



## AUDIT COMMITTEE

Date: **Tuesday 11 March 2014**

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 -

Committee officer: Jackie Rodger  
Tel. No: (01603) 212033  
E-mail: [jackierodger@norwich.gov.uk](mailto:jackierodger@norwich.gov.uk)

Democratic services  
City Hall  
Norwich  
NR2 1NH

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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** **5**

To agree the accuracy of the minutes of the meeting held on 19 November 2013.

**5. Certification of claims and returns annual report 2012-13** **9**  
**Norwich City Council**  
(Report of the chief finance officer)

**Purpose** - This report presents the Certification of claims and returns annual report 2012-13.

**6. Audit Plan 2013-14** **19**  
(Report of the chief finance officer)

**Purpose** - This report presents the Annual audit plan 2013-14.

**7. Review of audit committee procedures** **43**  
(Report of the chief finance officer)

**Purpose** - This report has been prepared following the publication of guidance for audit committees to:

- Make the members aware of the guidance.
- Review and update audit committee procedures in light of the guidance.

**8. Internal audit and fraud team 2013-14 – November to February update** **51**  
(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 November 2013 and February 2014, and progress against the 2013-14 internal audit plan.

**9. Draft internal audit plan for Norwich City Council 2014-15** **61**  
(Report of the head of internal audit and risk management, LGSS)

**Purpose** - This report provides the audit committee with an outline of the 2014-15 internal audit plan for Norwich City Council as attached at annex 1.

3 March 2014



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## MINUTES

### AUDIT COMMITTEE

**5.10pm to 5.55pm**

**19 November 2013**

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

Apologies: Councillor Driver

#### **1. DECLARATIONS OF INTEREST**

There were no declarations of interest.

#### **2. MINUTES**

**RESOLVED** to approve the accuracy of the minutes of the meeting held on 24 September 2013, subject to item 5, Statement of accounts 2012-13, resolution, inserting the following paragraph, which had been omitted from the minutes:

“(3) record the committee’s gratitude to the chief finance officer, chief accountant and the finance team for submitting the accounts within the statutory timescale.”

#### **3. PROPOSED RISK MANAGEMENT POLICY AND RISK MANAGEMENT STRATEGY**

The audit manager (LGSS) presented the report, and together with the head of internal audit and risk management (LGSS) and the chief finance officer, answered members’ questions.

During discussion the committee considered the council’s appetite for risk and that there was an element of subjectivity in the assessment of risk. Members considered the definitions of inherent risk which was the stage where the main risks faced were identified and reinforced the risk owner’s responsibility to ensure that effective mitigation was in place. The risk owner would also need to ensure that the risk was managed to ensure that the residual risk did not exceed the council’s appetite. Members were advised that target dates would be added for the implementation of

actions to reduce risk and that if these dates were not met then a revised target date would be agreed and recorded.

Discussion ensued in which members considered risk management and partnership working, particularly about the controls in place to mitigate against the failure of a third party's business who was contracted to supply services on the council's behalf, and its inability to supply services. Members were advised that checks would be made on the third party's insurance and to ensure that business continuity arrangements were in place. The risk management policy and risk management strategy were the key controls to ensure that risks were managed. The council would use intelligence to be aware of the risk by taking account of changes to business practices, such as requiring invoices to be paid within 14 days rather than 28 days. In response to question about the fact that companies could score risk differently to the council, members were advised that due diligence had been applied to large contracts but there were commercial reasons why companies would not share information on risk. The corporate governance arrangements for joint ventures or shared services provided a framework for working in partnership.

Members then discussed the head of internal audit and risk management's informal presentation to the committee on risk management and considered that information on risk management was of general interest to all members.

Further discussion ensued on the definition of risk as "Factors, events, or circumstances that may prevent or detract from the achievement of the council's corporate priorities and service plan objectives," and how actions applied to the current period and in the long term. Members were advised that the council's corporate priorities responded to long term risk which impacted on current priorities. It was noted that effective risk management was a key element in delivering the council's corporate plan and that the action plan would need to constantly change and evolve. The approach to risk might change in the future and therefore the council might engage in more activities which were subject to greater residual risk.

**RESOLVED to:**

- (1) recommend to cabinet to approve the council's risk management policy and risk management strategy;
- (2) ask the councillors' development group to arrange a session for all councillors on risk management to be facilitated by the head of internal audit and risk management (LGSS).

**4. INTERNAL AUDIT AND FRAUD TEAM 2013-14 - SEPTEMBER TO OCTOBER UPDATE**

The internal audit manager (LGSS) presented the report, and together with the head of internal audit and risk management (LGSS) answered members' questions. Members were advised that the National Fraud Initiative was progressing well and that there were a number of outstanding benefit queries which had resulted from the initiative. He pointed out that there was one small review to the audit plan. A formal decision had not been made to either upgrade Oracle, the council's financial management system, or replace it with another system. Members were also advised that all three of the ICT audits had been completed.

