about exploiting opportunities and innovation, ensuring that we get the right balance between rewards and risks.

7. RISK MANAGEMENT APPROACH

The risk management approach adopted by the council is based on identifying, assessing, managing and monitoring risks at all levels across the council:



The detailed stages of the council's risk management approach are recorded in the risk management strategy, which provides managers with detailed guidance on the application of the risk management process.

The strategy can be located on the intranet at [*link*]

Additionally individual business processes, such as decision making, project management will provide guidance on the management of risk within those processes.

8. AWARENESS AND DEVELOPMENT

The council recognises that the effectiveness of its risk management approach will be dependent upon the degree of knowledge of the approach and its application by officers and members.

The council is committed to ensuring that all members, officers and partners where appropriate, have sufficient knowledge of the council’s risk management approach to fulfil their responsibilities for managing risk. This will be delivered thorough formal training programmes, risk workshops, briefings, and internal communication channels.

9. CONCLUSION

The council will face risks to the achievement of its plans. Compliance with the risk management approach detailed in this policy should ensure that the key risks faced are recognised and effective measures are taken to manage them in accordance with the defined risk appetite.

Appendix 1

SCORING MATRIX

VERY HIGH	5	10	15	20	25
HIGH	4	8	12	16	20
MEDIUM	3	6	9	12	15
LOW	2	4	6	8	10
NEGLIGIBLE	1	2	3	4	5
IMPACT / LIKELIHOOD	VERY RARE	UNLIKELY	POSSIBLE	LIKELY	VERY LIKELY

Red: **In excess of the council's risk appetite (15) - action needed to redress, quarterly monitoring**

Amber: **Likely to cause the council some difficulties - quarterly monitoring**

Green: **Monitor as necessary**

NORWICH
City Council

Risk Management Strategy

Document control

Version	Author	Date	Summary of changes
V0.1d	S Dowson	5/9/13	First draft
V0.2d	S Dowson	10/10/13	Updated following comments from Anton Bull and John Davies
V0.3d	S Dowson	23/10/13	Updated following CLT 23/10/13. Appendix 5 removed; environment added to impacts
V0.4d	S Dowson	31/10/13	Updated following comments from BMG 31/10/13
V1.0	S Dowson	11/11/13	Final version for committee

Next review date:	

CONTENTS

1 Introduction

Norwich City Council seeks to ensure that services, delivered either directly or through others, are of a high quality, provide value for money and meet evidenced need.

The council is a complex organisation that works with a wide variety of other organisations in different and varying ways. As a result it needs to ensure the way it acts, plans and delivers is carefully thought through both on an individual and a corporate basis.

However there are many factors which might prevent the council achieving its plans, therefore we seek to use a risk management approach in all of our key business processes with the aim of identifying, assessing and managing any key risks which might be faced. This approach is a fundamental element of the council's code of governance and is explained in the following extract from council's annual governance statement:

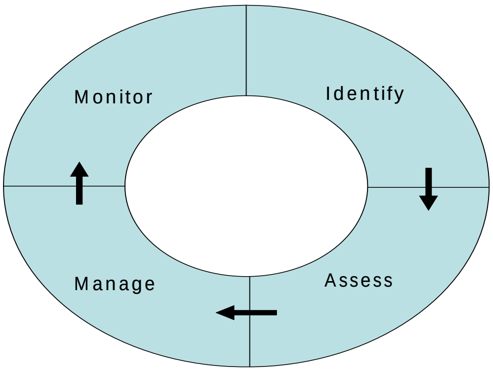
'The system of internal control is a significant part of that [governance] fr*amework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Norwich City Council's policies, aims and objectives, to evaluate the likelihood of these risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically*.'

It is important to recognise that the council is not seeking to 'factor out' all risk, as this would not be a cost effective use of scarce resources, but instead to manage risk in a proportionate manner relative to the severity of the risk. It is also important to remember that risks must be managed, but not avoided to the extent that innovation and opportunities are stifled.

The definition of risk is:

"Factors, events or circumstances that may prevent or detract from the achievement of the council's corporate priorities and service plan objectives".

The risk management approach is based upon the standard management cycle of:



This strategy details the council's risk management approach and the practices required to make it work.

Risk management is a dynamic tool which should be used from the point at which a risk is first identified until such time as it no longer represents a significant risk to the council.

2 Benefits of Risk Management

- Alerts members and officers to the key risks which might prevent the achievement of the council's plans, in order that timely mitigation can be developed to either prevent the risks occurring or to manage them effectively if they do occur.
- Risk management at the point of decision making should ensure that members and officers are fully aware of any key risk issues associated with proposals being considered.
- Leads to greater risk awareness and an improved and cost effective control environment, which should mean fewer incidents and other control failures and better service outcomes.
- Provides assurance to members and officers on the adequacy of arrangements for the conduct of business. It demonstrates openness and accountability to various regulatory bodies and stakeholders more widely.
- Allows the council to take informed decisions about exploiting opportunities and innovation, ensuring that we get the right balance between rewards and risks.

3. Risk Management Processes

3.1 Risk Recording

It is important that all stages of the risk management process are recorded to allow risks to be managed effectively on a dynamic basis. A standard risk register template is shown at Appendix 3.

Each stage of the risk management process should be recorded in the register.

3.2 Risk Identification

The identification of risk is the most difficult aspect of risk management as once a risk is identified the structured process of risk management should mean that the risk is fully evaluated and managed appropriately. Officers are therefore encouraged to devote sufficient time to it such that all key risks are recognised and appropriately managed.

Risk identification should include consideration of any risks associated with missed opportunities, e.g. failure to take advantage of external funding opportunities.

Risk is best identified by means of a risk workshop at management team level where each team member is able to identify their perspective of risk without influence from other team members, although the outputs from this process are then subject to full team review to give a consensus on the main risks faced by that team. Other risk identification approaches can also be effective, eg open discussion at team meetings.

Further guidance and support on the risk identification process, including facilitation of workshops, can be obtained from the LGSS head of internal audit or executive heads and heads of service, who act as risk champions.

To assist risk identification, Appendix 2 lists the types of risks which might be faced. However, it should be recognised that this list is simply a guide and is not exhaustive.

Risks should be clearly articulated to ensure there is a clear understanding of the risk. Risk descriptions should be expressed in negative terms and will refer to risks arising either from council actions or from external factors, eg 'The council does not ………'; 'The council fails to …….';.'Failure to ……'; 'Supply chain failure'; 'Industrial action'.

3.3 Trigger and Result

At the point of risk identification the possible triggers of the risk and the likely results if the risk were to occur should be identified to give a good understanding of the dynamics of the risk:

- Trigger naturally leads to the identification of the mitigating actions necessary to either prevent the risk occurring or to recover quickly from the risk should it occur;
- Result assists in understanding the impact of the risk and hence its scoring (see 3.6 below).

3.4 Risk Ownership

The effective management of risk requires that each risk should have a named owner. Ownership should be vested at individual officer level and not team level.

3.5 Escalation of Risk

In the interests of empowerment each risk should be managed at the lowest appropriate level of management. However, if it is considered that a risk identified at one management level cannot be effectively managed at that level, the risk should be escalated up the management chain until it reaches the level at which it can be effectively dealt with.

3.6 Scoring of Risk

In order to assess the impact of risk in a consistent manner a scoring methodology has been adopted which takes account of the two distinct aspects of risk:

- The likelihood of the risk occurring;
- The impact if it does occur.

