

Audit committee

Date: Tuesday, 13 March 2018

Time: 16:30

Venue: Mancroft room, City Hall, St Peters Street, Norwich, NR2 1NH

Committee members:

Councillors:

Price (chair)
Driver (vice chair)
Bradford
Coleshill
Jones (B)
Lubbock
Maxwell
Schmierer

For further information please contact:

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Agenda

	Page nos
1 Apologies	
To receive apologies for absence	
2 Public questions/petitions	
To receive questions / petitions from the public	
Please note that all questions must be received by the committee officer detailed on the front of the agenda by 10am on Thursday, 8 March 2018	
Petitions must be received must be received by the committee officer detailed on the front of the agenda by 10am on Monday, 12 March 2018	
For guidance on submitting public questions or petitions please see appendix 1 of the council's constitution.	
3 Declarations of interest	
(Please note that it is the responsibility of individual members to declare an interest prior to the item if they arrive late for the meeting)	
4 Minutes	5 - 8
To approve the accuracy of the minutes of the meeting held on 14 November 2017	
5 Certification of Claims and Returns Annual Report 2016-17	9 - 18
Purpose - This report presents the Certification of Claims and Returns annual report 2016-17.	
6 External Audit Plan 2017-18	19 - 60
Purpose - This report presents the annual external audit plan 2017-18	

7 Internal Audit Update November 17 to February 18 – Quarter 3 61 - 70

Purpose - To advise members of the work of Internal Audit, completed between November 2017 to February 2018, and the progress against the internal audit plan.

8 Draft Internal Audit Plan for Norwich City Council 2018-19 71 - 84

Purpose - This report provides the audit committee with an outline of the Internal Audit Plan for Norwich City Council as attached at appendix 1.

Date of publication: **Monday, 05 March 2018**



Audit committee

16:30 to 17:30

14 November 2017

Present: Councillors Price (chair), Bradford, Coleshill, Jones (B), Lubbock, Maxwell and Schmierer

Apologies: Councillor Driver (vice chair)

Also present: Councillor Kendrick (cabinet member for resources)

1. Public questions/petitions

There were no public questions or petitions received.

2. Declarations of interest

There were no declarations of interest.

3. Minutes

RESOLVED to agree the accuracy of the minutes of the meeting held on 26 September 2017.

4. Annual Audit Letter 2016-17

The external audit manager presented the Annual Audit Letter 2016-17. He explained that it was a statutory requirement to issue the Annual Letter on the completion of the audit, and a public facing document. He drew members' attention to the section "Focussed on your future" and the actions set out for the earlier deadlines for production and audit of the financial statements from 2017-18. A workshop had been held on the faster closure of accounts for the client last week and this would be followed by detailed discussions at council level.

The chair thanked the external audit manager for the report and said that he would be grateful he was alerted immediately if any problems arose during the audit of the council's financial statement which would cause a delay in meeting the new deadlines. The chief finance officer said that the finance team had completed the preparation of the accounts by 31 May 2017 and was expected to meet the deadlines next year.

The chair referred to Appendix A, Audit Fees, and said that he was pleased that the reduction in planned fees for the Certification of Claims and Returns on previous years demonstrated good value for money. The external audit manager confirmed that the fees for the code work were unchanged and set by the Public Sector Audit Appointments Ltd. Work on the fees and charges was still ongoing.

RESOLVED to note the attached report from the council's external auditor.

5. Risk Management Report

The principal audit manager (LGSS) presented the report, and together with the deputy head of internal audit (LGSS), answered members' questions.

In reply to a question the principal audit manager said that councils were under financial pressure and that reserves were important to mitigate risk

During discussion members commented on the changes to the risk register as set out in paragraph 10 of the report. A member said that she was pleased that the interest rate increase had been recognised in the inherent risk. The chief finance officer said that it was expected that by the end of the decade interest rates would have increased by around 0.25 to 1 per cent which was lower than previously anticipated. Discussion then ensued on the impact of interest rate increases and borrowing against the council's reserves. A member referred to risk register, B2 Income generation and asked what the impact of rising interest rates would be over the next 3 years from its housing and commercial rented properties. The chief finance officer and the head of internal audit (LGSS) confirmed that interest rates were incorporated into the financial modelling and that actions to mitigate a spike in interest rates were in place. Members were advised that further information shown, as graphs, would be included in the budget papers and briefings for members

The chair referred to the risk register, B1, Public sector funding, and said that he was reassured that the corporate leadership team reviewed the Medium Term Financial Strategy (MTFS) and government announcements on a weekly basis in order to mitigate the risks to the council. Discussion ensued on the uncertainty surrounding government grants and Business Rates. Officers proposed a conservative approach in years 3, 4 and 5 of MTFS and going forward.

During discussion, members noted the financial pressures that many residents were under which would be exacerbated by rising interest rates and the importance of retaining council services. The chair said that there was a risk to democracy from the government's cuts in public sector funding through greater commercialisation of councils. The chief finance officer said that the level of commercial activity that this council engaged in was appropriate to the scale of the authority and based on a sound financial model. The council's ethos was to support front line services through its income generation rather than making a profit.

RESOLVED to endorse the proposed amendments to the corporate risk register and risk management policy and recommend to cabinet for approval.

6. Internal audit 23017-18 – September to October update (Quarter 2)

The principal audit manager (LGSS) presented the report.

During discussion, the principal audit manager and the head of internal audit (LGSS), referred to the report and answered members' questions. Members were advised that the impact of Universal Credit had been included in the plan.

The committee considered the proposal to postpone the review of the NPS Contract Management and sought reassurance that there was no significant risk. The committee was advised that this audit would be one of the first in the next audit cycle to ensure that recommendations from a previous audit had been implemented. However, there was sufficient coverage from a previous audit to provide assurance for an audit opinion. The external auditor said that internal audit had not identified any significant risk and actions had been implemented after the previous review which enabled an audit opinion to be given for the Annual Governance Statement. He pointed out that if an issue were to be identified the audit plan would be revised accordingly.

A member referred to the transformation project and said that he was concerned that the council was losing its skillset and knowledge. The head of internal audit said that this was a shared concern when facing budget cuts whilst maintaining services. Local authorities could take on trainees and encourage professional development to ensure that skills were transferred. A benefit of reviewing the control environment was the removal of controls which did not affect risk, thus reducing bureaucracy.

The chair said that he welcomed that the fees and charges were included in the plan at the request of this committee. The internal audit manager said that work had already started on this audit, which would include more substantial testing around the transaction process.

RESOLVED to note the report.

CHAIR

Report to Audit committee
13 March 2018
Report of Chief finance officer
Subject Certification of claims and returns annual report 2016-17

Item

5

Purpose

This report presents the Certification of claims and returns annual report 2016-17

Recommendation

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 and the service plan priority.

Financial implications

As a result of the audit findings no repayment to the DWP is required. This is the best outcome in recent years.

Ward/s: All

Cabinet member: Councillor Kendrick, Resources

Contact officers

Karen Watling, chief finance officer

01604 212440

Background documents

None

Report

Introduction

1. The annual grant certification report from the council's external auditors is appended to this report and summarises the findings from the 2016-17 certification work undertaken on claims and returns in relation to the housing benefits subsidy claim.

Key points to note

2. The committee is asked to note the following significant matters:
 - (a) The housing benefits subsidy claim has been qualified. Details of the qualification are set out in section 1 of the report. Additional work was required by the auditors because of errors found but officers contributed to this work wherever possible to reduce the additional time required to be spent by the auditors and therefore avoided any additional audit fees.
 - (b) Fees for the housing benefits subsidy certification work are summarised in section 2 of the report.
 - (c) No repayment to the DWP is required as a result of the audit findings. In recent years the Council has been required to repay amounts (2015/16 £87,915, 2014/15 £116,766, 2013/14 £258,486).

Recommendation

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

Certification of claims and returns annual report 2016/17

Norwich City Council

11 December 2017

Ernst & Young LLP



Building a better
working world

The Members of the Audit Committee
Norwich City Council
St Peters Street
Norwich
NR2 1NH

11 December 2017

Direct line: 07541 346507
Email: mhdgson@ey.uk.com

Dear Members

Certification of claims and returns annual report 2016/17 Norwich City Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on Norwich City Council's 2016/17 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016/17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016/17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £60,897,455. We met the submission deadline. We issued a qualification letter and details of the qualification matters are included in section 1.

Fees for certification and other returns work are summarised in section 3. The housing benefits subsidy claim fees for 2016/17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

We welcome the opportunity to discuss the contents of this report with you at the January 2018 Audit Committee.



Yours faithfully

Mark Hodgson
Associate Partner
Ernst & Young LLP
Enc

Contents

1. Housing benefits subsidy claim.....	1
2. 2016/17 certification fees.....	2
3. Looking forward.....	3

1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£60,897,455
Amended/Not amended	Not amended
Qualification letter	Yes
Fee – 2016/17	£29,819
Fee – 2015/16	£35,780

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We found errors and carried out extended testing in several areas.

We have reported underpayments, uncertainties and the extrapolated value of other errors in a qualification letter. The DWP then decides whether to ask the Council to carry our further work to quantify the error or to claw back the benefit subsidy paid. These are the main issues we reported:

- testing of the initial non-HRA rent rebate sample identified two cases where expenditure had been underpaid as a result of miscalculating the claimant's income. Additional testing identified four further errors of this nature resulting in an underpayment of benefit;
- testing of the initial non-HRA rent rebate sample identified two cases where the Authority had miscalculated the claimant's income with no impact on benefit entitlement;
- testing of the initial non-HRA rent rebate sample identified one case where expenditure had been overpaid as a result of miscalculating the claimant's income. Additional testing identified two further errors of this nature resulting in an overpayment of benefit;
- testing of the initial HRA rent rebate sample did not identify any errors. Additional testing identified one case where expenditure had been underpaid as a result of miscalculating the claimant's income;
- testing of the initial rent allowance sample did not identify any errors. Additional testing identified two cases where expenditure had been underpaid as a result of miscalculating the claimant's income and one case where expenditure had been overpaid as a result of miscalculating the claimant's income;
- testing of the initial non-HRA rent rebate sample did not identify any errors in respect of overpayments. Additional testing identified three errors resulting in eligible overpayments being overstated; and
- testing of the initial HRA rent rebate sample did not identify any errors in respect of overpayments. Additional testing identified one error where the Authority misclassified the overpayment resulting in eligible overpayments being overstated.