During discussion members considered the allocation of resources to conduct audits and noted that surplus resources were allocated as a contingency. Most audits were conducted within the time allowed and surplus resources could be reallocated over the remainder of the year.

**RESOLVED** to note:

- (1) the work of the internal audit team between September and October 2013;
- (2) progress on the internal audit plan;
- (3) the work of the fraud team between September and October 2013;
- (4) the latest position on the National Fraud Initiative (NFI).

## **5. ANNUAL AUDIT LETTER**

The director of the external auditors (Ernst & Young LLP) presented the annual audit letter to the committee. He said that the Audit results report (ISA 260) had been issued on 24 September 2013, and the external auditors had then issued an unqualified audit opinion on the financial statements of the authority and the value for money conclusion on 30 September 2013. The external auditors reported its findings to the National Audit Office on the accuracy of the consolidation pact the authority is required to prepare for the Whole of Government and issued the audit completion certificate on 30 September 2013. There was one element of outstanding work in relation to grant claims for housing benefits, which should be completed next week but might slip. The external auditors planned to issue the annual certification report to those charged with governance for 2012-13 financial year by 31 January 2014. This was good news and the first time that the council had met the statutory deadlines in recent years.

The director then referred to the fees section and explained the reasons for the additional fee arising from additional time and work required to complete audit procedures that had overrun from previous years; and specialist technical support to help the authority prepare its accounts for the self financing of the Housing revenue account (HRA). He explained that the external auditors were waiting for agreement from the chief finance officer on these fees. The Audit Commission would then sign off the scale of fees and the variation in the fees. He pointed out that the external auditors had provided support to the finance team in the preparation of the accounts and not all of that cost had been passed on. The chair said that there were genuine reasons for the variation in costs and that he expected that in future years the cost of the external auditors' fees would be reduced. A member noted that the headings to the table which set out the fees had not yet been amended.

In response to a question, the chief finance officer updated the committee on the position of the council's asset register. The council was in the process of reviewing its financial management system and looking at various options, which included replacing it with another system that could produce the fixed asset register and was more suited to the size of the council. Currently this information was on

spreadsheets and the council was not considering a bespoke system. Officers were planning to visit another authority to see how a system was being used

**RESOLVED** to note the Annual Audit letter from the external auditors.

## **6. LOCAL GOVERNMENT AUDIT COMMITTEE BRIEFING**

**RESOLVED** to:

- (1) note the briefing note provided by Ernst & Young, the council's external auditors, for audit committees in the local government sector;
- (2) ask that the briefing document is made available on e-councillor.

CHAIR



**Report to** Audit committee  
11 March 2014  
**Report of** Chief finance officer  
**Subject** Certification of claims and returns annual report 2012-13

**Item**

**5**

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### **Purpose**

This report presents the Certification of claims and returns annual report 2012-13.

### **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.

### **Financial implications**

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

### **Contact officers**

Caroline Ryba, Chief finance officer

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[Caroline.ryba@cambridgeshire.gov.uk](mailto:Caroline.ryba@cambridgeshire.gov.uk)

# Report

## Background

1. This annual certification report summarises the findings from the 2012-13 certification work undertaken on claims and returns.

## Key points to note

2. The audit committee is asked to note the following significant matters covered in the report:
  - (a) The covering letter sets out the responsibilities of the auditors and the audited body.
  - (b) The report outlines the results of the 2012-13 certification work of three claims and returns with a total value of over £162.795 million.
  - (c) The housing and council benefits subsidy claim has been qualified. Details of the qualification are set out in section 1 of the report.
  - (d) During the certification work two errors were identified in the pooling of housing capital receipts that were amended by officers.
  - (e) Fees for the certification work are summarised in section 2 of the report. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. The actual fees for 2011-12 have been included to assist year on year comparisons.

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

10 February 2014

Direct line: 01223 394485

Email: [rmurray@uk.ey.com](mailto:rmurray@uk.ey.com)

Dear Member

## **Certification of claims and returns annual report 2012-13 Norwich City Council**

We are pleased to report on our certification work. This report summarises the results of our work on Norwich City Council's 2012-13 claims and returns.

### **Scope of work**

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

Under section 28 of the Audit Commission Act 1998, the Audit Commission may, at the request of authorities, make arrangements for certifying claims and returns because scheme terms and conditions include a certification requirement. When such arrangements are made, certification instructions issued by the Audit Commission to appointed auditors of the audited body set out the work they must undertake before issuing certificates and set out the submission deadlines.

Certification work is not an audit. Certification work involves executing prescribed tests which are designed to give reasonable assurance that claims and returns are fairly stated and in accordance with specified terms and conditions.

In 2012-13, the Audit Commission did not ask auditors to certify individual claims and returns below £125,000. The threshold below which auditors undertook only limited tests remained at £500,000. Above this threshold, certification work took account of the audited body's overall control environment for preparing the claim or return. The exception was the housing and council tax benefits subsidy claim where the grant paying department set the level of testing.

Where auditors agree it is necessary, audited bodies can amend a claim or return. An auditor's certificate may also refer to a qualification letter where there is disagreement or uncertainty, or the audited body does not comply with scheme terms and conditions.