The scoring methodology is expressed in the corporate 5x5 scoring matrix as attached at Appendix 4. The matrix itself is supported by descriptors, over various elements, for the impact element of the risk. The impact score selected will be the highest score for any of the descriptor elements (N.B. not all may apply).

The risk will be scored in two stages:

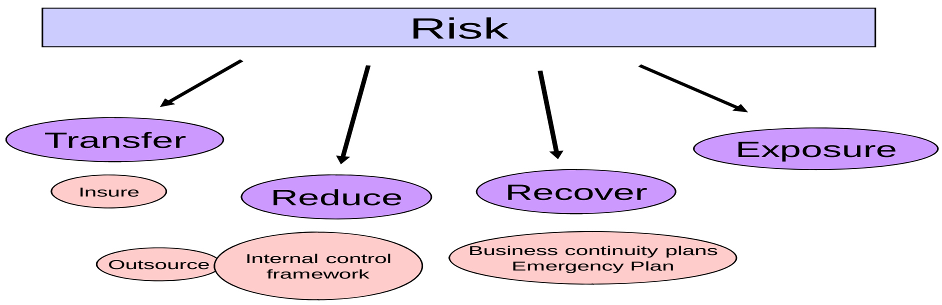
- at inherent risk level, ie an initial base level which ignores any controls which might already be in place;
- a residual level which will take account of any controls already in place.

The inherent risk stage is necessary to identify all of the main risks faced and to reinforce a risk owner's responsibility to ensure mitigation is effective in practice.

3.7 Risk Mitigation

Controls which are known to be operating effectively should be identified**.**

The following diagram and explanations illustrate how risks can be mitigated, under the headings of transfer, reduce and recover. The net effect of these mitigation types is the residual exposure to risk:



- **Transfer –** the cost impact of a risk occurrence through insurance.
- **Reduction –** the checks and balances which are built into our everyday business processes (the main source of risk mitigation). This category of risk mitigation also includes the reduction of net risk through the outsourcing of services.

- **Recovery –** the plans we have in place to recover business critical systems on a timely basis when business disruption occurs. The council's approach to business continuity management is a key aspect of effective risk management.
- **Exposure –** when the above mitigating activities have been applied to the inherent risk the council is left with the level of exposure which it is prepared to accept or has to accept in the circumstances, ie the residual risk.

However, it is not appropriate for the council to attempt to manage all the risks which it faces – sometimes it is more effective to **terminate** the risk. This may mean ceasing the activity likely to trigger the risk or simply doing something in a different way that eliminates the original risk.

3.8 Action Planning

The residual risk score should be evaluated and an assessment made if this level of risk is appropriate, ie not too high, not too low.
The council has formally agreed a common approach to its appetite for risk. The minimum risk appetite is expressed as not accepting a residual risk score of 16 or more unless actions are planned to reduce the score to below this level on a timely basis. In exceptional circumstances cabinet can approve a residual risk in excess of the risk appetite if it is agreed that it is impractical or impossible to reduce the risk level below 16. Such risks should be escalated through the management reporting line to CLT and cabinet.

Otherwise the appropriate level of residual risk should be based on the experience of the manager responsible for managing the risk. Advice can be sought from risk champions (heads of service) or from the LGSS audit and risk managers.

In determining the mitigation required to manage a risk, regard must be had to the proportionality of the cost of the mitigation to the cost impact if the risk occurs, ie it would make no sense if the cost of the control exceeded the cost of the impact.

If the risk score is deemed to require adjustment, actions should be designed which will move the residual risk score to the desired level. Actions must be assigned to a named owner and an achievable target date for completion set.

3.9 Risk Monitoring

A full review of risk should be undertaken on a quarterly basis at all levels of management, ie CLT, executive heads, service and team, to ascertain:

- If all relevant risks are included;
- If any risks can be closed;
- The progress in implementing agreed actions. It should be noted that action progress will be identified through a RAG rating, with red rated actions requiring written explanation from the action owner.
- If residual risk scores should be re-evaluated to reflect completed actions.

Managers should have regard to potential risks at all times and should use the risk management approach to help them analyse and manage such risks at the point they are identified. Managers should not wait for the next formal quarterly review.

3.10 Risk Reporting

CLT will, on a quarterly basis, review the council's risk profile at corporate and business area levels and will review details of business areas' residual risks in excess of the council's risk appetite (red risks).

An annual risk report detailing key changes to corporate risk, including any changes in residual risk scores, will be presented to cabinet.

On a quarterly basis the audit committee will receive a report on risk management to support the committee in delivering its responsibilities in respect of risk management.

3.11 Annual Assurance

Annual assurance in respect of the development, maintenance and operation of effective control systems in respect of the risks under their control, will be provided by executive heads and heads of service as an assurance source for the annual governance statement.

3.12 Risk Management in other Business Processes

The risk management processes defined in other business processes should be complied with. Other business processes includes:

- **Member decision making**

  It is critical for effective decision making that the decision makers are provided with details of the risks associated with each proposal being considered. The integrated impact assessment attached to the standard cabinet report template requires identification of the risks associated with a proposal.

- **Council and service planning**

  As with member decision making it is critical that senior managers and ultimately members understand the risks associated with the plans being designed by the council at the point of design. Service plans have a risk section and require the service to identify risks and how they will be managed. Service plans are signed off by executive heads and heads of service along with their portfolio holders.

- **Project management**

  Risk (and issue) management is a key element in delivering effective project management methodology. The project risk management approach is included in project management guidance which can be found at: http://intranet/default_view_1.asp?id=3208

- **Contracts, joint ventures and shared services**

  Under its changing pace blueprint (new operating model), the council aims to influence strategy and deliver outcomes for the city through a range of different collaborative relationships, such as joint ventures and shared services, in addition to direct contracts.

  As a result, effective contract and relationship management is of vital importance. A business relationship and contract management framework has been produced which includes guidance on minimising risks. It can be found here [link].

- **Health and safety**

  The council's health and safety policy is also a key component of the council's structure of controls contributing to the management and effective control of risks affecting staff, contractors and the general public.

- **Partnerships**

  The council increasingly delivers its services through partnerships with other public bodies, third sector groups and statutory sector partners.

  There are several aspects to our risk strategy involving risk in key partners

  - Assessing the risks involved prior to entering into a new arrangement as part of the policy decision
  - Ensuring there is an ongoing risk view for key partnerships at any point in time
  - Challenging key partners as to how they manage their key risks

  The council has produced a corporate governance framework and toolkit for working in partnerships and this must be used when joining a new partnership or reviewing an existing one. It can be found here: http://intranet/intranet_docs/work_aids/policies_and_procedures/Partnership%20working/Corporate_governance_framework_and_toolkit.pdf

- **Business continuity**

  The council has a corporate business continuity plan for the effective management of business continuity issues, in order to ensure the continued delivery of services. Both business continuity and the management of major contracts are included in the corporate risk register.