2. 2016/17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016/17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016/17	2016/17	2015/16
	Actual fee £'s	Indicative fee £'s	Actual fee £'s
Housing benefits subsidy claim	29,819	29,819	35,780

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £35,780. This was set by PSAA and is based on final 2015/16 certification fees.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

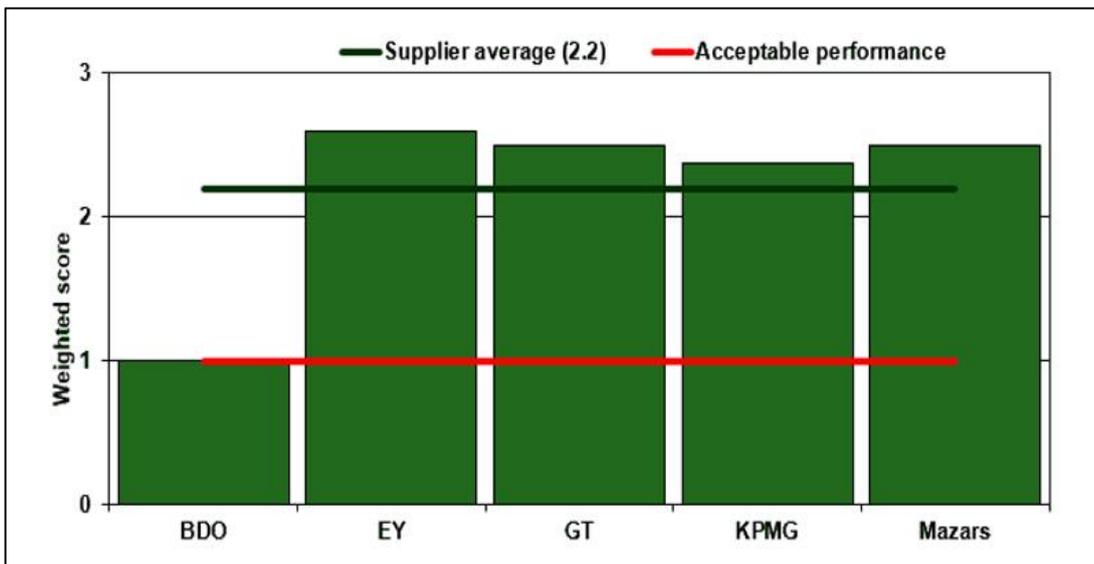
We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Chief Finance Officer before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

We would be pleased to undertake this work for you, and can provide a competitive quotation for this work.

We currently provide HB subsidy certification to 106 clients, through our specialist Government & Public Sector team. We provide a quality service, and are proud that in the PSAA's latest Annual Regulatory and Compliance Report (July 2017) we score the highest of all providers, with an average score of 2.6 (out of 3).



As we also expect to be appointed by PSAA in December 2017 as your statutory auditor we can provide a comprehensive assurance service, making efficiencies for you and building on the knowledge and relationship we have established with your Housing Benefits service.

Looking forward

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Report to Audit committee
13 March 2018
Report of Chief finance officer
Subject External Audit Plan 2017-18

Item

6

Purpose

This report presents the annual external audit plan 2017-18.

Recommendation

To:

- (1) review the attached report from the council's external auditor; and
- (2) consider and agree the approach and scope of the external audit as proposed in the audit plan.

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 Kendrick, Resources

Contact officers

Karen Watling, Chief finance officer

01603 212440

Report

Background

1. This report sets out the external auditors' proposed approach to their work for the audit of the accounts for the 2017-18 financial year, for discussion and agreement with the audit committee.

Key points to note

2. The following significant matters are covered in the report:
 - (a) The auditors' assessment of the key financial statement risks (section 2 of the audit plan). A new significant risk has been identified arising from the need to prepare group accounts for the first time. This consolidation is a result of the increased financial activity of Norwich Regeneration Ltd, the council's wholly owned subsidiary;
 - (b) The auditors' assessment of the key value for money risks (section 3 of the audit plan). A new significant risk has been identified in relation to increased commercial activity arising from the acquisition of new commercial property and the activity of Norwich Regeneration Ltd;
 - (c) A substantive testing approach will be followed as well as using computer-based data analytics tools to support the audit testing (section 5). The work of internal audit will be reviewed, and reliance will be placed on the work of NPS valuation specialists for property values, actuarial specialists for pension fund valuations and Link Asset Services for financial instrument fair values (section 6);
 - (d) The earlier deadlines introduced by the Accounts and Audit Regulations 2015 requires the draft accounts to be prepared by 31 May and the publication of the accounts by 31 July 2018. Section 5 sets out the actions being taken to mitigate the risk that the earlier timetable poses and ways the auditors are supporting the council to achieve this timetable.
 - (e) The proposed core audit fee for 2017-18 is £79,914 (Appendix A) which is the same as the core fee for 2016-17. Further fees (in the range of £6,000 - £8,000) are likely to be incurred in relation to the audit of the group accounts and review of the minimum revenue provision policy backdating.

**Norwich City
Council**
Audit planning report
Year ended 31 March 2018

February 2018



Audit Committee
Norwich City Council
City Hall
St Peter's Street
Norwich
NR2 1NH

21 February 2018

Dear Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

This report is intended solely for the information and use of the Audit Committee and management, and is not intended to be and should not be used by anyone other than these specified parties.

We welcome the opportunity to discuss this report with you on 13 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

For and on behalf of Ernst & Young LLP

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Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between 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 "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the Audit Committee and management of Norwich City Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Audit Committee and management of Norwich City Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Audit Committee and management of Norwich City Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide you with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	<p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p> <p>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>
Group Accounts	Significant Risk	New area of risk or focus	<p>In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity has increased in the company in 2017/18 to a level that is considered material. This will require the Council to prepare group accounts.</p> <p>We identify this as a significant risk as the Council has not prepared group accounts in the past and this can be a complex area of accounting. We will also need to gain audit assurances from the auditor of the component entity prior to issuing our audit opinion.</p>

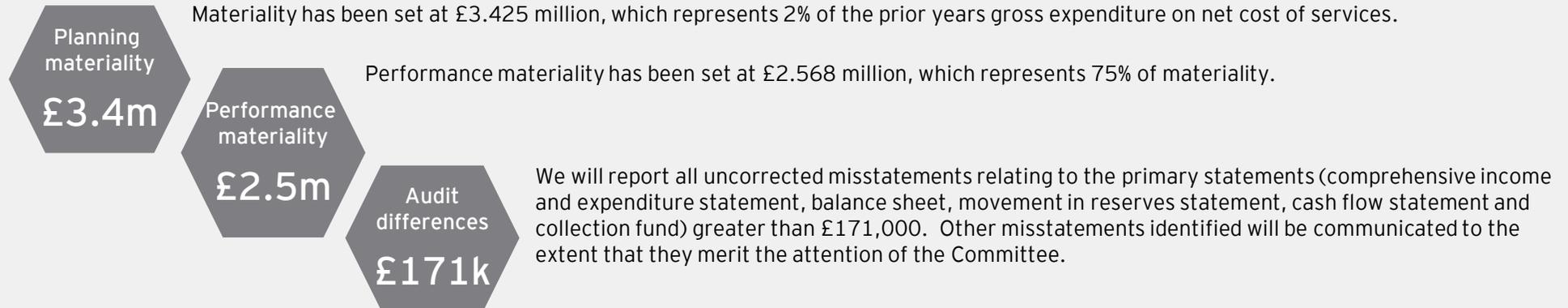
Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide you with an overview of our initial risk identification for the upcoming audit and any changes in risks identified in the current year.

Risk / area of focus	Risk identified	Change from PY	Details
Property, Plant and Equipment Valuation	Other financial statement risk	No change in risk or focus	<p>Property, Plant and Equipment represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.</p> <p>The Council engage an external expert Norfolk Property Services, to value the Council's asset base, who will apply a number of complex assumptions and assess the Council's assets to identify whether there is any indication of impairment and changes to their useful life.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p> <p>The Council continue to use spreadsheets as a fixed asset register, these are difficult to maintain and lack quality reporting functionality.</p>
Pensions Liability - IAS19	Other financial statement risk	No change in risk or focus	<p>The Local Authority Accounting Code of Practice (the code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement.</p> <p>ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.</p>

Overview of our 2017/18 audit strategy

Materiality



Audit scope

This Audit Plan covers the work that we plan to perform to provide you with:

- Our audit opinion on whether the financial statements of Norwich City Council (the Council) give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

We will also review and report to the National Audit Office (NAO), to the extent and in the form required by them, on the Council's Whole of Government Accounts return.

Our audit will also include the mandatory procedures that we are required to perform in accordance with applicable laws and auditing standards.

When planning the audit we take into account several key inputs:

- Strategic, operational and financial risks relevant to the financial statements;
- Developments in financial reporting and auditing standards;
- The quality of systems and processes;
- Changes in the business and regulatory environment; and,
- Management's views on all of the above.

By considering these inputs, our audit is focused on the areas that matter and our feedback is more likely to be relevant to the Council.



02

Audit risks





Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

<p>Risk of fraud in revenue and expenditure recognition</p>	<p>What is the risk?</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition. In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's Capital programme.</p>	<p>What will we do?</p> <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias; ▶ Perform substantive testing over material revenue and expenditure streams; ▶ Review and test revenue cut-off at the period end date; ▶ Test the appropriateness of journals entries moving expenditure items from revenue codes to Capital codes; and ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.
<p>Management override</p>	<p>What is the risk?</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p>	<p>What will we do?</p> <p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▶ Reviewing accounting estimates for evidence of management bias. ▶ Evaluating the business rationale for significant unusual transactions; and ▶ Review capital expenditure on property, plant and equipment to ensure it meets the relevant accounting requirements to be capitalised.