### **Statement of responsibilities**

In March 2013 the Audit Commission issued a revised version of the 'Statement of responsibilities of grant-paying bodies, authorities, the Audit Commission and appointed auditors in relation to claims and returns' (statement of responsibilities). It is available from the Chief Executive of each audited body and via the Audit Commission website.

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

This annual certification report is prepared in the context of the statement of responsibilities. It is addressed to those charged with governance and is prepared for the sole use of the audited body. We, as appointed auditor, take no responsibility to any third party.

## Summary

Section 1 of this report outlines the results of our 2012-13 certification work and highlights the significant issues.

We checked and certified three claims and returns with a total value of £162.795 million. We met the submission deadlines for the housing and council tax benefits subsidy claim and the national non-domestic rates return.

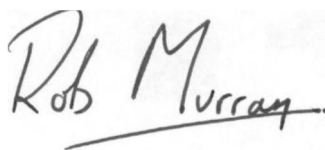
The audit submission of the pooling of capital receipts was late. This was due to issues raised on administration costs and capital allowances.

We issued one qualification letter for the housing and council tax benefits subsidy claim. Details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant claim entries.

Fees for certification work are summarised in section 2. The Audit Commission applied a general reduction of 40% to certification fees in 2012-13. We have included the actual fees for 2011-12 to assist year on year comparisons.

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

Yours faithfully



Rob Murray  
Director  
Ernst & Young LLP  
Enc

**Certification of claims and returns annual report 2012-13**

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## 1. Summary of 2012-13 certification work

We certified three claims and returns in 2012-13. The main findings from our certification work are provided below.

### Housing and council tax benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£ 81,537,807
Amended	Yes – subsidy increased by £82 to £81,537,889
Qualification letter	Yes
Fee - 2012-13	£43,535
Fee - 2011-12	£90,323

Councils run the Government's housing and council tax benefits scheme for tenants and council taxpayers. Councils responsible for the scheme 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+' testing (extended testing) if initial testing identifies errors in the calculation of benefit or compilation of the claim. We found errors and carried out extended testing in several areas.

Extended '40+' testing and other testing identified errors which the Council amended. They had a small net impact on the claim. We have reported underpayments, uncertainties and the extrapolated value of other errors to the DWP in a qualification letter. The following are the main issues which were included in our qualification letter:

- differences between benefit granted per the claim form and benefit granted per the software supplier's reconciliation of benefit granted to benefit paid,
- we could not test uncashed payments as officers could not provide an audit trail for them,
- income assessment errors across Non HRA Rent Rebates, Rent Allowance and Council Tax Benefit. Extended 40+ testing was applied to quantify results and report,
- incorrect date for change in benefit, accommodation classification error, and incorrect application of maximum weekly amount on household size rather than size of accommodation provided for Non HRA Rent Rebates,
- misclassification of HRA Rent Rebates extended payment,
- incorrect classification of eligible overpayments for Non HRA Rent Rebates, HRA Rent Rebates, Rent Allowances and Council Tax Benefits. Extended 40+ testing was applied to quantify results and report, and
- errors in the modified scheme cases (modified scheme cases record the Authorities' expenditure on increases in benefits awarded to war pensioners or war widows).

Following receipt of the qualification letter the DWP have requested officers carry out further work. This work will require testing and agreement from the External Auditor. This will result in an additional fee which will be agreed with officers and the Audit Commission.

**National non-domestic rates return**

Scope of work	Results
Value of return presented for certification	£74,561,764
Limited or full review	Full review
Amended	No
Qualification letter	No
Fee – 2012-13	£1,285
Fee – 2011-12	£1,981

The Government runs a system of non-domestic rates using a national uniform business rate. Councils responsible for the scheme collect local business rates and pay the rate income over to the Government. Councils have to complete a return setting out what they have collected under the scheme and how much they need to pay over to the Government.

We found no errors in the national non-domestic rates return and we certified the amount payable to the pool without qualification.

**Pooling of housing capital receipts**

Scope of work	Results
Value of return presented for certification	£6,694,722
Limited or full review	Full review
Amended	No
Qualification letter	No
Fee – 2012-13	£4,030
Fee – 2011-12	£4,473

Councils pay part of a housing capital receipt into a pool run by the Department of Communities and Local Government. Regional housing boards redistribute the receipts to those councils with the greatest housing needs. Pooling applies to all local authorities, including those that are debt-free and those with closed Housing Revenue Accounts, who typically have housing receipts in the form of mortgage principal and right to buy discount repayments.

We identified two errors on the pooling of housing capital receipts return that were amended by officers:

- the entries for capital allowances were amended to only include planned affordable housing and regeneration projects rather than the full capital spend on the Housing stock, and
- administration costs were reduced for a property that is not part of the pooling regime.