RISK MANAGEMENT: ROLES & RESPONSIBILITIES

Who	Risk Management Role	Frequency
Cabinet	• Ensuring risks are identified and effectively managed across the council • Approving risk management policy and ensuring an annual review is undertaken • Considering risk in its decision making • Receiving reports on significant risk issues • Approving an annual report on risk management activity across the council	As required Annual Continual As required Annual
Audit Committee	• Monitoring adherence to the risk management policy • Reviewing risk management policy • Reviewing reports on the council's risk management processes in order to provide independent assurance of the adequacy of the risk management framework and the associated control environment • Raising any concerns on risk management with cabinet	As required Annual Quarterly/ Annual As required
Resources portfolio holder	• Championing the operation of effective risk management at Council	As required
Chief Executive	• Overall responsibility and accountability for leading the delivery of an effective council-wide risk management approach • Ensuring that the corporate risk register and service risk registers are subject to regular review	As required As required
Corporate Leadership Team	• Owning and leading the corporate risk management process • Reviewing corporate risk • Reviewing significant service risks • Receiving urgent risk reports as necessary • Reviewing annual risk management report • Ensuring that risk is given due consideration in all management processes	As required Quarterly Quarterly As required Annual As required
Chief Finance Officer	• Championing and taking overall responsibility for seeking to ensure that effective risk management processes operate throughout the council	As required

Executive Heads and Heads of Service (act as risk champions)	• Reviewing service risk registers on a quarterly basis with portfolio holders • Ensuring that risk is given due consideration in all management processes • Ensuring that risks identified within their service are managed at an appropriate level, including escalation to a corporate level where appropriate • Providing an assurance statement as to how risk is being managed as a contribution to the preparation of the annual governance statement • Working with managers within their service to use the risk management approach in assisting the delivery of outcomes • Driving the development and embedding of effective risk management across their service • Contributing to the development of the council's risk management processes • Reviewing corporate risk	Quarterly As required As required Annually As required As required As required Quarterly
All staff	• Understanding their accountability for individual risks • Reporting systematically and promptly to their manager any perceived new risks or failures of existing control measures • Completing any risk management training relevant to the post, including e-learning	Ongoing As required As required
LGSS Audit and Risk Managers	• Providing guidance, advice & support on the council's risk management approach • Coordinating risk management across the council • Facilitating risk workshops • Maintaining the central record of the corporate risk register • Ensuring that the risk management process is operated on a current basis • Performing quality and performance checks on risk management documents as first line assurance • Arranging risk management awareness, support and training for managers, staff and members • Compiling reports as appropriate for the corporate leadership team, cabinet and the audit committee • Planning and delivering internal audit reviews of the internal control environment as second line assurance of the risk management process	As required As required As required As required As required As required As required Annually/ Quarterly Ongoing

RISK MANAGEMENT: RISK IDENTIFICATION

The checklist below is an aid to managers in risk identification. However the checklist cannot be exhaustive and you may identify other areas where you foresee there might be risks or opportunities.

Categorisation enables analysis of risks by type across the council or service areas.

Managers should recognise that the use of the "right" categorisation is not critical, and is simply an aid to assist the identification of risk. The critical factor is that all key risks are identified and then managed effectively.

The first stage of risk identification is making sure that the objectives of the area being assessed are clearly understood in accordance with the council's risk definition:

"Factors, events or circumstances that may prevent or detract from the achievement of the council's corporate priorities and service plan objectives".

A risk may relate to the non-achievement of all or a number of corporate or service priorities or a single corporate or service priority.

Please note that, depending on how a risk is worded, in some instances you may wish to reflect a category detailed below as the cause of a risk rather than a risk in its own right, eg 'Changes in demography' may be a cause of 'Customers are not provided with the services they need'.

Risk category	When thinking about possible risks that could affect the different categories you might like to consider the following areas:
Customer Perspective	**Customers:** • Customers are not provided with the services they need
	Citizens: • Changes in demographic, residential or socio-economic trends, eg an increase in demand for council services from a specific group of citizens • Effects on social wellbeing, eg changes in economic conditions • Environmental issues, eg the effects of climate change, progressing the council's strategic objectives eg the disposal of waste • Changes in planning or transportation policies
	Councillors: • Failure to deliver either central government legislation or local government decisions, eg a smaller more enabling council • Difficult political issues, lack of member support or disapproval • Election changes and new political arrangements

Risk category	**When thinking about possible risks that could affect the different categories you might like to consider the following areas:**
Finance and Resources	• Ineffective financial planning including budget preparation • Weaknesses in workforce planning • Ineffective budget management • External funding issues including loss or reduction in funding and missed opportunities for additional funding • Inability to manage the council's cash assets, ie treasury management function • Poor management of resources including land, property, equipment etc. and the protection of the council's assets, eg fire and accident prevention
Processes and Systems	**Regulators:** • Non compliance with regulatory expectations • Non compliance with legislative requirements, eg health and safety, equalities, data protection, environmental legislation, employment law etc **Partners/Suppliers:** • Poor partnership agreements/arrangements/relationships • Suppliers/partners are unable to provide effective, efficient and economic support to the council, eg a major contract fails **General** • Weakness in procedures/systems that could lead to breakdown in service • Weakness in procedures/systems that could lead to criminal activity • Failure in the health and safety process • Poor data/information quality
Learning and Growth	• Not having staff with the right skills and experience • Failure to provide appropriate opportunities to develop workforce • Failure of key projects and programmes

Note: Further guidance on risk identification can be obtained from your head of service or executive head, or the audit and risk managers at LGSS

NORWICH City Council

RISK REGISTER

Service/Team

Version Date: DD / MM / YY

Details of Risk						Inherent Risk				Residual Risk			Actions				
Risk No.	Risk Description	Trigger	Result	Owner	Corporate or Service Plan Outcomes	Likelihood	Impact	Score	Key Controls	Likelihood	Impact	Score	Actions	Owner	Target Date	Revised Target Date	Action Status
A	CUSTOMER PERSPECTIVE																
A1																	
B	FINANCIAL PERSPECTIVE																
B1																	
C	PROCESS PERSPECTIVE																
C1																	
D	LEARNING AND GROWTH																
D1																	

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RISK SCORING MATRIX

VERY HIGH (V)	5	10	15	20	25
HIGH (H)	4	8	12	16	20
MEDIUM (M)	3	6	9	12	15
LOW (L)	2	4	6	8	10
NEGLIGIBLE	1	2	3	4	5
IMPACT / **LIKELIHOOD**	**VERY RARE**	**UNLIKELY**	**POSSIBLE**	**LIKELY**	**VERY LIKELY**

Red scores – in excess of the council's risk appetite (15) – action needed to redress, quarterly monitoring. In exceptional circumstances cabinet can approve a residual risk in excess of the risk appetite if it is agreed that it is impractical or impossible to reduce the risk level below 16. Such risks should be escalated through the management reporting line to CLT and cabinet (see section 3.8).

Amber scores – likely to cause the council some difficulties – quarterly monitoring

Green scores – monitor as necessary

Descriptors to assist in the scoring of risk impact are on the following page

Likelihood scoring is left to the discretion of managers as it is very subjective, but should be based on their experience of the risk

As a guide, the following may be useful:

Very rare - highly unlikely, but it may occur in exceptional circumstances. It could happen, but probably never will

Unlikely - not expected, but there's a slight possibility it may occur at some time

Possible - the event might occur at some time as there is a history of occasional occurrence at the council

Likely - there is a strong possibility the event will occur as there is a history of frequent occurrence at the council

Very likely - the event is expected to occur in most circumstances as there is a history of regular occurrence at the council

IMPACT DESCRIPTORS

The following descriptors are designed to assist the scoring of the impact of a risk:

