



AUDIT COMMITTEE

Date: **Tuesday 24 September 2013**

Time: **4.30pm**

Venue: **Committee room, City Hall**

COMMITTEE MEMBERS:

Councillors:

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

FOR FURTHER INFORMATION PLEASE CONTACT -

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Democratic services
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AGENDA

Page No.

1. Apologies

To receive apologies for absence

2. Public Questions

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

3. Declarations of Interest

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

4. Minutes **3**

To agree the accuracy of the minutes of the meeting held on 23 July 2013.

5. Internal audit and fraud team 2013-14 – June to August update **9**
(Report of the head of internal audit and risk management, LGSS)

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

6. Audit results report (ISA 260) 2012-13 **(To follow)**
(Report of the chief finance officer)

Purpose – To present the external auditors' audit results report (ISA 260) 2012-13.

7. Statement of Accounts 2012-13 **(To follow)**
(Report of the chief finance officer)

Purpose - This report presents the formal statement of accounts as part of the council's approval process.

16 September 2013



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MINUTES

AUDIT COMMITTEE

4.30pm to 6pm

23 July 2013

Present: Councillors Little (chair), Wright (vice chair following appointment), Bremner, Driver, Kendrick, Neale, Stammers (substitute for Councillor Boswell) and Waters

Apologies: Councillor Boswell

1. APPOINTMENT OF VICE CHAIR

RESOLVED to appoint Councillor Wright to vice chair for the ensuing civic year.

2. DECLARATIONS OF INTEREST

There were no declarations of interest.

3. MINUTES

RESOLVED to approve the accuracy of the minutes of the meeting held on 19 March 2013.

4. STATEMENT OF ACCOUNTS 2012-13

The chair congratulated the chief finance officer and the chief accountant and her team for meeting the deadline for signing off the unaudited draft statement of accounts by 30 June 2013. The statement of accounts would be audited and would be reconsidered by the committee at its September meeting. Training for members of the audit committee would be arranged.

The chief accountant introduced the report and answered questions. She pointed out that it was a complete set of accounts and that there were no outstanding entries to be made.

The chair said that he had submitted some minor points and comments on the statement of accounts and would encourage other members to do the same. He considered that there were a number of areas where explanatory text should be provided to make the statement of accounts easier to understand and read,

particularly as it was a public document. He suggested that further information was required to explain the “Norfolk County Council transferred debt”. The chief accountant replied that this debt arose from the 1974 local government reorganisation, when the city was no longer unitary and services such as education and the fire service became the responsibility of the county council. The sum outstanding arose from a difference in valuation of the assets (fire station, school buildings) between the two councils. The chief accountant also agreed to prepare a table which showed the movements of the short term investments and pointed out that these reflected receipts received into the council. Discussion ensued in which it was noted that the total reserves figures had still to be added to Appendix 2, Balance changes.

Councillor Waters, cabinet member for resources, referred to the covering report and said that there had been a lot of work to manage the council’s assets and dispose of properties. He pointed out that the statement of accounts was a valuable document which set out the council’s objectives and current position.

The chair advised members that although the council had not had to provide group accounts this year, however it could potentially be required to provide these in future years because of its partnership arrangements.

RESOLVED, having reviewed the 2012-13 Statement of Accounts, to ask the chief accountant to make the minor changes as minuted above and note the report.