## 2. 2012-13 certification fees

For 2012-13 the Audit Commission replaced the previous schedule of maximum hourly rates with a composite indicative fee for certification work for each body. The indicative fee was based on actual certification fees for 2010-11 adjusted to reflect the fact that a number of schemes would no longer require auditor certification. There was also a 40 per cent reduction in fees reflecting the outcome of the Audit Commission procurement for external audit services.

The indicative composite fee for Norwich City Council for 2012-13 was £48,850. The actual fee for 2012-13 was the same as the indicative fee. This compares to a charge of £96,777 in 2011-12.

Claim or return	2011-12	2012-13	2012-13
	Actual fee	Indicative fee	Actual fee
	£	£	£
Certification of claims and returns	96,777	48,850	48,850*

\*As reported in section 1, the DWP have requested further work which will require testing and agreement from the External Auditor. This will result in an additional fee which will be agreed with officers and the Audit Commission.

Fees for annual reporting and for planning, supervision and review have been allocated directly to the claims and returns.

The fees for 2012-13 were calculated based on those for 2010-11 less 40%.



### 3. Looking forward

For 2013-14, the Audit Commission has calculated indicative certification fees based on the latest available information on actual certification fees for 2011-12, adjusted for any schemes that no longer require certification. The Audit Commission has indicated that the national non-domestic rates return will not require certification from 2013-14.

The Council's indicative certification fee for 2013-14 is £56,900, this is calculated based on the actual fees for 2011-12. The actual certification fee for 2013-14 may be higher or lower than the indicative fee, if we need to undertake more or less work than in 2011-12 on individual claims or returns. Details of individual indicative fees are available at the following link:

[<http://www.audit-commission.gov.uk/audit-regime/audit-fees/201314-fees-and-work-programme/individual-certification-fees/>]

We must seek the agreement of the Audit Commission to any proposed variations to indicative certification fees. The Audit Commission expects variations from the indicative fee to occur only where issues arise that are significantly different from those identified and reflected in the 2011-12 fee.

The Audit Commission has changed its instructions to allow appointed auditors to act as reporting accountants where the Commission has not made or does not intend to make certification arrangements. This removes the previous restriction saying that the appointed auditor cannot act if the Commission has declined to make arrangements. This is to help with the transition to new certification arrangements, such as those DCLG will introduce for business rates from 1 April 2013.

Ernst & Young LLP

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**Report to** Audit committee  
11 March 2014  
**Report of** Chief finance officer  
**Subject** Audit Plan 2013-14

**Item**  
**6**

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### **Purpose**

This report presents the annual audit plan 2013-14.

### **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 Waters – Deputy leader and resources

### **Contact officers**

Caroline Ryba, chief finance officer

01223 699292

[Caroline.ryba@cambridgeshire.gov.uk](mailto:Caroline.ryba@cambridgeshire.gov.uk)

# Report

## Background

1. This report sets out the external auditors' proposed approach to their work for the 2013-14 financial year, for discussion and agreement with the audit committee.

## Key points to note

2. The audit committee is asked to review, consider and discuss the following significant matters covered in the report:
  - (a) The auditors' assessment of the key strategic, operation and financial risks to the council's financial statements for 2013-14 (section 2 of the audit plan);
  - (b) The proposed audit process and strategy as set out in Section 4 of the audit plan. In particular, this section confirms that as a result of their review of key processes they will seek to rely on controls assurance for housing benefits, council tax benefits and payroll, with all other areas being subject to substantive testing (paragraph 4.2.1); and,
  - (c) Timetable and key deliverables including reporting requirements relating to the statutory accounts, the Whole of Government Accounts (WGA) return and the achievement of value for money (paragraph 4.6).

# Norwich City Council

Year ending 31 March 2014

Audit Plan

25 February 2014



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

25 February 2014

Dear Members

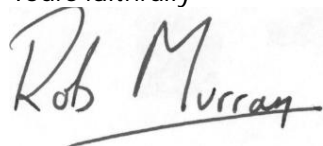
## Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. The purpose of this report is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2014 audit, in accordance with the requirements of the Audit Commission Act 1998, the Code of Audit Practice, the Standing Guidance, auditing standards and other professional requirements, but also to ensure that our audit is aligned with the Committee's service expectations.

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

We welcome the opportunity to discuss this report with you in March 2014 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully



Rob Murray  
Director  
For and on behalf of Ernst & Young LLP  
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In March 2010 the Audit Commission issued a revised version of the 'Statement of responsibilities of auditors and audited bodies' (Statement of responsibilities). It is available from the Chief Executive of each audited body and via the [Audit Commission's website](#).

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

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

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

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

# 1. Overview

## Context for the audit

This audit plan covers the work that we plan to perform in order to provide you with:

- ▶ Our audit opinion on whether the financial statements of Norwich City Council give a true and fair view of the financial position as at 31 March 2014 and of the income and expenditure for the year then ended; and
- ▶ A statutory 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 your Whole of Government Accounts return.

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.
- ▶ Management's views on all of the above.

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

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

In part 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit, and outline our plans to address these risks.

Details of our audit process and strategy are set out in more detail in section 4.