	Negligible (1)	Low (2)	Medium (3)	High (4)	Very High (5)
Legal and Regulatory	Minor civil litigation or regulatory criticism	Minor regulatory enforcement	Major civil litigation and/ or local public enquiry	Major civil litigation setting precedent and/ or national public enquiry	Section 151 or government intervention or criminal charges
Financial	<£25k	<£50k	<£100k	<£500k	>£500k
Service provision	Insignificant disruption to service delivery	Minor disruption to service delivery	Moderate direct effect on service delivery	Major disruption to service delivery	Critical long term disruption to service delivery
People and Safeguarding	Slight injury or illness	Low level of minor injuries	Significant level of minor injuries of employees and/or instances of mistreatment or abuse of individuals for whom the council has a responsibility	Serious injury of an employee and/or serious mistreatment or abuse of an individual for whom the council has a responsibility	Death of an employee or individual for whom the council has a responsibility or serious mistreatment or abuse resulting in criminal charges
Reputation	No reputational impact	Minimal negative local media reporting	Significant negative front page reports/ editorial comment in the local media	Sustained negative coverage in local media or negative reporting in the national media	Significant and sustained local opposition to the council's policies and/or sustained negative media reporting in national media
Project	Minimal effect on budget or overrun	Project overruns or over budget	Project overruns or over budget affecting service delivery	Project significantly overruns or over budget	Project failure
Sustainability / Environment	Minimal or no impact on the city's environment or sustainability targets	Minor impact on the city's environment or sustainability targets	Moderate impact on the city's environment or sustainability targets	Serious impact on the city's environment or sustainability targets	Very serious impact on the city's environment or sustainability targets

DIAGRAM OF THE RISK MANAGEMENT PROCESS

Risks identified (incl triggers and results)

Risk Register developed

Risks will:

- be entered into a risk register.
- be associated with appropriate corporate priorities and service plan objectives
- have an owner attached to them

Inherent risk

The risk should be scored for inherent risk using the 5 x 5 matrix.

Identify existing controls

Controls/mitigation should be identified

Residual Risk

Evaluate risk score considering existing controls – is it a level we are comfortable with?

Score too high/ (low)? Identify actions to reduce (increase) risk score to desired and proportionate level, taking account of the cost of mitigation vs the cost impact if the risk occurs

Risk needs higher level management, will be escalated to the next management level

Risk needs lower level management attention, risk will be delegated

Risk at right management level

Review

All risks and actions should be reviewed quarterly as a minimum by the appropriate management team

Corporate Leadership Team will review the profile of corporate risks and individual service red residual risks (risks above risk appetite) quarterly

Cabinet will receive reports on changes to corporate risks

Audit Committee will review reports on corporate and service red risks on a quarterly basis

Annual assurance will be provided by executive heads and heads of service

Report to	Audit committee	**Item**
	19 November 2013	
Report of	Head of internal audit and risk management, LGSS	6
Subject	Internal audit and fraud team 2013-14 – September to October update	

Purpose

To advise members of the work of internal audit and the fraud team between September and October 2013, and progress against the 2013-14 internal audit plan.

Recommendations

To note:

(1) the work of internal audit between September and October 2013;

(2) progress on the internal audit plan;

(3) the work of the fraud team between September and October 2013;

(4) the latest position on the national fraud initiative (NFI).

Corporate and service priorities

The report helps to meet the corporate priority Value for money services.

Financial implications

None.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

Steve Tinkler, head of internal audit and risk management, LGSS	01604 367055
Steve Dowson, audit manager, LGSS	01603 212575

Background documents

None

Report

Background

1. The internal audit plan for 2013-14 was endorsed by members in March 2013.

2. This report covers the following areas:

   - audit assurance work September to October 2013;
   - other areas of non-assurance and financial consultancy work;
   - the audit plan 2013-14, showing progress against the plan;
   - summary of fraud team work September to October 2013;
   - the latest position on the national fraud initiative (NFI).

3. For each audit assurance review a report is presented to the relevant head of service, including recommended actions to be taken. Audits are subsequently followed up to ensure that the agreed actions have been implemented.

Audit assurance work September to October 2013

4. The following areas were reported on between September and October:

   - Safety of council properties – substantial assurance. All appropriate controls are in place to manage the risk with respect to asbestos, electrical testing, lighting, fire alarms and lifts. Recommendations relating to gas servicing, boilers and legionella were agreed and are due to be implemented by January 2014
   - The Halls – substantial assurance. There was assurance across security / safety of premises, assets, staff and public. Improved bookings procedures are now in place and payment policies are being applied more rigorously. Recommendations relating to reconciliation of income; fees and documentation for bookings; and security were agreed and are due to be implemented by December 2013
   - Oracle Financials IT system – moderate assurance. There are good arrangements in place over secure hosting of the servers, a formal change management system, backup procedures and interface documentation. There were good documents around changes to the financials application, receipt of information regarding leavers, completion of work requests and daily checks performed in LGSS. Recommendations relating to licensing, documentation updates and password standards were agreed and are due to be implemented by December 2013

5. A member of the audit team is part of the replacement cash receipting project group and is thus providing embedded assurance for controls in the new system, which went live on 6 November.

6. Other assurance work which is in progress is shown in **annex 1**.

Follow ups

7. The following audits were followed up:

    - Off-street car parks income – recommendations implemented with the exception of two minor points relating to procedures, which the parking manager will address
    - Benefits – all recommendations implemented with one exception relating to delays in processing change of circumstances. The latest position is that action is being taken on the change of circumstances backlog - there has been a reduction in the number of processes outstanding (down from 9,864 on 28 June 2013 to 5,882 on 14 October 2013). The average time to process change of circumstances in September was 22 days. Commencing January 2014, all procedures within the HB team will be reviewed to continue to make the HB process more efficient
    - Homelessness – all recommendations implemented with one exception, which relates to the delayed implementation of the Meganexus database. This is down to the supplier, but should be implemented by December 2013
    - Construction industry tax deduction scheme – only two minor recommendations, one of which has been implemented. The other was to consider paying HMRC other than by cheque, eg online or by BACS. This is still being investigated.

Non-assurance work

8. The main areas of non-assurance work in the period were refreshing the council's risk management strategy, progressing the national fraud initiative, and reviewing the garden waste (brown bin) scheme.

Progress against the audit plan

9. Details of the annual audit plan for 2013-14 are at annex 1, showing progress for the year to date.

10. To the end of October 2013, 241 days has been spent on audit assurance work by Norwich-based staff, plus 20 days by other LGSS auditors. Norwich staff also spent 56 days on non-assurance work and unplanned request work.

11. There are six days included in the plan for 'Oracle upgrade/replacement', which refers to audit's involvement in the upgrade or replacement of the Oracle financial system. As this is unlikely to go ahead in the current year it is proposed that this item is removed from the audit plan.

12. At this stage there is no indication of resourcing issues which might jeopardise planned delivery of the 2013-14 audit plan.

Summary of fraud team work September to October 2013

13. A summary of work by the fraud team from September to the end of October follows:

    - Number of benefit cases referred to the fraud team – 179 (559 so far this year)
    - Number of referred benefit cases investigated – 86 (295 so far this year)

- Number of benefit sanctions and prosecutions – 7 (21 so far this year)
- As at the end of October, 27 cases were awaiting reassessment from fraud investigations and Benefits has a dedicated resource to deal with the backlog
- At present there are 40 benefit cases outstanding from the national fraud initiative, of which 21 are being investigated as possible fraud cases and 19 are with the benefits section to carry out enquiries
- In the months of September and October two staff from customer contact attended one-to-one shadowing sessions with the fraud team leader. In addition to this three departments received fraud awareness sessions.

National fraud initiative (NFI) 2012-13

14. This is the main data matching exercise which occurs every two years. The results were received at the end of January 2013.