Audit risks

Our response to significant risks (continued)

We have set out the significant risks (including fraud risks) identified for the current year audit along with the rationale and expected audit approach. The risks identified below may change to reflect any significant findings or subsequent issues we identify during the audit.

Group Accounts

What is the risk?

In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity has increased in the company in 2017-18 to a level that is considered material. This will require the Council to prepare group accounts.

We identify this as a significant risk as the Council has not prepared group accounts in the past and this can be a complex area of accounting.

What will we do?

Our approach will focus on:

- ▶ Reviewing the group assessment prepared by the Council, ensuring that the accounting framework and accounting policies are aligned to the Norwich City Council group;
- ▶ Scoping the audit requirements for NRL based on their significance to the group accounts. Liaising with the external auditor of NRL and potentially issuing group instructions that detail the required audit procedures they are to undertake in order to provide us with assurance for the opinion we will issue on the group accounts;
- ▶ Ensuring the appropriate consolidation procedures are applied when preparing the Council group accounts.

Audit risks

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?

Property, Plant and Equipment Valuation

Property, Plant and Equipment represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.

The Council engage Norfolk Property Services, to value the Councils asset base, who will apply a number of complex assumptions and assess the Councils assets to identify whether there is any indication of impairment and changes to their useful life.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Council continue to use spreadsheets as a fixed asset register, these are difficult to maintain and lack quality reporting functionality.

What will we do?

Our approach will focus on:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre); and agreeing this to what has been recorded in the GL.
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We have also considered if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus - Continued

What is the risk/area of focus?

Pensions Liability - IAS19

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.

The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

What will we do?

Our approach will focus on:

- ▶ Liaising with the auditors of the administering authority (Norfolk County Council), to obtain assurances over the information supplied to the actuary in relation to Norwich City Council;
- ▶ Assessing the conclusions drawn on the work of the actuary by the Consulting Actuary, PwC; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.



03

Value for Money Risks





Value for Money

Background

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources. This is known as our value for money conclusion.

For 2017/18 this is based on the overall evaluation criterion:

"In all significant respects, the audited body had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people"

Proper arrangements are defined by statutory guidance issued by the National Audit Office. They comprise your arrangements to:

- Take informed decisions;
- Deploy resources in a sustainable manner; and
- Work with partners and other third parties.

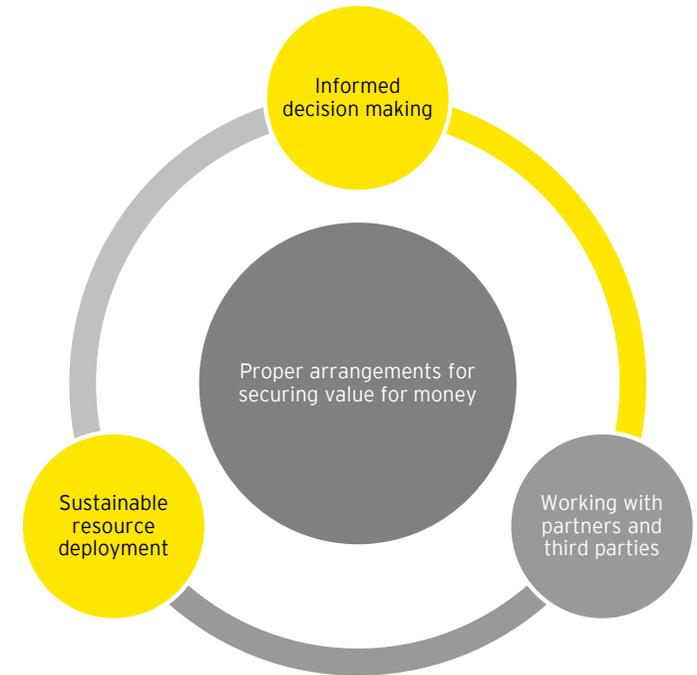
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

We are only required to determine whether there are any risks that we consider significant, which the Code of Audit Practice defines as:

"A matter is significant if, in the auditor's professional view, it is reasonable to conclude that the matter would be of interest to the audited body or the wider public"

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work.

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of one significant risk which we view as relevant to our value for money conclusion at this stage.



Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p>Commercialisation</p> <p>The Council has looked to identify new ways to generate income in the current constrained financial circumstances. It has done this by increasing the Council's investments in commercial property and the Council's own company, Norwich Regeneration Limited to achieve higher returns.</p> <p>Entering into commercial activity on an increased scale requires the Council to have appropriate governance and corporate arrangements to plan and deliver these schemes.</p> <p>We have identified a risk due to the increasing activity by the Council in this area.</p>	<p>Taking informed decisions.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> ▶ The governance and corporate arrangements that have been put in place to deliver the two schemes; ▶ The purchase of investment properties in the year is in line with the asset investment strategy approved in April 2017; ▶ a review of the Norwich Regeneration Limited business plan and how it aligns with Council priorities; ▶ the financial modelling of the returns from commercial activity included in the medium term financial strategy.



04

Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £3.425 million. This represents 2% of the Council's prior year gross expenditure on net Cost of Services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



We request that the Committee confirm its understanding of, and agreement to, these materiality and reporting levels.

Key definitions

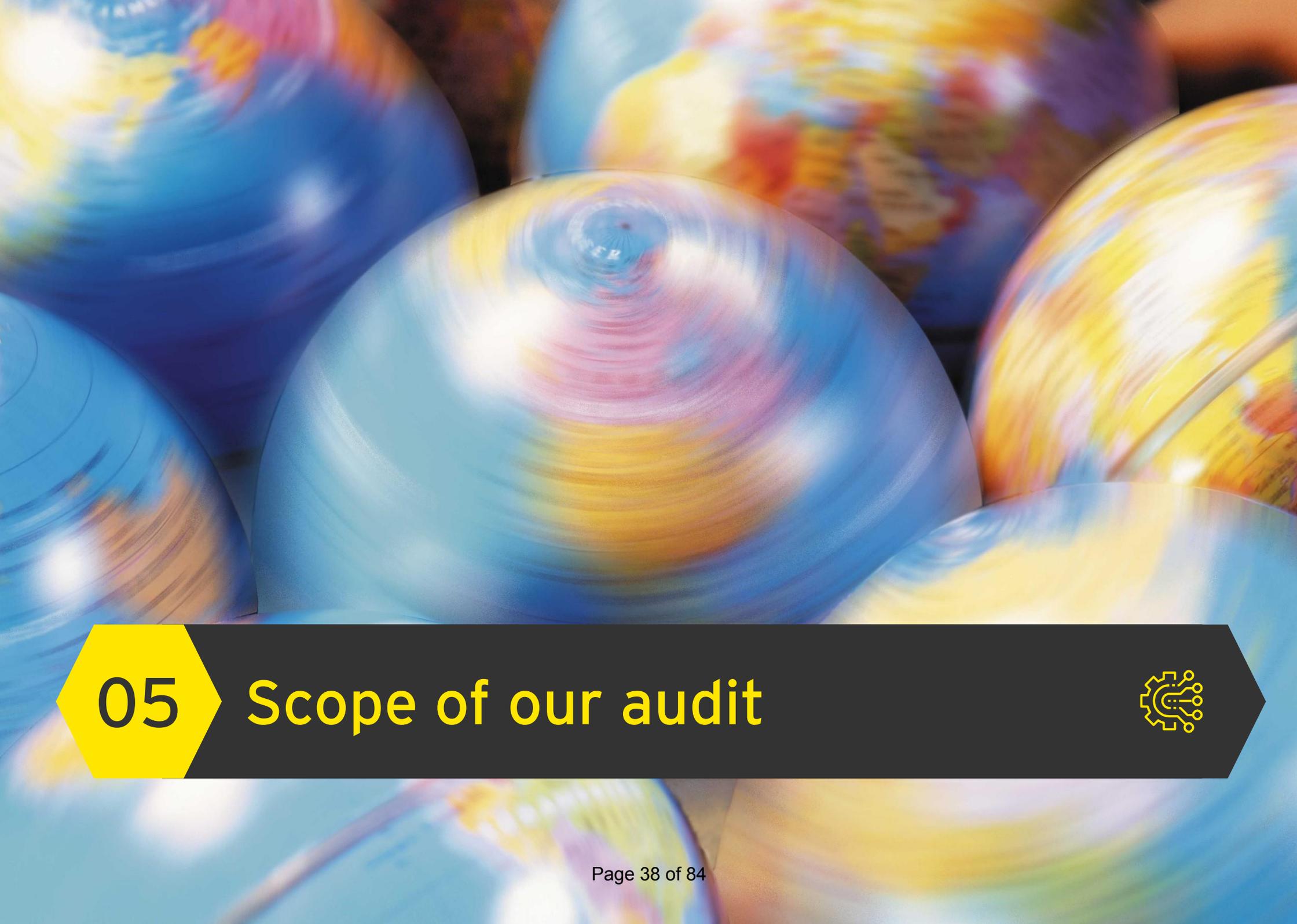
Planning materiality - the amount over which we anticipate misstatements would influence the economic decisions of a user of the financial statements.

Performance materiality - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £2.568 million which represents 75% of planning materiality.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet, and collection fund that have an effect on income or that relate to other comprehensive income.

Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the Audit Committee, or are important from a qualitative perspective.

Specific materiality - We have set a materiality of £5,000 for remuneration disclosures and exit packages, and £171,000 for related party transactions and members' allowances, which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.



05

Scope of our audit



Our Audit Process and Strategy

Objective and Scope of our Audit scoping

Under the Code of Audit Practice our principal objectives are to review and report on the Council's financial statements and arrangements for securing economy, efficiency and effectiveness in its use of resources to the extent required by the relevant legislation and the requirements of the Code.