## 2. Financial statement risks

We outline below our assessment of the key strategic or operational risks and the financial statement risks facing Norwich City Council, identified through our knowledge of the entity's operations and discussion with members and officers.

At our meeting, we will seek to validate these with you.

Significant risks (including fraud risks)	Our audit approach
<b>Property, Plant and Equipment (fixed assets)</b>	
<p>The 2012/13 Audit Results Report commented on weaknesses in accounting for property, plant and equipment. This has contributed to material errors and increased audit testing in previous years.</p> <p>Due to the complexity in accounting for property, plant and equipment and the material values involved, these weaknesses increase the risk that asset valuations and capital expenditure contain material misstatements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reliance on management's valuations experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified;</li> <li>▶ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments; and</li> <li>▶ Testing of capital expenditure to ensure revenue items are not being capitalised.</li> </ul>
<b>Assessment of the Group boundary</b>	
<p>This will be the first full year for the Norse Environmental Ltd arrangement. The Council will need to undertake an assessment of the group boundary against the criteria stipulated in the two relevant international accounting standards IAS27 and IFRS10. The purpose of the assessment is to conclude which functional bodies and other group entities fall within the boundary and therefore require consolidating into the Council's Financial Statements.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Assessing where overall control lies with regard to the operation and delivery of services of the potential group bodies.</li> <li>▶ Ensuring that appropriate consolidation procedures are applied to those bodies that lie within the group boundary.</li> </ul>
<b>Business rates appeals provision</b>	
<p>The new arrangements for the retention of business rates came into effect on 1 April 2013. From this date, the Council will assume the liability for refunding ratepayers who have successfully appealed against the rateable value of their properties on the rating list. This includes amounts that were paid to Central Government in 2012/13 and previous years. As appeals are made to the Valuation Office, Councils may not be aware of the level of claims. Councils may also find it difficult to obtain sufficient information to establish a reliable estimate.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reviewing the Councils provision for business rate appeals to ensure it has been calculated on a reasonable basis in line with IAS37; and</li> <li>▶ Ensuring the provision is supported by appropriate evidence and that the level of estimation uncertainty is adequately disclosed in the accounts.</li> </ul>

### Risk of misstatement due to fraud and error

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

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

Based on the requirements of auditing standards our approach will focus on:

- ▶ Identifying fraud risks during the planning stages.
- ▶ Inquiry of management about risks of fraud and the controls put in place to address those risks.
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud.
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud.
- ▶ Determining an appropriate strategy to address those identified risks of fraud.
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.
- ▶ Evaluating the business rationale for significant unusual transactions that are outside the normal course of business for the entity.
- ▶ Reviewing significant accounting estimates for evidence of management bias.
- ▶ Reviewing the appropriateness of capitalised spend.
- ▶ Performing mandatory procedures regardless of specifically identified fraud risks.
- ▶ We will consider the results of the National Fraud Initiative and may make reference to it in our reporting to you.

### 3. Economy, efficiency and effectiveness

Our work will focus on:

1. Whether there are proper arrangements in place for securing financial resilience at Norwich City Council; and
2. Whether there are proper arrangements in place at Norwich City Council to secure economy, efficiency and effectiveness in the use of resources.

We have undertaken a high-level summary of our risk assessment and have not identified any significant risks. We have identified the following areas that we will focus on as part of our assessment.

Area of focus	Our audit approach
<b>Pressures from economic downturn</b>	
<p>To date the Council has responded well to the financial pressure resulting from the continuing economic downturn.</p> <p>However, the Comprehensive Spending Review will continue to impact on the Council's budget and medium term financial planning during current and forthcoming financial years</p>	<p>Our approach will continue to focus on:</p> <ul style="list-style-type: none"> <li>▶ The adequacy of the Council's budget setting process.</li> <li>▶ The robustness of any assumptions.</li> <li>▶ The effective use of scenario planning to assist the budget setting process.</li> <li>▶ The effectiveness of in year monitoring against the budget.</li> <li>▶ The Council's approach to prioritising resources.</li> </ul>
<b>Localisation of business rates</b>	
<p>From April 2013, the Council will be able to retain some of its income from local business rates rather than paying the full amount back to central government. This localisation of business rates will impact upon the Council's income levels.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Whether outcomes of the new arrangements are in line with the Council's plan and the impact on the Council's Budget.</li> </ul>
<b>Approach to local council tax support</b>	
<p>The Local Council Tax Support (LCTS) scheme will take effect from April 2013. This will require the Council to set locally appropriate levels of council tax support.</p> <p>The move to LCTS represents a significant change for the Council and brings both financial and reputational risks.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The outcomes from the development and implementation of LCTS.</li> <li>▶ How the Council's move to LCTS has impacted on the budget setting process.</li> </ul>

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Audit Commission's Code of Audit Practice ('the Code'), dated March 2010, our principle objectives are to review and report on, to the extent required by the relevant legislation and the requirements of the Code, the Council's:

- ▶ Financial statements
- ▶ Arrangements for securing economy, efficiency and effectiveness in its use of resources

We issue a two-part audit report covering both of these objectives.