15. There are 74 reports, mainly covering benefits and housing, and a total of 2,677 matches, of which the Audit Commission recommended 560 as a priority for investigation.

16. The majority of matches relate to housing benefit. Staff in various service areas have made good progress in reviewing matches to identify any further action that needs to be taken – to date 78% of reports have been closed. The council's progress was rated as 'green' by the external auditors in their recent audit results report.

17. So far the exercise has uncovered one housing fraud which led to the recovery of a council property.

18. In addition, £36,350 of housing benefit overpayments have been identified - three overpayments totalling £13,085 which were due to errors by the council, and 13 cases totalling £23,265 which were due to customer error. All the overpayments are being recovered by reductions in weekly benefits.

Annex 1

LGSS Internal Audit - Audit Plan for Norwich City Council 2013-14					
	2013-14				
		Actual to Wk 30			
Audit Assurance Work	**Estimated**	**Norwich**	**Camb.**		
	Days	**staff**	**staff**	**Total**	**Comments**
Managed audits					
Accounts payable (creditors)	25				To include review of purchase card use
Accounts receivable (debtors)	15				
NCC payroll	10				
Housing rents/arrears	20				
Housing benefits	25				
Council tax	10				
NNDR	10				
Sub-total	**115**	**0**	**0**	**0**	
Corporate					
City Deal	20				
Treasury & cashflow management	10				
General ledger	10	0.6			In progress
CIL income / arrangements	10	4.4		4.4	In progress
Oracle upgrade/replacement	6				Upgrade/replacement now likely to be in 2014-15
Procurement & contract management arrangements, as follows:	60				Allowance to include tendering, monitoring, contract management toolkit, safeguarding, CIS, procedural compliance. Involvement in specific contracts
Cash receipting replacement project		11.4		11.4	Embedded audit presence on project team
New payroll contract		3.8		3.8	Complete. Embedded audit presence on project team
Procurement guide & toolkit		0.3		0.3	Complete
Construction industry tax scheme		6.9		6.9	Complete
Contract management in NPS		7.2		7.2	In progress
Outsourcing arrangements	30				Management of joint ventures / shared services
Budgetary control	20	3.7			In progress. Revenue and capital
Probity	10	6.7		6.7	In progress - pool cars, fuel cards and travel & subsistence
Sub-total	**176**	**45.0**	**0**	**45**	
Business relationship management					
Asset management	20				Housing & non-housing
ICT audits:	10	2.2		2.2	
Parking Gateway	10				)
Bacstel IP	10				) Taken from IT audit needs analysis
Remote / mobile computing	10				)
GCSX / PSN compliance	10				
Sub-total	**70**	**2.2**	**0**	**2.2**	
Operations					
Emergency planning / resilience	10	10.1		10.1	Complete
HCA arrangements	10	11.0		11.0	Complete
HRA business plan & HIP	10				Risk also identified on p.22 of AGR for 2011-12
On-street parking / highways agency	15	0.2		0.2	Preparation
Safety of council properties	20	14.1		14.1	Complete
Sub-total	**65**	**35.4**	**0.0**	**35.4**	

Strategy, people & democracy					
Commissioning / partnerships	15	21.8		21.8	In progress. Includes grants awarded under commissioning programme
Sub-total	**15**	**21.8**	**0**	**21.8**	
Customers, communications & culture					
Managing customer demand	10	3.6		3.6	In progress
The Halls	10	14.7		14.7	Complete
Norman Centre	10	11.2		11.2	Draft report issued
Tourist Information Centre	10	11.3		11.3	Complete
Sub-total	**40**	**40.8**	**0**	**40.8**	
Non-specific					
Ad-hoc investigations	20	2.0		2.0	Contingency
To complete 2012-13 plan:	25				
Business support/customer contact teams		9.9		9.9	Draft reports issued
Anti-fraud measures		3.0		3.0	Complete
Accounts receivable		17.8		17.8	Complete
Accounts payable		3.4		3.4	Complete
Payroll		4.5		4.5	Complete
Treasury management		2.8		2.8	Complete
Housing rents		0.8		0.8	Complete
General ledger		6.0		6.0	Complete
Planning income		2.3	1.1	3.4	Complete
Business continuity management		2.1		2.1	Draft report issued
Homelessness		0.5	2.9	3.4	Complete
Housing voids		1.4	5.8	7.2	Complete
Members allowances		2.9		2.9	Complete
Performance management		2.7		2.7	Complete
Information management					In progress
Transformation					
Register of electors					
ICT audits:					
Academy (housing)		9.1	3.6	12.7	Draft report issued
Oracle (financial)		11.3	3.1	14.4	Complete
Disaster recovery		0.4	3.3	3.7	Complete

Follow-ups:	20				
Sports facilities		1.6		1.6	
Care & repair contract		1.0		1.0	
HCA		0.4		0.4	
Starters & leavers		0.3		0.3	
Contract management procedures		0.8		0.8	
Oracle purchasing		1.2		1.2	
Council tax		0.4		0.4	
NNDR		0.2		0.2	
Housing & council tax benefits		2.3		2.3	
Emergency planning		0.2		0.2	
Homeless		1.1		1.1	
Off-street parking		2.4		2.4	
Construction industry tax scheme		0.3		0.3	
Others		1.0		1.0	
Sub-total	**65**	**96.1**	**19.8**	**115.9**	
Total for audit assurance work	**546**	**241.3**	**19.8**	**261.1**	
Consultancy & non-assurance work					
Corporate governance	15	18.0		18.0	Preparation of annual governance statement; corporate governance group
Fraud, incl. NFI work	34	12.4		12.4	Fraud survey. Key contact duties for NFI 2012 (matches) and 2013 (data upload)
Advice, unplanned work requests	30	25.4		25.4	Contingency. Incl. garden waste review; sheltered housing
Total for non-assurance/consultancy work	**79**	**55.8**	**0**	**55.8**	
Total Allocated Days	**625**	**297.1**	**19.8**	**316.9**	
Indicative resources					
Regional audit & risk manager	20				
Principal client auditor	175				
Client auditors x 2	400				
LGSS support	30				
	625				

Report to	Audit committee	**Item**
	19 November	7
Report of	Chief finance officer	
Subject	Annual Audit letter	

Purpose

This report presents the Annual Audit letter.

Recommendation

The committee is asked to review and note the attached report from the council's external auditor.

Corporate and service priorities

The report helps to meet the corporate priority value for money services.

Financial implications

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

Caroline Ryba, chief finance officer	01223 699292
Philippa Dransfield, chief accountant	01603 212562

REPORT

Background

1. The annual audit letter communicates to the Member of Norwich City Council and external stakeholders, including members of the public, the key issues arising from the audit work carried out for the year ended 31 March 2013 by our external auditors.

Key Findings, control themes and observations

2. The audit committee should note the key findings, control themes and observations contained in the letter.

Fees Update

3. The audit committee should note the proposed audit fees for the 12-13 Statement of accounts and that for the certification of claims and returns.

Norwich City Council

Year ending 31 March 2013

Annual Audit Letter

31 October 2013

Building a better working world

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The Members
Norwich City Council
City Hall
St. Peter's Street
Norwich
NR2 1NH

31 October 2013

Dear Members,

Annual Audit Letter

The purpose of this Annual Audit Letter is to communicate to the Members of Norwich City Council and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to their attention.

We have already reported the detailed findings from our audit work to those charged with governance of Norwich City Council in the 2012/13 Audit Results Report issued the Audit Committee on 24 September 2013.