We issue an audit report that covers:

1. Financial statement audit

Our objective is to form an opinion on the financial statements under International Standards on Auditing (UK and Ireland).

We also perform other procedures as required by auditing, ethical and independence standards, the Code and other regulations. We outline below the procedures we will undertake during the course of our audit.

Procedures required by standards

- Addressing the risk of fraud and error;
- Significant disclosures included in the financial statements;
- Entity-wide controls;
- Reading other information contained in the financial statements and reporting whether it is inconsistent with our understanding and the financial statements; and
- Auditor independence.

Procedures required by the Code

- Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance; and
- Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

2. Arrangements for securing economy, efficiency and effectiveness (value for money)

We are required to consider whether the Council has put in place 'proper arrangements' to secure economy, efficiency and effectiveness on its use of resources.

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

- ▶ Identifying and understanding the key processes and internal controls; and
- ▶ Substantive tests of detail of transactions and amounts.

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

We will use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular journal entries. These tools:

- ▶ Help identify specific exceptions and anomalies which can then be subject to more traditional substantive audit tests; and
- ▶ Give greater likelihood of identifying errors than random sampling techniques.

We will report the findings from our process and analytics work, including any significant weaknesses or inefficiencies identified and recommendations for improvement, to management and the Audit Committee.

Internal audit:

As in prior years, we will review internal audit plans and the results of their work. We will reflect the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where we raise issues that could have an impact on the year-end financial statements

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July 2018.

These changes provide risks for both the preparers and the auditors of the financial statements:

- ▶ The Council now has less time to prepare the financial statements and supporting working papers and has the added complexity of preparing Group financial accounts.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- ▶ good quality draft financial statements and supporting working papers by the agreed deadline;
- ▶ appropriate Council staff to be available throughout the agreed audit period; and
- ▶ complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Council we will:

- ▶ Work with the Council to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Put in place portal to streamline communication and sharing of audit evidence.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.



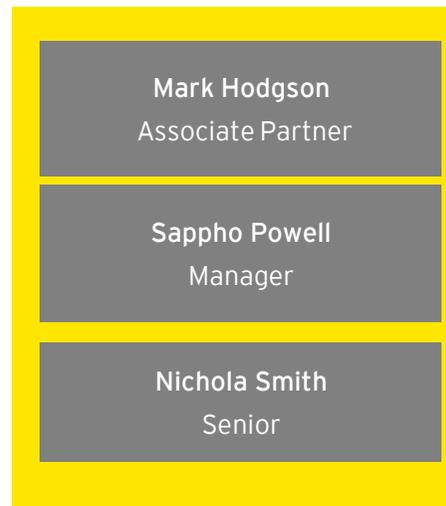
06

Audit team



Audit team

Audit team structure:



The engagement team is led by Mark Hodgson, who has significant experience on Local Authorities and their audits. Mark Hodgson is supported by Sappho Powell who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance team.

Use of specialists

- ▶ Our approach to the involvement of specialists, and the use of their work.

When auditing key judgements, we are often required to rely on the input and advice provided by specialists who have qualifications and expertise not possessed by the core audit team. The areas where either EY or third party specialists provide input for the current year audit are:

Area	Specialists
Property, Plant and Equipment, and Investment Properties	Management expert - valuation specialists (Norfolk Property Services)
Pension valuations and disclosures	Management expert - actuarial specialists to the Suffolk Pension Fund (Hymans Robertson) EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office)
Fair value of financial instrument disclosure	Management expert - for the provision of fair value information in respect of financial instruments (Capita Asset Services)

In accordance with Auditing Standards, we will evaluate each specialist's professional competence and objectivity, considering their qualifications, experience and available resources, together with the independence of the individuals performing the work.

We also consider the work performed by the specialist in light of our knowledge of the Council's business and processes and our assessment of audit risk in the particular area. For example, we would typically perform the following procedures:

- ▶ Analyse source data and make inquiries as to the procedures used by the specialist to establish whether the source data is relevant and reliable;
- ▶ Assess the reasonableness of the assumptions and methods used;
- ▶ Consider the appropriateness of the timing of when the specialist carried out the work; and
- ▶ Assess whether the substance of the specialist's findings are properly reflected in the financial statements.



07

Audit timeline





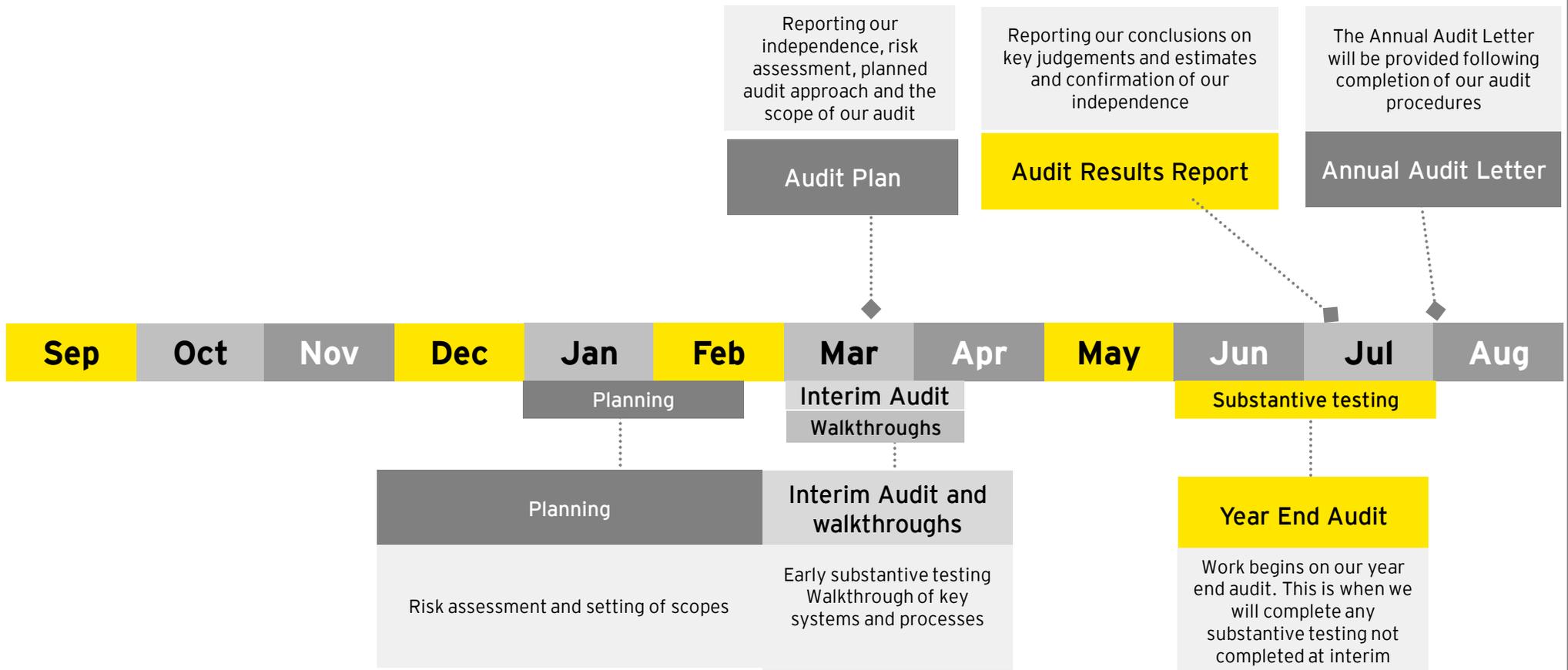
Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Audit Committee Chair as appropriate. We will also provide updates on corporate governance and regulatory matters as necessary.





08

Independence



Introduction

The FRC Ethical Standard and ISA (UK) 260 “Communication of audit matters with those charged with governance”, requires us to communicate with you on a timely basis on all significant facts and matters that bear upon our integrity, objectivity and independence. The Ethical Standard, as revised in June 2016, requires that we communicate formally both at the planning stage and at the conclusion of the audit, as well as during the course of the audit if appropriate. The aim of these communications is to ensure full and fair disclosure by us to those charged with your governance on matters in which you have an interest.

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. 	<ul style="list-style-type: none"> ▶ A written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements, the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Mark Hodgson, your audit engagement partner and the audit engagement team have not been compromised.

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

A self interest threat may also arise if members of our audit engagement team have objectives or are rewarded in relation to sales of non-audit services to you. We confirm that no member of our audit engagement team, including those from other service lines, has objectives or is rewarded in relation to sales to you, in compliance with Ethical Standard part 4.

There are no other self interest threats at the date of this report.

Self review threats

Self review threats arise when the results of a non-audit service performed by EY or others within the EY network are reflected in the amounts included or disclosed in the financial statements.

There are no self review threats at the date of this report.

Management threats

Partners and employees of EY are prohibited from taking decisions on behalf of management of the Council. Management threats may also arise during the provision of a non-audit service in relation to which management is required to make judgements or decision based on that work.

There are no management threats at the date of this report

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.

There are no other threats at the date of this report.

Other communications

EY Transparency Report 2017

Ernst & Young (EY) has policies and procedures that instil professional values as part of firm culture and ensure that the highest standards of objectivity, independence and integrity are maintained.

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017>



09

Appendices



Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s
Total Fee - Code work	79,914*	79,914	79,914
Total audit	79,914	79,914	79,914
Other non-audit services not covered above (Housing Benefits)	35,780*	35,780	32,819
Total other non-audit services	35,780	35,780	32,819
Total fees	115,694	115,694	112,733

All fees exclude VAT

*Note 1 - Audit Fee - 2017/18 Code work.

The planned fee does not include any additional audit costs associated with the audit of the group accounts and additional work on the revised minimum revenue provision. This is likely to be between £3,000 - £5,000 depending on the scale and complexity of the group work and £3,000 for the additional work on the minimum revenue provision. There are potential additional costs in relation to the work on value for money depending on the scale of work required to reach a conclusion.