#### 4.1.1 Financial statement audit

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

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

#### 4.1.2 Arrangements for securing economy, efficiency and effectiveness

The Code sets out our responsibility to satisfy ourselves that the Authority has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. In arriving at our conclusion, to the fullest extent possible we will place reliance on the reported results of the work of other statutory inspectorates in relation to corporate or service performance. In examining the Authority's corporate performance management and financial management arrangements we have regard to the following criteria and areas of focus specified by the Audit Commission:

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

### 4.2 Audit process overview

Our audit involves:

- ▶ assessing the key internal controls in place and testing the operation of these controls;
- ▶ review and re-performance of the work of your internal auditors;
- ▶ reliance on the work of other auditors where appropriate;
- ▶ reliance on the work of experts in relation to areas such as pensions and valuations; and

- ▶ substantive tests of detail of transactions and amounts.

#### Processes

Our initial assessment of the key processes across the entity has identified the following key processes where we will seek to rely on controls assurance:

- Housing benefits and council tax benefits; and
- Payroll.

Other areas will be tested substantively at year end.

#### Analytics

We aim to use our computer-based analytics tools to enable us to capture whole populations of your financial data, in particular in respect of payroll and 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 work undertaken. We will reflect the findings from these reports, together with reports from other work completed in the year, in our detailed audit plan, where issues are raised that could impact the year-end financial statements and/or the value for money conclusion.

We will seek to place reliance on the work of internal audit wherever possible in line with auditing standards. We have already liaised with Internal Audit and have commenced our review and re-performance of their work on the systems detailed above.

#### Use of experts

We will utilise specialist Ernst & Young resource, as necessary, to help us to form a view on judgments made in the financial statements.

#### Other procedures

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

#### Mandatory procedures required by auditing standards on:

- ▶ 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.

- ▶ Auditor independence.

#### Procedures required by the Code

- ▶ Reviewing, and reporting on as appropriate, other information published with the financial statements, including the Annual Governance Statement and the Remuneration Report.
- ▶ Reviewing and reporting on the Whole of Government accounts return, in line with the instructions issued by the NAO.
- ▶ Reviewing, and where appropriate, examining evidence that is relevant to the Council's corporate performance management and financial management arrangements and reporting on these arrangements.

### 4.3 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 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.

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.

ISA (UK & Ireland) 450 (revised) requires us to record all misstatements identified except those that are "clearly trivial". All uncorrected misstatements found above this amount will be presented to you in our year-end report.

### 4.4 Fees

The Audit Commission has published a scale fee for all authorities. The scale fee is defined as the fee required by auditors to meet statutory responsibilities under the Audit Commission Act in accordance with the Code of Audit Practice 2010. The indicative fee scale for the audit of Norwich City Council is £105,652.

### 4.5 Your audit team

The engagement team is led by Andy Clewer, supported by Rob Murray who has significant experience of the Council's audit. Rob is supported by David Riglar who is responsible for the day-to-day direction of audit work, and who is the key point of contact for the Chief Financial Officer and Chief Accountant. Tony Poynton will supervise the on-site audit team, is the key point of contact for the finance team and is responsible for raising and discussing emerging issues with officers.

### 4.6 Timetable of communication, deliverables and insights

We have set out below a timetable showing the key stages of the audit, including the value for money work and the whole of government accounts; and the deliverables we have agreed to provide to you through the Audit Committee cycle in 2014. These dates are determined to ensure our alignment with the Audit Commission's rolling calendar of deadlines.



We will provide a formal report to the Audit Committee in September, incorporating the outputs from the interim audit and our year-end procedures respectively where appropriate. From time to time matters may arise that require immediate communication with those charged with governance and we will discuss them with the Audit Committee Chairman as appropriate.

Following the conclusion of our audit we will prepare an annual audit letter in order to communicate to the Council and external stakeholders, including members of the public, the key issues arising from our work.

Audit phase	Timetable	Committee timetable	Deliverables
High level planning:	December		
Risk assessment and setting of scopes	January		
Testing of routine processes and controls	February - March		Audit Committee    Audit Plan
Year-end audit including WGA	July – September		Audit Committee    Report to those charged with governance  Audit report (including our opinion on the financial statements and a conclusion as to whether the Council has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources).
			Audit completion certificate
Reporting	October	Audit Committee	Annual Audit Letter

In addition to the above formal reporting and deliverables we will seek to provide practical business insights and updates on regulatory matters.

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 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 independence and objectivity. The Ethical Standards, as revised in December 2010, require 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"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the Audit Commission's Standing Guidance and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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.

## 5.2 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. However we have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective.

### *Self interest threats*

A self interest threat arises when EY has financial or other interests in your entity. Examples include where we have an investment in your entity; 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 you. 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 and that are in compliance with the Audit Commission's Standing Guidance.

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 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 your entity. 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 Overall Assessment.

### *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 Andy Clewer, your audit engagement partner and the audit engagement team have not been compromised.