The matters reported here are the most significant for the Authority.

I would like to take this opportunity to thank the officers of Norwich City Council for their assistance during the course of our work.

Yours faithfully

Rob Murray

Rob Murray
Director
For and behalf of Ernst & Young LLP
Enc

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Contents

In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission's website.

The Statement of responsibilities serves as the formal terms of engagement between the Audit Commission's appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas.

The Standing Guidance serves as our terms of appointment as auditors appointed by the Audit Commission. The Standing Guidance sets out additional requirements that auditors must comply with, over and above those set out in the Code of Audit Practice 2010 (the Code) and statute, and covers matters of practice and procedure which are of a recurring nature.

This Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

Our Complaints Procedure – If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

1. Executive summary

Our 2012/13 audit work has been undertaken in accordance with the Audit Plan we issued on 19 March 2013 and is conducted in accordance with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission.

The Authority is responsible for preparing and publishing its Statement of Accounts, accompanied by the Annual Governance Statement. In the Annual Governance Statement, the Authority reports publicly on an annual basis on the extent to which they comply with their own code of governance, including how they have monitored and evaluated the effectiveness of their governance arrangements in the year, and on any planned changes in the coming period. The Authority is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

As auditors we are responsible for:

- forming an opinion on the financial statements;
- reviewing the Annual Governance Statement;
- forming a conclusion on the arrangements that the Authority has in place to secure economy, efficiency and effectiveness in its use of resources; and
- undertaking any other work specified by the Audit Commission.

Summarised below are the conclusions from all elements of our work:

Audit the financial statements of Norwich City Council for the financial year ended 31 March 2013 in accordance with International Standards on Auditing (UK & Ireland).	On 30 September 2013 we issued an unqualified audit opinion on the financial statements of the Authority.
Form a conclusion on the arrangements the Authority has made for securing economy, efficiency and effectiveness in its use of resources.	On 30 September 2013 we issued an unqualified value for money conclusion.
Issue a report to those charged with governance of the Authority (the Audit Committee) communicating significant findings resulting from our audit.	On 24 September 2013 we issued our Audit Results Report (ISA 260) report in respect of the Authority.
Report to the National Audit Office on the accuracy of the consolidation pack the Authority is required to prepare for the Whole of Government Accounts.	We reported our findings to the National Audit Office on 30 September 2013.
Consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work and consider whether it complies with CIPFA / SOLACE guidance.	No issues to report.
Consider whether, in the public interest, we should make a report on any matter coming to our notice in the course of the audit.	No issues to report.
Determine whether any other action should be taken in relation to our responsibilities under the Audit Commission Act.	No issues to report.
Issue a certificate that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.	On 30 September 2013 we issued our audit completion certificate.

Issue a report to those charged with governance of the Authority summarising the certification (of grant claims and returns) work that we have undertaken.	We plan to issue our annual certification report to those charged with governance with respect to the 2012/13 financial year by 31 January 2014.

2. Key findings

2.1 Financial statement audit

We audited the Authority's Statement of Accounts in line with the Audit Commission's Code of Audit Practice, International Standards on Auditing (UK and Ireland) and other guidance issued by the Audit Commission. We issued an unqualified audit report on 30 September 2013.

In our view, the quality of the process for producing the accounts, including the supporting working papers had improved in comparison to previous years, although there is room for further strengthening of the closedown process.

The main issues identified as part of our audit were:

Significant risk 1: Opening balances

As a first year engagement, the application of professional judgement resulted in a lower materiality level than applied by your previous external auditor. We were therefore required to assess the impact of prior year unadjusted errors on the current year financial statements, as there was a risk that unadjusted errors from previous years would now be a material issue for our audit report on the 2012/13 financial statements.

We worked closely with the finance team to focus on those unadjusted errors from previous years where a further assessment was required to ensure there was not a material impact on the current year statements. All issues were satisfactorily concluded.

Significant risk 2: Property, Plant and Equipment (fixed assets) accounting records

Audit Reports submitted by predecessor auditors in previous years commented on weaknesses in accounting for fixed assets. This has contributed to material errors in previous years.

Due to the complexity and value of fixed assets, weaknesses in accounting records for fixed assets increase the risk of material misstatement in the accounts.

There are still significant weaknesses in fixed asset accounting records and these have impacted on the 2012/13 audit. In our Audit Results Report we reported on unresolved issues that caused difficulties during the current year audit relating to the accuracy of the fixed asset register, fixed asset additions and depreciation.

Significant risk 3: HRA self financing

The government reformed local authority housing finance by adopting a self-financing model from 1 April 2012. This involved a one-off settlement payment to central government in March 2012. The in year accounting for self-financing commenced in 2012/13 and required changes in accounting practices for HRA depreciation and the allocation of debt charges between housing and general fund services. Due to the complexity and magnitude of the HRA reform there was a risk the financial statements would be materially misstated.

We have worked closely with the finance team throughout the year regarding various aspects of capital accounting and financing. A number of issues regarding the general fund and HRA capital financing requirement and the pooling of debt were identified. All issues were satisfactorily concluded.

Significant risk 4: Assessment of the Group boundary

The finance team undertook an assessment of the group boundary against the criteria stipulated in the relevant accounting standard. The purpose of the assessment was to conclude which potential group entities fall within the boundary and therefore require consolidating into the Council's financial statements.

The assessment concluded that both Norse based companies did fall within the group boundary as associate undertakings. However, neither were material in 2012/13 and therefore group accounts were not required. We concurred with the conclusion drawn from this assessment with regard to 2012/13. The finance team will re-visit the assessment in 2013/14.

Other financial statement risk 1: Preparation of the financial statements

The Council have worked hard in previous years to improve financial reporting arrangements, and this was reported by the previous auditor in the 2011/12 Annual Governance Report. However, it was also reported that the 2011/12 accounts presented for audit were not fully supported by adequate working papers and contained a number of material issues that required adjustment. In the absence of further improvements there remained a risk that the 2012/13 financial statements would not be free from material misstatement and compliant with the Code of Practice.

We have worked closely with the finance team throughout the year, consulting and agreeing on a regular basis regarding various aspects of accounting treatment. In addition, we provided the finance team with the outcome of our technical review of the accounts; which focussed on the significant issues relevant to our opinion.

This close working and the diligence of the finance team has resulted in improved quality of financial reporting in 2012/13.

Other financial statement risk 2: Whole of Government Accounts

The previous auditor issued the 2011/12 audit report on the Whole of Government Accounts (WGA) after the 5 October deadline. A qualified 'disagreement' report was issued on 30 October 2012. As above, in the absence of further improvements there remained a risk that the WGA consolidation pack contains errors and is not consistent with the audited accounts.

We issued our shortform WGA assurance statement on 30 September 2013. We reported non material differences between the accounts and the consolidated pack for property, plant and equipment values and pension liabilities.

Other financial statement risk 3: Risk of misstatement due to fraud and error

Management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has put in place a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

Our responsibility is to plan and perform audits to obtain reasonable assurance about whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. As auditors, we approach each engagement with a questioning mind that accepts the possibility that a material misstatement due to fraud could occur, and design the appropriate procedures to consider such risk.

We have designed and implemented appropriate procedures to obtain reasonable assurance as to whether the financial statements as a whole are free of material misstatements whether caused by error or fraud. There were no issues arising from this work.

The Council was 'green' rated in the latest National Fraud Initiative (NFI) assessment. Good progress has been made on all NFI match reports across all datasets. The Council appear on track to complete NFI reviews/investigations in reasonable time.