5. DRAFT ANNUAL GOVERNANCE STATEMENT 2012-13

The audit manager (LGSS) presented the report and referred to the annual governance statement contained in the 2012-13 Statement of Accounts (attached to the report for the previous item.) He referred to the *Delivering good governance in local government: framework – addendum* (CIPFA) document, which had been appended to the report, and pointed out the new key elements of the systems and processes that comprise an authority’s governance arrangements as follows:

- translating the vision into objectives for the authority and its partnerships;
- reviewing the effectiveness of the authority’s decision-making framework, including delegation arrangements, decision making in partnerships and robustness of data quality;
- reviewing the effectiveness of the framework for identifying and managing risks and demonstrating clear accountability;
- ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained;
- ensuring effective counter-fraud and anti-corruption arrangements are developed and maintained;
- ensuring effective management of change and transformation;
- ensuring the authority’s assurance arrangements conform with the governance requirements of the CIPFA Statement on the Role of the Head of Internal Audit (2010) and, where they do not, explain why and how they deliver the same impact;
- ensuring effective arrangements are in place for the discharge of the monitoring officer function;

- ensuring effective arrangements are in place for the discharge of the head of paid service function;
- enhancing the accountability for service delivery and effectiveness of other public service providers.

Discussion ensued on the annual governance statement contained in the 2011-12 statement of accounts, during which the audit manager, director (Ernst & Young) and chief finance officer answered members' questions. The chief finance officer confirmed that the recommendations in the 2011-12 report relating to the accounts had been addressed. The internal audit review had not been completed yet. The audit manager advised members that actions arising from the 2011-12 statement of accounts relating to governance were reported in the *Annual audit report on internal audit and fraud 2012-13*, which would be considered later in the meeting. Members were advised that if external audit recommended any changes to the annual governance statement it would be brought back to committee as part of the statement of accounts.

In reply to questions, the audit manager explained that each head of service reviewed their own service by responding to a questionnaire, which was reviewed by internal audit.

During discussion members considered that the governance arrangements of its key partnerships and that consideration should be given on how this would impact on the council's own arrangements. It was noted that the joint venture with NORSE, which was a key partnership to deliver services for the council, had its own decision making structure and governance arrangements.

RESOLVED, having reviewed the effectiveness of the council's governance arrangements, to approve the draft annual governance statement for 2012-13.

6. INTERNAL AUDIT AND FRAUD TEAM 2012-13 – 4TH QUARTER UPDATE

The audit manager (LGSS) presented the report which updated members of the work of the internal audit and fraud team in the fourth quarter of the financial year 2012-13, and included progress on the actions from the 2011-12 statement of accounts.

Discussion ensued in which the audit manager answered members' questions. The committee was advised that the audit manager would ask the fraud team why the number of referrals had gone down but did not consider it to be related to the staff shortages in the team during this period. A member suggested that councillors would find it useful to be aware of what benefit fraud was taking place so that they could help tenants avoid being in a position which could lead to them making a fraudulent claim. Members were advised that housing officers were proactive at reporting anomalies and alleged fraud for investigation by the fraud team.

The committee then considered the progress against the audit plan as set out in annex 1 of the report, and the audit manager answered members' questions. In reply to a suggestion that internal audit cut out some of the audits, the audit manager said that it would have an impact on the annual governance statement and that the authority had a duty to maintain an internal audit. Members noted that the corporate

risk register identified areas of high risk where an internal audit should be prioritised, given the limited resources of the audit team.

RESOLVED to note:

- (1) work of internal audit between February and the end of March 2013;
- (2) progress on the internal audit plan;
- (3) work of the fraud team;
- (4) latest position on the national fraud initiative (NFI).

7. ANNUAL AUDIT REPORT ON INTERNAL AUDIT AND FRAUD 2012-13

The audit manager (LGSS) presented the report and said that the head of internal audit and risk management's overall audit opinion was an "adequate assurance". He referred to annex 1 and updated members that in relation to Civica customer contact IT system, HR had updated its induction check list to ensure that managers discussed the mandatory e-learning Data Protection Act course with new employees who were required to have completed it by their second one to one/probationary interview.

Discussion ensued in which the audit manager answered members' questions. He explained that the delay in processing change of circumstances information for housing and council tax benefits claims resulted in over payments and if a certain threshold was reached the council received a lower subsidy. Therefore there needed to be a performance indicator to monitor this. Councillor Waters said that the award grant helped the council's medium financial strategy and that it was hoped that some grant would be awarded.