## 5.3 Other required communications

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 June 2013 and can be found here:

<http://www.ey.com/UK/en/About-us/EY-UK-Transparency-Report-2013>

## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2013/14	Actual Fee 2012/13	Comments
	£	£	
Total Audit Fee – Code work	105,652	145,925	Our proposed final fee for 2012/13 has been discussed with officers and is subject to review by the Audit Commission who will determine a final scale fee which will not exceed the £145,925.
Certification of claims and returns*	56,900	50,442	2013/14 planned fee is set by the Commission based on the fee charged for 2011/12, adjusted to reflect the overall 40% reduction in fees and the reduction in the number of claims that require auditing.

The agreed fee presented above is based on the following assumptions:

- ▶ Officers meeting the agreed timetable of deliverables.
- ▶ We are able to place reliance, as planned, on the work of internal audit.
- ▶ The level of risk in relation to the audit of accounts is consistent with that in the prior year.
- ▶ No significant changes being made by the Audit Commission to the value for money criteria on which our conclusion will be based.
- ▶ Our accounts opinion and value for money conclusion being unqualified.
- ▶ Appropriate quality of documentation is provided by the audited body.
- ▶ Effective control environment.
- ▶ There are no questions asked or objections made by local government electors.

If any of the above assumptions prove to be unfounded, we will seek a variation to the agreed fee. This will be discussed with you 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 have received correspondence from a member of the public which we have considered, we estimate the additional fee in relation to this work is £12,030.

## Appendix B UK required communications with those charged with governance

There are certain communications that we must provide to the audit committee, or equivalent, of audited clients. These are detailed here:

Required communication	Reference
Planning and audit approach Communication of the planned scope and timing of the audit including any limitations.	Audit Plan
Significant findings from the audit <ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> <li>▶ Findings and issues regarding the opening balance on initial audits</li> </ul>	Report to those charged with governance
Misstatements <ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ In writing, corrected misstatements that are significant</li> </ul>	Report to those charged with governance
Fraud <ul style="list-style-type: none"> <li>▶ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Report to those charged with governance
Related parties Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Report to those charged with governance

Required communication	Reference
<p>External confirmations</p> <ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Report to those charged with governance
<p>Consideration of laws and regulations</p> <ul style="list-style-type: none"> <li>▶ 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</li> <li>▶ 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 committee may be aware of</li> </ul>	Report to those charged with governance
<p>Independence</p> <p>Communication of all significant facts and matters that bear on Ernst &amp; Young's 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul> <p>For listed companies, communication of minimum requirements as detailed in the ethical standards:</p> <ul style="list-style-type: none"> <li>▶ Relationships between Ernst &amp; Young, the audited body and senior management</li> <li>▶ Services provided by Ernst &amp; Young that may reasonably bear on the auditors' objectivity and independence</li> <li>▶ Related safeguards</li> <li>▶ Fees charged by Ernst &amp; Young analysed into appropriate categories such as statutory audit fees, tax advisory fees, other non-audit service fees</li> <li>▶ A statement of compliance with the ethical standards</li> <li>▶ The Audit Committee should also be provided an opportunity to discuss matters affecting auditor independence</li> </ul>	<p>Audit Plan</p> <p>Report to those charged with governance</p>
<p>Going concern</p> <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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Report to those charged with governance
Significant deficiencies in internal controls identified during the audit	Report to those charged with governance
<p>Opening Balances (initial audits)</p> <ul style="list-style-type: none"> <li>▶ Findings and issues regarding the opening balance of initial audits</li> </ul>	Report to those charged with governance

Required communication	Reference
<p>Certification work</p> <ul style="list-style-type: none"> <li>► Summary of certification work undertaken</li> </ul>	<p>Annual Report to those charged with governance summarising grant certification, and Annual Audit Letter if considered necessary</p>
<p>Fee Information</p> <ul style="list-style-type: none"> <li>► Breakdown of fee information at the agreement of the initial audit plan</li> <li>► Breakdown of fee information at the completion of the audit</li> </ul>	<p>Audit Plan Report to those charged with governance and Annual Audit Letter if considered necessary</p>



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**Report to**     Audit committee  
                  11 March 2014  
**Report of**     Chief finance officer  
**Subject**       Review of audit committee procedures

**Item**

**7**

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## **Purpose**

This report has been prepared following the publication of guidance for audit committees to:

- Make the members aware of the guidance.
- Review and update audit committee procedures in light of the guidance.

## **Recommendation**

Members of the audit committee are asked to:

- (1) Consider the summary and analysis of the guidance;
- (2) Review and provide comments to the Chief finance officer on the proposed changes to the audit committee procedures; and
- (3) Discuss actions required to deliver an effective audit committee function as described by the guidance and proposed procedures.