2.2 Value for money conclusion

We are required to carry out sufficient work to conclude on whether the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

In accordance with guidance issued by the Audit Commission, in 2012/13 our conclusion was based on two criteria:

- ► Arrangements for securing financial resilience – whether the Council has robust systems and processes to manage financial risks and opportunities effectively, and to secure a stable financial position that enables it to continue to operate for the foreseeable future; and
- ► Arrangements for securing economy, efficiency and effectiveness – whether the Council is prioritising its resources within tighter budgets, for example by achieving cost reductions and by improving efficiency and productivity.

We issued an unqualified value for money conclusion on 30 September 2013.

Key finding 1: Level of reserve balances

In common with other Councils, the continued pressure on Council funding increases the risk that general reserve levels may fall below levels considered prudent, and therefore impact upon the financial resilience of the Council.

We found:

- The Council applies a robust approach to determine minimum levels of reserves, which is updated annually as part of the budget setting process. This risk based approach assesses potential variances in all major sources of income and expenditure, and considers other factors that may impact on operations like regulatory changes.
- The General Fund balance as at 31 March 2013 is £0.8 million higher than the minimum set level.
- The 2013/14 budget setting report and Medium Term Financial Strategy updates budgets and savings targets for the next five years.

2.3 Whole of government accounts

We reported to the National Audit Office on 30 September 2013 the results of our work performed in relation the accuracy of the pension liabilities and property, plant and equipment disclosed in the consolidation pack the Authority is required to prepare for the whole of government accounts. We completed this work and reported non-material differences between the accounts and the consolidated pack for property, plant and equipment values and pension liabilities.

2.4 Annual governance statement

We are required to consider the completeness of disclosures in the Authority's Annual Governance Statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it complies with CIPFA / SOLACE guidance. There were no issues to report regarding our work in this area.

2.5 Certification of grants claims and returns

We have not yet completed our work on the certification of grants claims and returns. We will issue the Annual Certification Report for 2012/13 in January 2014.

3. Control themes and observations

As part of our audit of the financial statements, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control we communicated to those charged with governance at the Authority, as required, significant deficiencies in internal control.

Other than the ongoing control weaknesses regarding property, plant and equipment accounting records as outlined in section 2.1, our audit did not identify any control issues that we need to bring to your attention.

4. Fees update

A breakdown of our agreed fee is shown below.

	Proposed final fee 2012/13 £'000	Scale fee 2012/13 £'000	Actual fee 2011/12 £'000	Explanation of variance
Total Audit Fee – Code work	145,925	105,652	206,087	See below
Certification of claims and returns	*	48,850	100,236	See below

We communicated our planned fee to you within our Audit Plan issued in March this year; providing an estimated update within our Audit Results Report issued in September.

Our proposed final fee is £40,273 higher than the scale fee. This additional fee is in respect of:

- ► Providing specific and detailed technical support to the Authority covering minimum revenue provision, capital financing requirement and the pooling of debt (£20,815);
- ► Additional time and work required to complete audit procedures relating to property, plant and equipment due to ongoing significant weaknesses in accounting records (£11,109); and
- ► Additional time and work required to complete audit procedures relating to debtor and creditor balances and in dealing with the large number of disclosure adjustments required to the draft financial statements submitted for audit (£8,349).

Our proposed final fee is being discussed with officers and when agreed will be subject to a review by the Audit Commission who will determine a final scale fee which will not exceed the £145,925 above.

**Our fee for certification of grants and claims is yet to be finalised for 2012/13 and will be reported to those charged with governance in January 2014 within the Audit Certification Report for 2012/13.*

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November 2013

Local Government Audit Committee briefing

Contents at a glance

Introduction

This sector briefing is one of the ways that we hope to continue to support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local government sector and the audits that we undertake. The public sector audit specialists who transferred from the Audit Commission form part of EY's national Government and Public Sector (GPS) team. Their extensive public sector knowledge is now supported by the rich resource of wider expertise across EY's UK and international business. This briefing reflects this, bringing together not only technical issues relevant to the local government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing, as well as some examples of areas where EY can provide support to Local Authority bodies. We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please do contact your local audit team.

EY

Building a better working world

Sector and economic news

Proposals for the use of capital receipts from asset sales to invest in reforming services

On 25 July 2013 the Government launched a consultation on 'Proposals for the use of capital receipts from asset sales to invest in reforming services'. The consultation aimed to gather views from the Local Government sector on proposals to allow part or even the whole of a capital receipt from new asset sales to be used for one-off revenue purposes.

The broad aims of the proposed policy are to:

- Encourage good asset management planning and incentivise the appropriate sale of local authority assets so that they are put into productive use and support growth.
- To enable additional resources, from local authority asset sales, to give a capital receipt flexibility for the one-off cost of reforming, integrating or restructuring services.

Views were sought to gauge the level of support for the proposed policy, as well as comments on how it would work in practice and the mechanisms for delivery.

A competitive bidding process is the preferred mechanism for approving such use of capital receipts. It is proposed that any application under a bid based process should set out a cost/benefit analysis to demonstrate value for money.

The criteria to evaluate competing applications from local authorities could include:

- Amount of expenditure and proposed use of that revenue
- The reduction of ongoing/long-term costs
- How you plan to transform your services
- Working across the wider public sector
- Asset to be sold
- Possible forward use of an asset

The consultation also considered how any approved proposals would be implemented, highlighting two possible methods:

- A Direction from the Secretary of State, allowing specified revenue expenditure to be treated as capital expenditure
- Through the existing provisions in The Local Authorities (Capital Finance and Accounting) Regulations 2003 (SI: 2003/3146).

The preferred option set out in the consultation documented is through a letter of Direction from the Secretary of State, as this would more closely fit with the competitive bid process.

Sector and economic news

The consultation closed on 24 September, and it is expected that there will be a response to the consultation in Autumn setting out the finalised proposals. The indicative timeline set out in the consultation document is set out below.

Event	Timing
Bid process commences	Winter 2013
Bid process decisions	Spring 2014
Direction letter issued	Spring 2014
Disposal of Asset	August 2013–March 2016
Revenue Expenditure	April 2015–March 2016

Economic outlook

The ITEM Club, one of the UK's foremost independent economic forecasting groups, sponsored by EY, published its Autumn Forecast in October 2013. It recognises that the UK economy is improving with GDP now projected to grow by 1.4% this year and 2.4% next year after a 0.1% rise in 2012. It notes that this is supported by the encouraging outlook for exports and business investment. It warns, however, that unforeseen events could disrupt this positive outlook, not least new external shocks such as the US budget deadlock. It believes that the view that the UK government's initiatives to support the housing market will result in a housing bubble is strongly overplayed. It states that the current rises in prices and transactions are from a historically very low base, and remain way below pre-crisis levels. With the housing recovery knocking on into wider consumer spending, and virtually all surveys of business confidence trending upwards, the economic outlook for the UK is continuing to brighten — despite the inevitable risks.

Accounting, auditing and governance

Audit Commission briefing on the Local Audit and Accountability Bill

On 4 September 2013 the Audit Commission released a briefing paper on the Local Audit and Accountability Bill, which is currently passing through Parliament.

The briefing provides an up-to-date view of where the Commission believes that amendments and refinements could further improve and strengthen the Bill.