Councillor Waters confirmed that the actions which had resulted from the internal audit of the provisions market were progressing. The provisions market was an important asset to the council and the city.

The chair referred to the situation in accounts payable where the lack of a team leader resulted in a delay in implementing the policies and procedures recommended by the internal audit team, and asked how the council could build in resilience to address this. The audit manager said that self-assessment of risks by the heads of service and business continuity plans should ensure that the work could be undertaken.

RESOLVED to receive the annual audit opinion and note the work of internal audit and the fraud team for 2012-13.

8. INTERNAL AUDIT AND FRAUD TEAM 2013-14 – FIRST QUARTER UPDATE

The audit manager (LGSS) presented the report on the work of the internal audit and fraud team from April to mid-June, and answered members' questions on the work of the fraud team and training provided to other officers to raise awareness of fraud.

RESOLVED to note the:

- (1) work of internal audit between April and June 2013;
- (2) note the progress on the internal audit plan;
- (3) note the work of the fraud team between April and June 2013;
- (4) note the council's response to the Audit Commission's fraud survey 2012-13.

9. REVIEW OF THE CORPORATE RISK REGISTER

The audit manager presented the report.

The chief accountant advised the committee that in relation to CR26, the cash receipting system was likely to be implemented in October or November 2013. The audit manager said that the new system would continue to be monitored,

RESOLVED to note the changes to the register as a result of the review by the corporate leadership team.

CHAIR

Report to	Audit committee 24 September 2013	Item
Report of	Head of internal audit and risk management, LGSS	5
Subject	Internal audit and fraud team 2013-14 – June to August update	

Purpose

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

Recommendations

To note the:

- (1) work of internal audit between June and August 2013
- (2) the progress on the internal audit plan
- (3) the work of the fraud team between June and August 2013
- (4) latest position on the national fraud initiative (NFI)

Corporate and service priorities

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

Financial implications

None.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

Contact officers

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

None

Report

Background

1. The internal audit plan for 2013-14 was endorsed by members in March 2013.
2. This report covers the following areas:
 - audit assurance work June to August 2013
 - other areas of non-assurance and financial consultancy work
 - the audit plan 2013-14, showing progress against the plan
 - summary of fraud team work June to August 2013
 - the latest position on the national fraud initiative (NFI)
3. For each audit assurance review a report is presented to the relevant head of service, including recommended actions to be taken. Audits are subsequently followed up to ensure that the agreed actions have been implemented.

Audit assurance work June to August 2013

4. The following areas were reported on between June and August:
 - Emergency planning – substantial assurance. Detailed emergency plans are in place and staff of all levels attend relevant training and take part in regular practical exercises. Recommendations agreed and due to be implemented by the end of September 2013
 - Tourist information centre – substantial assurance. Most aspects relating to income, sales, stock and procedures found to be working well. Recommendations agreed and due to be implemented by the end of October 2013
 - Performance management – substantial assurance. The framework for measuring and reporting performance works well, but in order to improve clarity we recommended changes to the way two of the indicators are reported. This was agreed for implementation by October 2013
 - Construction industry tax deduction scheme (transactions audit) – arrangements working well. Two minor recommendations were agreed for implementation by August 2013
5. Other assurance work which is in progress is shown in **annex 1**.

Follow ups

6. The following audits were followed up:
 - Strategic partnership with Homes and Communities Agency – recommendation implemented
 - Starters and leavers – recommendations implemented
 - Contract management in citywide services – recommendations implemented

- Oracle purchasing - all of the agreed actions have either been implemented or are in progress
- Council tax – most recommendations have been implemented or are in progress. Two actions regarding the suspense account have started but have been delayed due to resourcing issues
- National non-domestic rates – little progress on the two recommendations. The action to establish a quality assurance process has been delayed due to the service review in connection with the on-boarding of Northants Borough Council. It should now be in place by the end of October 2013. The second action aimed at providing some resilience in connection with a key member of staff has been started but is incomplete.
- Care and repair contract. At your previous meeting it was reported that no action had been taken on the recommendation to obtain details from the previous contractor in respect of decent homes loans. A new in-house team has been set up and is currently addressing this issue

Non-assurance work

7. The main areas of non-assurance work in the period were the finalising of the draft annual governance statement; progressing the national fraud initiative, and reviewing the garden waste (brown bin) scheme.