*Note 2 - Other non-audit services

This fee does not include the work completed on the pooling of capital housing receipts return. In 2016/17 the fee for this work was £3,000. The fee for 2017/18 will be between £2,000 to £3,500 depending on the work required by the Department for Communities and Local Government.

The agreed fee presented is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ Our accounts opinion and value for money conclusion being unqualified;
- ▶ Appropriate quality of documentation is provided by the Council; and
- ▶ The Council has an effective control environment.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with the Council in advance.

Fees for the auditor's consideration of correspondence from the public and formal objections will be charged in addition to the scale fee.

We will perform the necessary work required for opinion purposes and agree the fee variation with the Chief Finance Officer and report it within our Audit Results Report. The Scale Fee Variation will also be approved by Public Sector Audit Ltd (PSAA).

Appendix B

Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	Effective for annual periods beginning on or after 1 April 2017.
Details	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.
Impact on Norwich City Council	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>We held a faster close workshop for clients in November 2017 to facilitate early discussion and sharing of ideas and good practice.</p> <p>We are now working with the Council on ideas coming from the workshop, for example:</p> <ul style="list-style-type: none"> • Streamlining the Statement of Accounts removing all non-material disclosure notes; • Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; • Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; • Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; • Establishing and agreeing working materiality amounts with the auditors.

Appendix C

Required communications with the Audit Committee

We have detailed the communications that we must provide to the Audit Committee.

		 Our Reporting to you
 Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Planning Report - 21 February 2018
Significant findings from the audit	<ul style="list-style-type: none"> ▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▶ Significant difficulties, if any, encountered during the audit ▶ Significant matters, if any, arising from the audit that were discussed with management ▶ Written representations that we are seeking ▶ Expected modifications to the audit report ▶ Other matters if any, significant to the oversight of the financial reporting process 	Audit Results Report

Appendix C

Required communications with the Audit Committee

(continued)

		Our Reporting to you
Required communications	 What is reported?	  When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ Whether the events or conditions constitute a material uncertainty ▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▶ The adequacy of related disclosures in the financial statements 	Audit Results Report
Misstatements	<ul style="list-style-type: none"> ▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▶ The effect of uncorrected misstatements related to prior periods ▶ A request that any uncorrected misstatement be corrected ▶ Corrected misstatements that are significant ▶ Material misstatements corrected by management 	Audit Results Report
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▶ A discussion of any other matters related to fraud 	Audit Results Report
Related parties	<ul style="list-style-type: none"> ▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▶ Non-disclosure by management ▶ Inappropriate authorisation and approval of transactions ▶ Disagreement over disclosures ▶ Non-compliance with laws and regulations ▶ Difficulty in identifying the party that ultimately controls the entity 	Audit Results Report

Appendix C

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of. 	Audit Results Report
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Annual Audit Letter/Audit Results Report

Appendix C

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report
Auditors report	<ul style="list-style-type: none"> ▶ Key audit matters that we will include in our auditor's report ▶ Any circumstances identified that affect the form and content of our auditor's report 	Audit Results Report
Fee Reporting	<ul style="list-style-type: none"> ▶ Breakdown of fee information when the audit plan is agreed ▶ Breakdown of fee information at the completion of the audit ▶ Any non-audit work 	Audit Planning Report Audit Results Report
Certification work	Summary of certification work undertaken	Annual Certification report

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable,
- ▶ The Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee
- ▶ and reporting whether it is materially inconsistent with our understanding and the financial statements; and
- ▶ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

For the purposes of determining whether the accounts are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in the aggregate, in light of the surrounding circumstances, could reasonably be expected to influence the economic decisions of the users of the financial statements. Our evaluation of it requires professional judgement and necessarily takes into account qualitative as well as quantitative considerations implicit in the definition. We would be happy to discuss with you your expectations regarding our detection of misstatements in the financial statements.

Materiality determines:

- ▶ The level of work performed on individual account balances and financial statement disclosures.

The amount we consider material at the end of the audit may differ from our initial determination. At this stage, however, it is not feasible to anticipate all of the circumstances that may ultimately influence our judgement about materiality. At the end of the audit we will form our final opinion by reference to all matters that could be significant to users of the accounts, including the total effect of the audit misstatements we identify, and our evaluation of materiality at that date.

Report to Audit Committee
13 March 2018
Report of Chief Internal Auditor, LGSS
Subject Internal Audit Update November 17 to February 18 –
Quarter 3

Item

7

Purpose

To advise members of the work of Internal Audit, completed between November 2017 to February 2018, and the progress against the internal audit plan.

The role of Internal Audit is to provide the audit committee and management with independent assurance, on the effectiveness of the internal control environment. Internal Audit coverage is planned so that the focus is upon those areas and risks which will most impact upon the council's ability to achieve its objectives.

The 2017-18 Audit Plan was approved by the committee on 14 March 2017 and endorsed by the council's Corporate Leadership Team on 1 March 2017. The audit committee was previously provided with an update up to 14 November 2017.

Recommendation

The committee is requested to consider the contents of this report.

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 Kendrick - Resources

Contact officers

Duncan Wilkinson, Chief Internal Auditor, LGSS 01908 252089

Neil Hunter, Deputy Head of Audit, LGSS 01223 715317

Magen Powell, Principal Auditor, LGSS 01603 212575

Background documents

None

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q3

As at 27th February 2018

Resources

As outlined to CLT at the beginning of the financial year, it is good practice to keep audit plans under review and update them to reflect emerging risks, revisions to corporate priorities, and resourcing factors which may affect the delivery of the audit plan.

Additional work is considered where it will help to improve the internal control environment and governance arrangements at the Council. Consequently it is appropriate to review the internal audit plan and re-profile accordingly.

The original plan, approved by CLT, was agreed as 450 days and as at February 2018, the internal audit team is on target to deliver this. Some days have been re-profiled to take into account the implementation of a new Finance and HR system.

Following the departure of Jonathan Tully on 15th December 2017 a replacement for the Principal Auditor post was promptly appointed and Magen Powell commenced on 2nd January 2018. Although the post was filled quickly, this has had a short term negative impact on the resources and knowledge in the team. However the induction processes required by Norwich have now all been completed and the transition has been successful.

Progress against the plan

In addition to the planned audits, the internal audit team has provided ongoing support and attendance at relevant meetings within the following areas:

- Transformation projects
- National Fraud Initiative
- Fraud Investigations
- Attend Information Governance Group
- Attend Data Breach Response
- Attend Corporate Governance Group

Finalised Assignments

Since the previous report to Audit Committee on 14th November 2017 the following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Treasury Management	Substantial	Substantial	Minor
Cross cutting	Grants To Voluntary Organisations	Substantial	Good	Minor
Cross cutting	Use of Government Procurement Cards	Substantial	Substantial	Minor
Cross cutting	Information Security	Good	Good	Minor
Cross cutting	Information Governance Policies	Good	Good	Minor
Cross cutting	Debt Recovery	Satisfactory	Satisfactory	Moderate

Draft / Interim reports / Work in progress

At the time of producing this report, the following audit assignments are at draft report stage or work in progress:

Directorate	Assignment	Status
Cross cutting	Council Tax	Draft report issued
Cross cutting	NNDR	Draft report issued
Cross cutting	Housing Benefits	Work in progress
Cross cutting	Purchase to Pay	Draft report issued
Cross cutting	Accounts Receivable	Draft report issued
Cross cutting	Business Continuity	Draft report issued
Cross cutting	Payroll	Work in progress
Cross cutting	Cycle highways grant	Work in progress
Cross cutting	Procurement Governance and Contract Management	Work in progress

Further information on work planned, and in progress, may be found in the Audit Plan, attached as Appendix A.

There are a number of works that are in progress, enabling us to review the control environment.

Key financial systems

The Team has commenced a number of reviews classed as Key Financial Systems. Due to their significance, reviews of these systems are prioritised and we are making good progress on Council Tax, National Non Domestic Rates, Housing Benefits, Accounts Receivable and Purchase to Pay and it is pleasing to note that there are again no significant areas of concern. This gives a very positive assurance to stakeholders on the core systems.

Required audit work on the HR elements of Payroll has been impacted by the new HR / Finance project, resulting in delaying the testing within this area. A review of Safe Recruitment is also scheduled for quarter 4 however the service has not been able to agree a start date for this audit despite various communications although it is still hoped it can be completed this year but access is currently not possible.

Transformation - implementation of new IT system

The Council is implementing a new Finance System for HR and Finance. Internal audit has been assisting the project team by proactively providing advice on governance, facilitating project risk register updates and appropriate internal controls. This will help to mitigate potential control weaknesses prior to system go-live.

Actions from previous internal audit reviews

The internal audit team monitor all recommendations made and follow ups have commenced in the subsequent areas:

- General Computer Controls, completed in May 2017
- St James Sheltered Housing Redevelopment, completed in September 2016

Grant certification

Work is ongoing to enable the Chief Internal Auditor to sign off the grant of Cycle City Ambition Grant Award for financial year 2016/17 "Push the Pedalways: Norwich Cycling Ambition: £4,166,000" to make the deadline of 31st March 2018.

Key policies and procedures

The Chief Finance Officer has been unable to finalise the review of Norwich financial procedures therefore the audit review of this area will need to be slipped into the 2018/19 Audit Plan..

Summaries of completed audits with limited or no assurance

Individual reviews which highlight there is only limited or no assurance, in the final report, are communicated to the Audit Committee for awareness. No such audits have been issued this quarter.

Fraud and corruption update

Data matching

The Council participates in a national data matching service known as the National Fraud Initiative (NFI), which is run by the Cabinet Office. Data is extracted from Council systems for processing and matching. It flags up inconsistencies in data that may indicate fraud and error, helping councils to complete proactive investigation. Nationally it is estimated that this work has identified £1.17 billion of local authority fraud, errors and overpayments since 1996. Historically this process has not identified significant fraud and error at Norwich, which provides assurance that internal controls continue to operate effectively.