Eight areas are identified in the briefing, where the Commission believes improvements to the bill could be made:

1. Including an option for optional collective procurement arrangements.
2. Strengthening the arrangements for the appointment of auditors, by having external members on audit committees rather than separate audit panels.
3. Expanding the data collected as part of the National Fraud Initiative.
4. Allowing more time to develop a proportionate audit regime for small bodies, by allowing current arrangements to be extended to 2020.
5. Ensuring that there continues to be central returns and publications to support accountability to Parliament and the public.
6. Including reporting on arrangements to secure value for money.
7. Updating the legislative framework governing local public audit.
8. Considering the transitional issues to the new regime, given that contracts under the current framework end in 2016/17 (with potential extensions to 2020), but the Commission, who manage the contracts, is due to be fully abolished in 2015.

Minimum Revenue Provision (MRP)

The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 (SI 2008/414) became effective from March 2008. These regulations replaced the formula-based method for calculating MRP which existed under previous regulations under the Local Government Act 2003. The new requirement was for an authority to:

'Determine for the current financial year an amount of minimum revenue provision which it considers to be prudent'.

No definition of 'prudent' was given, although DCLG issued statutory guidance in 2008, which authorities had to take account of, setting out their interpretation. This was updated in 2012 to take account of HRA self-financing and the implications of IFRS regarding PFI schemes. For authorities with a positive Capital Financing Requirement (CFR) the guidance set four out options, but indicated that any alternatives that met the basic criteria included within the statutory guidance was acceptable. The four options are briefly described below:

1. Regulatory Method (for expenditure incurred before 1st April 2008, and supported expenditure incurred after that date):
    - MRP is charged at 4% of the Authority's capital financing requirement (or underlying need to borrow for a capital purpose) which has been reduced by Adjustment A (calculated in 2004 under previous regulations).
2. CFR Method (for expenditure incurred before 1 April 2008, and supported expenditure incurred after that date):
    - MRP is simply charged at 4% of the Authority's capital financing requirement at the end of the preceding financial year (with no technical adjustment).

Accounting, auditing and governance

3. Asset Life Method (for unsupported capital expenditure incurred on or after 1st April 2008):
   - An MRP provision is made over the estimated life of the asset for which the borrowing (or other long-term financing) has been undertaken. This will be based either on the 'equal instalment method' or the 'annuity method'.
4. Depreciation Method (for unsupported capital expenditure incurred on or after 1st April 2008):
   - An MRP provision is calculated in accordance with the standard rules for calculating depreciation provision.

The use of a broad framework rather than the formulaic approach has resulted in incorrect interpretation and calculation of MRP at a number of authorities in the past. Our audit work during the last year identified examples where authorities were not following their own accounting MRP policy or were, in a number of cases, overstating the amount of MRP that they set aside. Detailed work at selected sites identified that these non-compliance and calculation errors had accumulated overstatements of MRP of more than £10mn which could be reversed. Similar in-depth reviews can be incorporated within the 2013/14 audit programmes.

Regulation news

Pensions Regulator to have oversight of public sector pensions

The 2013 Public Service Pensions Act which received royal assent in April afforded the Pensions Regulator an enhanced role – broadening its remit to include oversight of public sector pensions from April 2015. It will set standards of governance and administration for public sector schemes in response to the Independent Public Service Pensions Commission's 2011 recommendations make improvements to both of these areas.

The schemes include approximately 22,000 employers and 12.6mn members (2012 figures taken from the Pensions Regulator website), and span Local Government, NHS, Police, Fire, Teachers, Civil Service, Armed Forces and Judicial pension schemes.

The Pensions Regulator has published a report, together with the supporting research, which documents current practice in these eight categories of public sector pension schemes.

The Pensions Regulator has promised to 'take action if necessary' to ensure public sector pension schemes are run to high standards following government reforms that will see it assuming oversight of the public sector.

Following the passage of the 2013 Public Service Pensions Act the regulator will set standards of governance and administration for public sector schemes from April 2015 including Police and Fire.

On September 6, the Pensions Regulator produced a report summarising current practice in eight categories of civil service pension schemes.

The survey of current schemes found room for improvement but also highlighted areas of good practice.

Local Government Pension Scheme findings:

- The survey noted that governance and administration had been on the agenda for these schemes for several years, and that this was evident in the survey findings, which demonstrated greater awareness of these matters.
- Ninety eight percent had a governance board in place. The majority of schemes also had a risk register in place, with risks and internal controls being reviewed at least annually; a conflict of interests policy and a register of members' interests.
- Eighty one percent of LGPS arrangements are administered in-house and the majority have service standards which are documented and reported against.
- LGPS schemes when compared the others in the survey had the most active member communication.

The Regulator is now working on producing code of practice as well as the regulatory strategy, and has plans to monitor and report on the progress of public sector schemes each year.

Regulation news

Local Government Pension Scheme Structural Reform

In addition to the review of investment regulations noted in the previous sector update, a wide ranging consultation was announced by Brandon Lewis MP (Minister for Local Government) in a speech at the National Association of Pension Funds local authority conference in May 2013. The consultation was launched by DLCG and the LGA in June 2013 and aimed to identify reforms that will both improve investment performance and reduce fund management costs, in advance of the implementation of the new scheme in April 2014.

The consultation closed at the end of September, and the analysis of submissions is expected to inform a further consultation on options for change, which is to be released in early 2014.

At the same time, further detail has been provided about the proposed governance arrangements for the new LGPS in the DCLG discussion paper 'Local Government Pension Scheme (England and Wales) New Governance arrangements, also issued in June 2013.

The paper set out the proposed response to five specific sections of the Public Service Pensions Act 2013 which impact on the governance arrangements of the new scheme:

1. Responsible authority
2. Scheme manager
3. Pension board
4. Pension board information
5. Scheme Advisory board

The intention is for new regulations to be in place before April 2014, which will require new scheme advisory boards and local pension boards to become operational later in the year. In the intervening period between the commencement of the new LGPS scheme and the governing bodies becoming operational, existing governance arrangements under Section 101 of the Local Government Act 1972 will continue to apply.

This consultation closed at the end of August.

Find out more

To find out more on the articles above, please follow the links below:

Proposals for the use of capital receipts from asset sales to invest in reforming services

Full details can be found at:
https://www.gov.uk/government/consultations/proposals-for-the-use-of-capital-receipts-from-asset-sales-to-invest-in-reforming-services.

Economic outlook

For the full analysis go to:
http://www.ey.com/UK/en/Issues/Business-environment/Financial-markets-and-economy/ITEM---Forecast-headlines-and-projections

Audit Commission briefing on the Local Audit and Accountability Bill

The full briefing can be found at:
http://www.audit-commission.gov.uk/2013/09/public-briefing-on-the-local-audit-and-accountability-bill/

Minimum Revenue Provision

For more information, please see the DCLG guidance at:
https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/11297/2089512.pdf
For more details on calculating MRP, please refer to Chapter 6 of the Practitioners' Guide to Capital Finance in Local Government (CIPFA 2008).

For details on incorporating a more in-depth review of MRP into your 2013/14 audit programmes, contact your audit team.

Pensions Regulator to have oversight of public sector pensions

For more information see the Pensions Regulator website at:
http://www.thepensionsregulator.gov.uk/index.aspx
and the civil service pension schemes report at:
http://www.thepensionsregulator.gov.uk/docs/public-service-research-summary.pdf

Local Government Pension Scheme Structural Reform:

For further detail on the consultation, and to view all available consultations and consultation outcomes within the Local Pension series please visit:
https://www.gov.uk/government/organisations/department-for-communities-and-local-government/series/local-government-pensions

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