Progress against the audit plan

8. Details of the annual audit plan for 2013-14 are at annex 1, showing progress for the year to date.
9. To the end of August 2013, 168 days has been spent on audit assurance work by Norwich-based staff, plus 20 days by other LGSS auditors. Norwich staff also spent 38 days on non-assurance work and unplanned request work.
10. At this stage there is no indication of resourcing issues which might jeopardise planned delivery of the 2013-14 audit plan.

Summary of fraud team work June to August 2013

11. A summary of work by the fraud team from the end of June to the end of August follows:
 - Number of benefit cases referred to the fraud team – 147 (380 so far this year)
 - Number of referred benefit cases investigated – 95 (209 so far this year)
 - Number of benefit sanctions and prosecutions – 3 (14 so far this year)
 - As at the end of August, 28 cases were awaiting reassessment from fraud investigations and Benefits have dedicated a resource to deal with the backlog
 - At present there are 65 cases outstanding from the national fraud initiative, of which 33 are being investigated as possible fraud cases and 32 are with Benefits to carry out enquiries

- In this period there have been eight fraud awareness sessions with different teams within the authority, plus six staff from customer contact attended one-to-one shadowing with the fraud team leader to obtain a better understanding of investigations and improve the quality of referrals. Additionally, an awareness session was carried out with call handlers at the Department for Work and Pensions as they now take calls for the Local Authority National Benefit Fraud Hotline

National fraud initiative (NFI) 2012-13

12. This is the main data matching exercise which occurs every two years. The results were received at the end of January 2013.
13. There are 74 reports, mainly covering benefits and housing, and a total of 2,677 matches, of which the Audit Commission recommended 560 as a priority for investigation. The majority of matches relate to housing benefit. Staff in various service areas have made good progress in reviewing matches to identify any further action that needs to be taken – to date 76% of reports have been closed.
14. So far the exercise has uncovered one housing fraud which led to the recovery of a council property; and identified one duplicate creditor payment for £2,474 made in error – however, this had already been picked up by the supplier and refunded.
15. In addition, £7,753 of housing benefit overpayments were identified - one overpayment totalling £6,371 which was due to an error by the council, and five cases totalling £1,382 which were due to customer error. All the overpayments are being recovered by reductions in weekly benefits.

LGSS Internal Audit - Audit Plan for Norwich City Council 2013-14					
	2013-14				
		Actual to Wk 21			
Audit Assurance Work	Estimated Days	Norwich staff	Camb. staff	Total	Comments
Fundamental systems					
Accounts payable (creditors)	25				To include review of purchase card use
Accounts receivable (debtors)	15				
NCC payroll	10				
Housing rents/arrears	20				
Treasury & cashflow management	10				
Housing & council tax benefits	25				
Council tax	10				
NNDR	10				
General ledger	10				
Sub-total	135	0	0	0	
Corporate					
City Deal	20				
CIL income / arrangements	10	0.1		0.1	Preparation
Oracle replacement	6				
Procurement & contract management arrangements, as follows:	60				Allowance to include tendering, monitoring, contract management toolkit, safeguarding, CIS, procedural compliance. Involvement in specific contracts
Cash receipting replacement project		8.3		8.3	Embedded audit presence on project team
New payroll contract		3.0		3.0	Embedded audit presence on project team
Procurement guide & toolkit		0.3		0.3	Audit review of procurement guide & toolkit - complete
Construction industry tax scheme		6.9		6.9	Complete
Outsourcing arrangements	30				Management of joint ventures / shared services
Budgetary control	20				Revenue and capital
Probity	10	5.2		5.2	In progress - pool cars, fuel cards and travel & subsistence
Sub-total	156	23.8	0	23.8	
Business relationship management					
Asset management	20				Housing & non-housing
ICT audits:	10	0.6		0.6	
Parking Gateway	10)
Bacstel IP	10) Taken from IT audit needs analysis
Remote / mobile computing	10)
GCSX / PSN compliance	10				
Sub-total	70	0.6	0	0.6	
Operations					
Emergency planning / resilience	10	10.1		10.1	Complete
HCA arrangements	10	11.0		11.0	Complete
HRA business plan & HIP	10				Risk also identified on p.22 of AGR for 2011-12
On-street parking / highways agency	15	0.2		0.2	Preparation. Includes permit parking & dispensations
Safety of council properties	20	11.4		11.4	In progress. Covers gas servicing, asbestos, inspections
Sub-total	65	32.7	0.0	32.7	