The NFI undertakes an annual exercise to match council tax records against the electoral register and other datasets. This will identify individuals who receive council tax single persons discount on the basis that they live alone yet the electoral register or other data suggests that there is at least one other adult in the household. The datasets have now been uploaded in advance of the 28th February 2018 deadline with 8927 matches being received of which some (to be confirmed) matches meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. It is understood that work will commence on reviewing these matches and will continue throughout the year by staff at the Anglia Revenues Partnership (ARP).

Appendix A – Internal audit plan

Norwich 2017/18

Audit title	Status	Current Plan	Revised Plan	Commentary
Invoices over £500	Completed	11.0	11.0	
Transformation projects	Advisory	14.0	14.0	
Making Every Penny Count Total		25.0	25.0	
National Fraud Initiative	Open	20.0	20.0	
Fraud Investigations	Open	5.0	7.0	
Anti-Fraud and Corruption Total		25.0	27.0	
Accounts Receivable	Draft	15.0	15.0	
Purchase to Pay	Draft	20.0	20.0	
Payroll	Open	15.0	15.0	
Housing Rents & Arrears	Completed	35.0	35.0	
Housing Benefits	Open	20.0	20.0	
Council Tax	Draft	15.0	15.0	
NNDR	Draft	15.0	15.0	
Treasury Management	Completed	15.0	17.0	
Procurement Governance	Open	15.0	15.0	This is being reviewed alongside contract management.
Debt Recovery	Completed	10.0	15.0	
Key Financial Systems Total		175.0	182.0	
Contract Management	Open	15.0	15.0	This is being reviewed alongside procurement governance.
NPS Contract monitoring	Removed	0.0	0.0	Removed - agreed at Audit Committee 30.11.17
Regeneration company	Suggested Removed	5.0	0.0	In Q1 2018/19
Commissioning	Suggested Removed	5.0	0.0	In Q1 2018/19
Commissioning & Contracts Total		25.0	15.0	
Safe Recruitment	Suggested Removed	5.0	0.0	In Q1 2018/19
Risk-Based Audits Total		5.0	0.0	
Financial Regulations (Norwich) 2018	Suggested Removed	5.0	2.0	In Q1 2018/19
Business Continuity Policy	Draft	5.0	20.0	
Information Governance Policies	Completed	5.0	5.0	
Policies & Procedures Total		15.0	27.0	
Fees and Charges	Suggested Removed	5.0	0.0	In Q1 2018/19
Grants to Voluntary Organisations	Completed	5.0	7.0	

Audit title	Status	Current Plan	Revised Plan	Commentary
Use of GPC	Completed	5.0	5.0	
Contract Extensions	Suggested Removed	5.0	0.0	In Q1 2018/19
Compliance Total		20.0	12.0	
Information Security	Completed	10.0	10.0	
Financial Systems IT & General Computer Controls	Open	15.0	15.0	
ICT and Information Governance Total		25.0	25.0	
Attend Information Governance Group	Open	5.0	5.0	
Attend Data Breach Response	Open	5.0	5.0	
Attend Corporate Governance Group	Open	5.0	5.0	
Annual Governance Statement	Open	10.0	12.0	
Governance Total		25.0	27.0	
Risk Management	Open	12.0	12.0	
Risk Management Policy	Completed	4.0	4.0	
Risk Management Total		16.0	16.0	
Disabled Facility Grant	Completed	12.0	12.0	
Cycle highways grant	Open	5.0	5.0	
Grant assurance Total		17.0	17.0	
Advice & Guidance	Open	25.0	25.0	
Follow-Ups of Agreed Actions	Open	20.0	20.0	
Advice & Guidance Total		45.0	45.0	
Committee Reporting	Open	12.0	12.0	
Management Reporting	Open	12.0	12.0	
Audit Plan	Open	8.0	8.0	
Reporting Total		32.0	32.0	
Operational Plan Grand Total		450.0	450.0	

Appendix B – Audit Definitions

There are three elements to each internal audit review, and an assurance opinion is provided against each element at the conclusion of the audit. The following definitions are used by Internal Audit in assessing the level of assurance which may be provided against each key element, and in assessing the impact of individual findings:

Control Environment / System Assurance

The adequacy of the control environment / system is perhaps the most important as this establishes the key controls and frequently systems 'police/ enforce' good control operated by individuals.

Assessed Level	Definitions
Substantial	Substantial governance measures are in place that give confidence the control environment operates effectively.
Good	Governance measures are in place with only minor control weaknesses that present low risk to the control environment.
Satisfactory	Systems operate to a moderate level with some control weaknesses that present a medium risk to the control environment.
Limited	There are significant control weaknesses that present a high risk to the control environment.
No Assurance	There are fundamental control weaknesses that present an unacceptable level of risk to the control environment.

Compliance Assurance

Strong systems of control should enforce compliance whilst ensuring 'ease of use'. Strong systems can be abused / bypassed and therefore testing ascertains the extent to which the controls are being complied with in practice. Operational reality within testing accepts a level of variation from agreed controls where circumstances require.

Assessed Level	Definitions
Substantial	Testing has proven that the control environment has operated as intended without exception.
Good	Testing has identified good compliance. Although some errors have been detected these were exceptional and acceptable.
Satisfactory	The control environment has mainly operated as intended although errors have been detected that should have been prevented / mitigated.
Limited	The control environment has not operated as intended. Significant errors have been detected and/or compliance levels unacceptable.
No Assurance	The control environment has fundamentally broken down and is open to significant error or abuse. The system of control is essentially absent.

Organisational Impact

The overall organisational impact of the findings of the audit will be reported as major, moderate or minor. All reports with major organisational impact will be reported to the Corporate Management Team along with the relevant Directorate’s agreed action plan.

Organisational Impact	
Level	Definitions
Major	The weaknesses identified during the review have left the Council open to significant risk. If the risk materialises it would have a major impact upon the organisation as a whole.
Moderate	The weaknesses identified during the review have left the Council open to medium risk. If the risk materialises it would have a moderate impact upon the organisation as a whole.
Minor	The weaknesses identified during the review have left the Council open to low risk. This could have a minor impact on the organisation as a whole.

Findings prioritisation key

When assessing findings, reference is made to the Risk Management matrix which scores the impact and likelihood of identified risks arising from the control weakness found, as set out in the Management Action Plan.

For ease of reference, we have used a system to prioritise our recommendations, as follows:

Essential	Important	Standard
<p>Failure to address the weakness has a high probability of leading to the occurrence or recurrence of an identified high-risk event that would have a serious impact on the achievement of service or organisational objectives, or may lead to significant financial/ reputational loss.</p> <p>The improvement is critical to the system of internal control and action should be implemented as quickly as possible.</p>	<p>Failure to respond to the finding may lead to the occurrence or recurrence of an identified risk event that would have a significant impact on achievement of service or organisational objectives, or may lead to material financial/ reputational loss.</p> <p>The improvement will have a significant effect on the system of internal control and action should be prioritised appropriately.</p>	<p>The finding is important to maintain good control, provide better value for money or improve efficiency. Failure to take action may diminish the ability to achieve service objectives effectively and efficiently.</p> <p>Management should implement promptly or formally agree to accept the risks.</p>

Report to Audit Committee
13 March 2018
Report of Chief Internal Auditor, LGSS
Subject Draft Internal Audit Plan for Norwich City Council 2018-19

Item

8

Purpose

This report provides the audit committee with an outline of the Internal Audit Plan for Norwich City Council as attached at appendix 1.

Recommendation

To endorse the draft Internal Audit Plan for Norwich City Council.

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 Kendrick - Resources

Contact officers

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Background documents

None

1. THE INTERNAL AUDIT PLAN

1.1 BACKGROUND

CIPFA and the Chartered Institute of Internal Auditors launched a common set of Public Sector Internal Audit Standards (PSIAS) in April 2013. The PSIAS set out the standard for internal audit across the public sector.

The principles in the PSIAS are consistent with the previous CIPFA code of practice for internal audit which applied across local government. They include the need for risk-based plans to be developed for internal audit and for plans to receive input from management and the 'Board'; for the purposes of the key duties laid out in the PSIAS, the Audit Committee is effectively the 'Board' for the Council.

Under the Local Government Act, the Council's Section 151 officer is responsible for ensuring that there are arrangements in place for the proper administration of the Authority's financial affairs. The work of Internal Audit is therefore directly relevant to these responsibilities.

1.2 AUDIT PLANNING

PSIAS Performance Standard 2010 – *Planning* states that:

“The Chief Audit Executive must establish risk-based plans to determine the priorities of the internal audit activity, consistent with the organisation's goals.”

The standards refer to the need for the risk-based plan to consider the organisation's risk management framework, and to take into account the requirement to produce an annual internal audit opinion and the assurance framework.

Within the Council, the Chief Audit Executive is the Chief Internal Auditor, for the purposes of the PSIAS. Performance Standard 2450 – *Overall Opinions* states that:

“The Chief Audit Executive must deliver an annual internal audit opinion and report that can be used by the organisation to inform its governance statement. The annual internal audit opinion must conclude on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.”

The risk-based plan therefore needs to include an appropriate and comprehensive range of work which is sufficiently robust to confirm that all assurances provided as part of the system of internal audit can be relied upon by the Audit Committee. The Chief Internal Auditor will ensure that internal audit resources are appropriate, sufficient and effectively deployed to achieve the internal audit plan.

1.3 THE PLANNING PROCESS

The plan is based on assurance blocks that each provides an opinion over key elements of the control environment, targeted towards in-year risks, rather than a more traditional cyclical approach examining each system over a number of years. For each assurance block, the most appropriate level of coverage necessary to provide an effective annual assurance opinion and added value to the organisation has been developed.

The audit plan is intended to remain dynamic in nature and will be reviewed and re-aligned on a regular basis to take account of new, emerging and changing risks and priorities. Resources will then be re-prioritised towards the areas of highest risk. The audit plan will be reported to Audit Committee every quarter, and should be reviewed and robustly challenged by the Corporate Leadership Team, the S151 Officer and the Audit Committee.

In order to develop the audit plan, there must be a sound understanding of the risks facing the Council. The Internal Audit risk assessment of the authority is updated during the year and used to form the basis of the Internal Audit plan, alongside the Corporate Risk Register. Internal Audit has also engaged with members of senior management to ensure that known and emerging risks are considered in annual audit planning.

1.4 THE ANNUAL PLAN

The Internal Audit Plan for the next year must be sufficiently flexible to enable assurance to be obtained over current risk areas, as well as emerging risks, and those risks which are yet to be identified.

Inevitably, the potential for risks is increased during periods of change. For instance, reductions or high levels of turnover in the workforce provide an opportunity for controls to break down – as well as an opportunity to consider new and more efficient ways of organising people, systems and processes, without adversely impacting internal control. To reflect this risk, the Audit Plan contains an allocation of time for advice and guidance. Reviews of the key financial systems and compliance audits will provide assurance that the basic governance and control arrangements are continuing to operate effectively, minimising the risks of misappropriation, loss and error. Maintaining a well communicated anti-fraud framework with clear guidance to encourage whistleblowing remains critical to good governance.

The Audit Plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

Maintaining an Audit Plan which is dynamic, challenging and prioritised based on the organisation's risks is not a new concept; however, in the current environment it is ever more critical if Internal Audit is to help the Council to respond effectively to the scale of change required in 2018/19 and beyond.

1.5 HOW ASSURANCE CAN BE GIVEN

As detailed above, the plan is split into both assurance blocks and directorate areas for ease of understanding as well as to demonstrate how assurance on the organisation's control environment can be given. There are a number of key audit themes:

1.5.1 Key Financial Systems

This is the traditional area of internal audit work, required by external audit, and very much focuses on providing the Section 151 officer and the Chief Internal Auditor assurance that “the Council has made arrangements for the proper administration of its financial affairs.” These systems are agreed in advance with External Audit and are generally used as the basis by which External Audit are able to place reliance on Internal

Audit work. These are generally the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness of financial management procedures and the arrangements to ensure the integrity of accounts.

1.5.2 Core Annual Assurances

The Plan incorporates annual assurances over core elements of the organisation's overall control system, including strategic performance management, risk management and the Council's Code of Corporate Governance. These reviews provide assurance on the framework that ensures these policies and procedures are up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved.

1.5.3 Compliance

Compliance work is fundamental as it provides assurance across all service areas and therefore supports the Chief Internal Auditor opinion on the control environment. The proposed coverage for compliance is underpinned by an assessment of the Council's framework of controls (informed by policies and procedures) and includes those core areas where a high level of compliance is necessary for the organisation to carry out its functions properly. The work involves compliance checks across the organisation to provide assurance on whether the critical controls within the key policies and procedures are being routinely complied with in practice. This work will continue to challenge the existing controls to ensure that they are modern, effective and proportionate.

1.5.4 Policies & Procedures

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. Internal Audit will give assurance on the framework that policies and procedures are appropriately reviewed to ensure these are: up to date; fit for purpose; effectively communicated; routinely complied with across the organisation; monitored and routinely improved. Each audit undertaken should similarly review the current policies and procedures in the area being covered.

1.5.5 Transformation

This assurance block incorporates the on-going work on initiatives to promote the value of *making every penny count* across the organisation. Although each audit we undertake should have value for money at its core, the team will be suggesting areas where this work can be expanded. In order to address increased financial pressure on the organisation, the Council needs to transform and develop more effective working across all services. This work provides assurance over the management of the risks which accompany major transformation, and that benefits are delivered as planned. It also identifies two specific areas for review that could help improve decision making and positively contribute to the VFM agenda.

1.5.6 Project Management

This work provides assurance over project management across the organisation, and for 2018/19 there will be a focus on the development of project assurance frameworks to identify and monitor the Council's most high-risk projects. This work will help ensure that good project management is embedded within the Council and that evidence is available that supports decisions taken at the key 'gateways'.

1.5.7 Commissioning and Contracts

Commissioning and contracts remains a key area of risk for the Council. Effective and proportionate contract monitoring is essential not only to ensure that expected outcomes are achieved, but also that the Council achieves good cost control; meaning that CCC pays what it should, based on actual costs (or equivalent contract conditions). Higher-risk contracts have been selected for review, incorporating open-book assurance where possible, to ensure that these are operating in accordance with the terms of the contracts and value for money is being achieved by contract management activities. Work to examine the commissioning process as a whole is also included in this assurance block. Within this assurance block, a number of days have been included for capital and current contract reviews. The first stage will be to agree the higher risk contracts for review and will incorporate open-book assurance where required to ensure that these are operating in accordance with the terms of the contracts. Work to examine the commissioning process as a whole is also included in this assurance block.

1.5.8 ICT and Information Governance

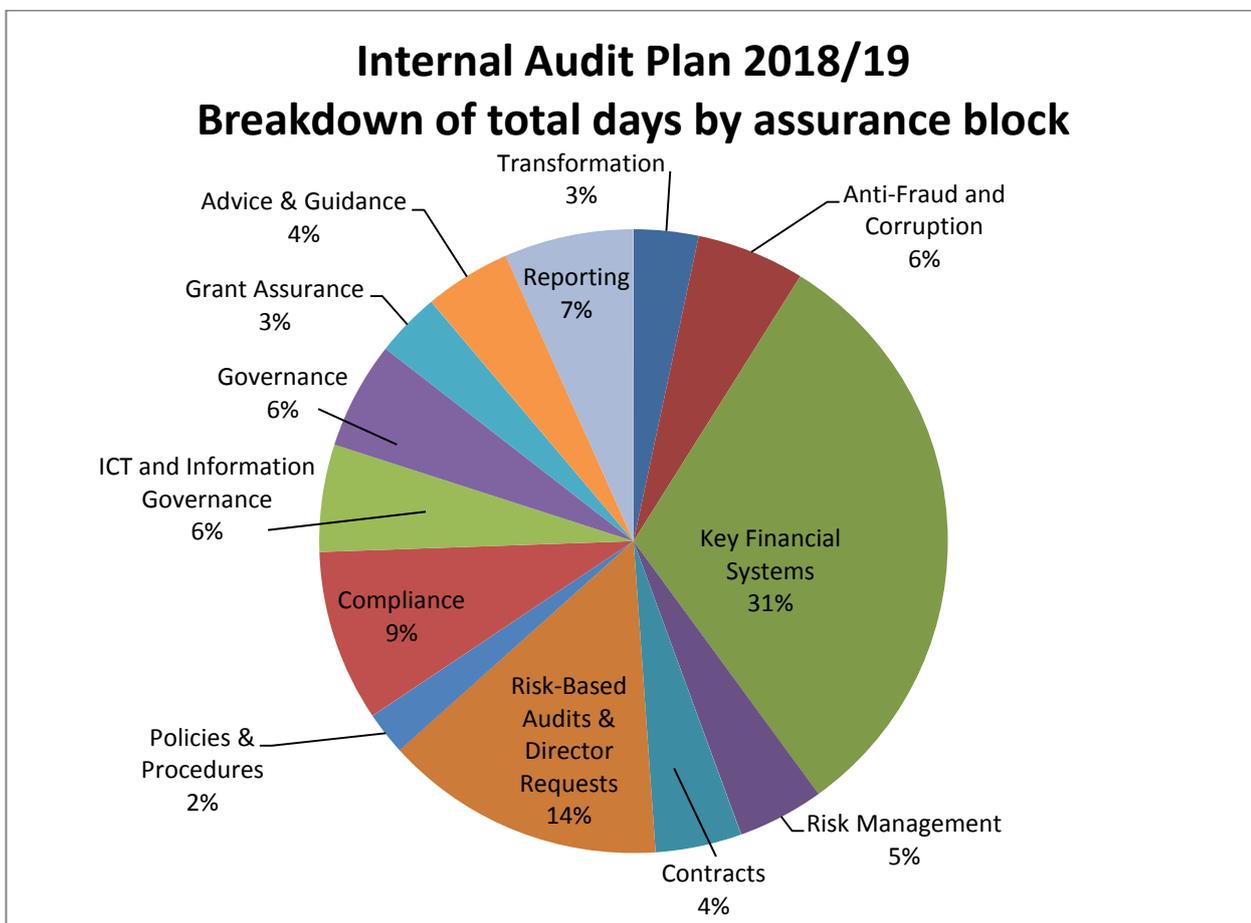
The ICT assurance block includes reviews of key ICT risk areas – major ICT failure and ICT strategy. It also includes an allocation of time for the review of general computer controls to provide assurance that systems are correctly processing information accurately and on a timely basis. The assurance block also incorporates time for reviews of key risk areas around information governance and information security.

1.6 PLAN SUMMARY AND RESOURCES

In summary, the Audit Plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes. In order to contribute to the Council's efficiency agenda, there is also a continued need to allocate time to anti-fraud work and value for money reviews.

The Audit Plan has been agreed as 450 days. Ongoing risk assessment of this work will be completed to ensure that resources are targeted to the highest-priority areas.

The proposed approximate split of time across the 2018/19 Audit Plan is as follows:



1.7 CONCLUSION

The 2018/19 Audit Plan has used a risk-based approach to prioritising internal audit work and includes sufficient coverage to ensure an evidence-based assurance opinion on the control environment can be provided at the end of the year.

The Plan is responsive in nature and all efforts will be made to maximise coverage to provide the most effective and agile internal audit service possible that focuses on key risks facing the organisation throughout the year.

Progress against the plan will be monitored throughout the year and key issues reported to CLT and the Audit Committee each quarter.

1.8 THE DRAFT INTERNAL AUDIT PLAN 2018/19

The Draft Internal Audit Plan is presented at Appendix 1.