Strategy, people & democracy					
Commissioning / partnerships	15	11.8		11.8	In progress. Includes grants awarded under commissioning programme
Sub-total	15	11.8	0	11.8	
Customers, communications & culture					
Managing customer demand	10	0.5		0.5	Preparation
The Halls	10	10.2		10.2	Draft report issued
Norman Centre	10	1.7		1.7	In progress
Tourist Information Centre	10	11.3		11.3	Complete
Sub-total	40	23.7	0	23.7	
Non-specific					
Ad-hoc investigations	20	0.6		0.6	Contingency
To complete 2012-13 plan:	25				
Business support/customer contact teams		8.7		8.7	In progress
Anti-fraud measures		2.4		2.4	Complete
Accounts receivable		16.3		16.3	Draft report issued
Accounts payable		3.3		3.3	In progress
Payroll		4.8		4.8	Complete
Treasury management		2.8		2.8	Complete
Housing rents		0.8		0.8	Complete
General ledger		6.1		6.1	In progress
Planning income		2.3	1.1	3.4	Complete
Business continuity management		2.1		2.1	Draft report issued
Homelessness		0.5	2.9	3.4	Complete
Housing voids		1.4	5.8	7.2	Complete
Members allowances		2.9		2.9	Complete
Performance management		2.7		2.7	Complete
Information management					In progress
Transformation					
Register of electors					
ICT audits:					
Academy (housing)		0.5	3.6	4.1	Draft report issued
Oracle (financial)		9.2	3.1	12.3	Draft report issued
Disaster recovery		0.4	3.3	3.7	Draft report issued

Follow-ups:	20				
Sports facilities		1.6		1.6	
Care & repair contract		1.0		1.0	
HCA		0.4		0.4	
Starters & leavers		0.3		0.3	
Contract management procedures		0.7		0.7	
Oracle purchasing		1.2		1.2	
Council tax		0.4		0.4	
NNDR		0.2		0.2	
Housing & council tax benefits		1.1		1.1	
Others		0.3		0.3	
Sub-total	65	75	19.8	94.8	
Total for audit assurance work	546	167.6	19.8	187.4	
Consultancy & non-assurance work					
Corporate governance	15	14.2		14.2	Preparation of annual governance statement; corporate governance group
Fraud plan, incl. NFI work	34	7.0		7.0	Fraud survey. Key contact duties for NFI 2012 (matches) and 2013 (data upload)
Advice, unplanned work requests	30	17.4		17.4	Contingency. Incl. garden waste review; sheltered housing
Total for non-assurance/consultancy work	79	38.6	0	38.6	
Total Allocated Days	625	206.2	19.8	226.0	
Indicative resources					
Regional audit & risk manager	20				
Principal client auditor	175				
Client auditors x 2	400				
LGSS support	30				
	625				