APPENDIX 1

Draft Internal Audit Plan 2018/19					
Audit	2018/19	Assurance Block	Theme	Directorate	Why?
Transformation					
<i>In order to address increased financial pressure on the organisation, the Council needs to transform and develop more effective working across all services. This work provides assurance over the management of the risks which accompany major transformation, and that benefits are delivered as planned.</i>					
Transformation Programme	15	Transformation	Transformation	Cross-Cutting	Review of the Transformation Programme governance framework. To include project identification, business cases, option appraisals monitoring and benefits realisation.
Total Transformation:	15				
Anti-Fraud and Corruption					
<i>Allocation of time for risk assessment and investigation of fraud and theft referrals. Should significant fraud be identified in-year management will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence. The National Fraud Initiative is a national data matching exercise & internal audit will coordinate the data cut on behalf of Norwich City Council.</i>					
National Fraud Initiative	20	Anti-Fraud and Corruption	Fraud & Corruption	Cross-Cutting	Management of statutory National Fraud Initiative.
Fraud Investigations	5	Anti-Fraud and Corruption	Fraud & Corruption	Cross-Cutting	Allocation of time for risk assessment and investigation of fraud and theft referrals. Should significant fraud be identified in-year CLT will be consulted as to the best way to investigate as well as, where appropriate, how to improve the control environment to reduce the risk of re-occurrence.
Total Anti-Fraud and Corruption:	25				
Key Financial Systems					
<i>Providing assurance that the Council has made arrangements for the proper administration of its financial affairs, these system audits are agreed in advance with External Audit and focus on the systems with the highest financial risk. These reviews give an opinion as to the effectiveness of financial management procedures and arrangements to ensure the integrity of accounts.</i>					
Accounts Receivable	15	Key Financial Systems	Financial Governance	Cross-Cutting	Annual assurance over Key Systems conducting transactional testing.
Purchase to Pay	15	Key Financial Systems	Financial Governance	Cross-Cutting	
Payroll	15	Key Financial Systems	Financial Governance	Cross-Cutting	

Housing Rents/Arrears	20	Key Financial Systems	Financial Governance	Cross-Cutting	
Housing Benefits	20	Key Financial Systems	Financial Governance	Cross-Cutting	
Council Tax	15	Key Financial Systems	Financial Governance	Cross-Cutting	
NNDR	15	Key Financial Systems	Financial Governance	Cross-Cutting	
Treasury Management	15	Key Financial Systems	Financial Governance	Cross-Cutting	
Debt Recovery	10	Key Financial Systems	Value for Money	Cross-Cutting	
Total Key Financial Systems:	140				
Strategic Risk Management					
<i>Assurance over the Council's risk management framework in addition to support, advice and facilitation of strategic risk management processes.</i>					
Strategic Risk Management	15	Risk Management	Risk Management		Administration and reporting of corporate risk register and supporting documents.
Risk Management	5	Risk Management	Risk Management	Cross-Cutting	Assurance over the Council's risk management framework
Total Risk Management:	20				
Contracts					
<i>This is a key area of risk. Effective and proportionate contract monitoring by the Council is essential to ensure good cost control (i.e. we pay what we should based on actual costs/'contract' conditions) and that expected outcomes from these contracts are achieved. Higher-risk contracts have been selected for review, incorporating open-book assurance where possible to ensure that these are operating in accordance with the terms of the contracts and value for money is being achieved by contract management activities. Work to examine the commissioning process as a whole is also included in this assurance block.</i>					
Contract Management	20	Contracts	Procurement	Cross-Cutting	Based on assessment of risk, concentrating on contract monitoring and open book reviews where appropriate. Each review is estimated at 20 days. Potential review areas identified after discussions with key officers include contracts for Refuse, Repairs and Maintenance, and Grounds, Streets and Trees, NPS and Waste Management.
Total Contracts:	20				
Risk-Based Audits & Director Requests					

These are areas of risk specifically identified by key officers during the consultation process and have been requested to be included in the 2018/19 Audit Plan. This block also includes areas where the Audit Committee require additional assurances. Assurance over key organisational risks and requests for specific audit reviews by individual Directors will not only give directors the assurance they have requested but will support the annual Head of Internal Audit opinion across the control environment.

Fees and Charges Policy	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Development of guidance to help colleagues consider the impact (cost/benefit) of including discretionary elements within eligibility criteria for service users and against best practice.
Commercial Rents	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review policies and processes for commercial property voids and rent reviews.
Attend HR & Finance Project Meetings	15	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Providing support and guidance to project group on risk management and internal controls.
Project Management	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review of projects assurance framework. Effectiveness in ensuring all projects are risk-assessed and the most high-risk projects have a project manager assigned and support from the appropriate professional services, e.g. finance, democratic services
Norwich Regeneration Limited	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review the suite of assurances required by Norwich CC to ensure governance arrangements in place at NRL are effective & proportionate to ensure NoCC objectives are achieved and interests protected. This could be 3PA and reliance on NRL internal auditors & company director assurance statements.
Discretionary and Non-Statutory Service Provision & Expenditure	10	Risk-Based Audits & Director Requests	Value for Money	Cross-Cutting	Review of guidance available to help colleagues consider the impact (cost/benefit) of including discretionary elements within eligibility criteria for service users including comparison with other Council's. Evaluate guidance available against best practice. Review agreed key areas and compare to similar Council's and attempt to quantify the positive outcomes achieved by investing in discretionary spend.
Total Risk-Based Audits:	65				
Key Policies & Procedures					

Effective policies and procedures drive the culture and risk appetite of the organisation and ensure key control principles are captured. They should be reviewed annually to ensure they remain proportionate and effective.

Annual Key Policies & Procedures Review	6	Policies & Procedures	Governance	Cross-Cutting	Following previous year audit reviews of core policies and procedures, this review will provide assurance that there is an effective framework to ensure key policies are reviewed, updated and effectively communicated.
Financial Regulations	2	Policies & Procedures	Governance	Cross-Cutting	Review of key policies to ensure they have been updated in line with current risk appetites and accepted good governance and effectively communicated.
Contract Procedure Rules	2	Policies & Procedures	Governance	Cross-Cutting	
Total Policies & Procedures:	10				
Compliance					

Compliance checks across the organisation to provide assurance on whether critical controls within key policies and procedures are routinely complied with in practice. Proposed coverage is underpinned by an assessment of the Council's framework of controls and findings from previous audit work.

Fees and Charges	5	Compliance	Value for Money	Cross-Cutting	Review of fees and charges, to identify compliance with the Council's Fees & Charges policy.
Key Performance Indicators	5	Compliance	Governance	Cross-Cutting	Review of a sample of Key Performance Indicators to confirm that they are calculated and reported accurately in order to appropriately inform decision-making.
Scheme of Delegation compliance	5	Compliance	Governance	Cross-Cutting	Review of a sample of decision-making to confirm that the Council's Scheme of Delegation is being complied with and that officers do not take decisions which are beyond their delegated powers.
Procurement Compliance	20	Compliance	Value for Money	Cross-Cutting	4x reviews throughout the year of a sample of invoices, to provide assurance over risk that best value is not being achieved across all Council procurement. Once invoices have been selected, the review will work backwards through the commissioning process to confirm compliance and VFM.

Contract Extensions	5	Compliance	Procurement	Cross-Cutting	Review of extensions made to contracts, to understand the reasons that contracts are extended, and whether extensions are achieving value for money.
Total Compliance:	40				
ICT and Information Governance					
<i>Reviews of key risk areas around information governance and information security, as well as coverage of key ICT risk areas such as major ICT failure.</i>					
Information Security & GDPR	15	ICT and Information Governance	Information Governance	Cross-Cutting	Review of arrangements for Information Security, with a focus on: compliance with legislative and policy requirements; compliance monitoring; and incident handling.
Financial Systems IT & General Computer Controls	10	ICT and Information Governance	Information Governance	Cross-Cutting	Review of financial system user controls, e.g. user access, payment instruments and processing (e.g. BACS). Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.
Total ICT and Information Governance:	25				
Governance					
Attend Information Governance Group	5	Governance	Information Governance	Cross-Cutting	Attending corporate project group.
Attend Data Breach Response	5	Governance	Information Governance	Cross-Cutting	Reviewing effectiveness of internal controls.
Attend/facilitate Corporate Governance and RM Group	5	Governance	Governance	Cross-Cutting	Attend Corporate Governance & RM Group, facilitate the agenda items covering Risk Management.
Annual Governance Statement	10	Governance	Governance	Cross-Cutting	Assurance mapping and draft to accompany statement of accounts.
Total Governance:	25				
Grant assurance					
<i>Provision of assurances over grant funding from central government where a Head of Audit opinion is required. These are becoming more in number each year and management will be kept informed of new requirements via the normal reporting mechanisms.</i>					
Grant Awareness	5	Grant assurance	Financial Governance	Cross-Cutting	Ensure the Council is maximising the opportunity to receive grant funding.

Disabled Facility Grant	5	Grant assurance	Financial Governance	Cross-Cutting	Certification to Norfolk CC - to be completed by 31st May 2017
Cycle highways grant	5	Grant assurance	Financial Governance	Cross-Cutting	Certification to DfT - to be completed by 31st March 2018 (Yr 2 of 3)
Total Grant assurance:	15				
Advice & Guidance					
Advice & Guidance	10	Advice & Guidance	Advice & Guidance	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries, and internal controls.
Follow-Ups of Agreed Actions	10	Advice & Guidance	Advice & Guidance	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.
Total Advice & Guidance:	20				
Reporting					
Committee Reporting	12	Reporting	Reporting	Cross-Cutting	Reporting to Audit Committee.
Management Reporting	10	Reporting	Reporting	Cross-Cutting	Reporting to CLT, Director of Business Services and S151 Officer.
Audit Plan	8	Reporting	Reporting	Cross-Cutting	Development and full consultation on the Annual Internal Audit Plan and any in-year revisions / updates.
Total Reporting:	30				
Operational Plan Total - 2018/19					
	450				