## **Corporate and service priorities**

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

## **Financial implications**

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

## **Contact officers**

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# Report

## Background

1. On 5 February 2014 cabinet endorsed changes to the council's constitution, including amendments to Article 17 – Audit Committee. These changes will be presented to council for approval on 18 March 2014. Article 17 sets out the membership of the committee and its terms of reference. This article states that the audit committee shall 'undertake the council's financial responsibilities in the manner set out in:
  - the council's audit committee procedure rules as produced from time to time by the Chief finance officer; and
  - the Accounts and Audit Regulations 2011'.
2. The audit committee procedure rules as prepared by the Chief finance officer, in line with guidance available at the time, are to be presented as an appendix to the council report.
3. The Chartered Institute of Public Finance & Accountancy (CIPFA) has now published 'Audit Committees – Practical Guidance for Local Authorities and Police'. This publication sets out CIPFA's guidance on the role, function and operation of an audit committee in local authorities and police bodies.
4. This report reviews the above guidance, presents revised audit committee procedure rules for discussion and asks the committee to consider the actions required to bring the operation of the committee in line with this new, best practice guidance.

## CIPFA's position statement and practical guidance

5. CIPFA's guidance incorporates its 2013 Position Statement: Audit Committees in Local Authorities and Police. This is attached as Appendix 1 for reference. The full guidance will be made available to members through eCouncillor.
6. The guidance expands on the position statement with sections on:
  - The core functions of the audit committee
  - Possible wider functions of an audit committee
  - Independence and accountability
  - Membership and effectiveness
7. The guidance includes suggested terms of reference for a local authority audit committee, a knowledge and skills framework for committee members and a self-assessment of good practice.

## Analysis

8. No changes are proposed to Article 17 of the constitution, which contains the committee's terms of reference. It is drafted at a higher level than the suggested terms of reference and is designed to be consistent with the style and presentation of the rest of the council's constitution.

9. A comparison between the suggested terms of reference in the guidance and the council's current audit committee procedure rules is set out below.

CIPFA Guidance		Audit committee procedure rules – not covered
Para.	Contents	
1,2	Statement of purpose	1,2
3-11	Governance, risk and control	5 – Value for money
12-23	Internal audit	15 – approval of significant changes to the internal audit programme and resources 16 – to make enquiries and determine any inappropriate limitations in scope or resources 17b, c – to consider, as part of the annual internal audit report, the results of the quality assurance and improvement (QA&I) programme and non-conformance with Public Sector Audit Standards and the Local Government Application Note 19 – consider summaries of specific internal audit reports as requested 21 – to contribute to the QA&I programme, and to the external quality assessment of internal audit that takes places at least once every 5 years 23 – to support the development of effective communication with the head of internal audit
24-28	External audit	26 – to comment on the scope and depth of external audit work and ensure it gives value for money 27 – To commission work from external audit
31-32	Accountability arrangements	31 – report to those charged with governance on the committee's findings, conclusions and recommendations 32 – report to council on a regular basis on the committee's performance and effectiveness.

10. Overall, the level of detail in the CIPFA suggested terms of reference is greater than that in the existing audit committee procedure rules. However, the council is moving towards higher level, simpler and more general regulations and procedures that allow committees more flexibility to develop their role within defined parameters. Therefore changes have been made in the existing audit committee procedures to cover omissions identified above and to rationalise and restructure, rather than to adopt the CIPFA suggested terms of reference as they stand.

11. The amended audit committee procedures are attached at Appendix 2, with additions and changes underlined.

## APPENDIX 1

### Position Statement: Audit Committees in Local Authorities and the Police

1. **Audit committees are a key component of an authority's governance framework.** Their function is to provide an independent and high-level resource to support good governance and strong public financial management.
2. **The purpose of an audit committee is to provide to those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes.** By overseeing internal and external audit it makes an important contribution to ensuring that effective assurance arrangements are in place.
3. **The core functions of an audit committee are to:**
  - Be satisfied that the authority's assurance statements, including the Annual Governance Statement, properly reflect the risk environment and any actions required to improve it, and demonstrate how governance supports the achievements of the authority's objectives.
  - In relation to the authority's internal audit functions: oversee its independence, objectivity, performance and professionalism
    - support the effectiveness of the internal audit process
    - promote the effective use of internal audit within the assurance framework.
  - Consider the effectiveness of the authority's risk management arrangements and the control environment. Review the risk profile of the organisation and assurances that action is being taken on risk-related issues, including partnerships with other organisations.
  - Monitor the effectiveness of the control environment, including arrangements for ensuring value for money and for managing the authority's exposure to the risks of fraud and corruption.
  - Consider the reports and recommendations of external audit and inspection agencies and their implications for governance, risk management or control.
  - Support effective relationships between external audit and internal audit, inspection agencies and other relevant bodies, and encourage the active promotion of the value of the audit process.

- Review the financial statements, external auditor's opinion and reports to members, and monitor management action in response to the issues raised by external audit.

**4. Audit committees can also support their authorities by undertaking a wider role in other areas including:**

- Considering governance, risk or control matters at the request of other committees or statutory officers.
- Working with local standards committees to support ethical values and reviewing the arrangements to achieve those values.
- Reviewing and monitoring treasury management arrangements in accordance with the CIPFA Treasury Management Code of Practice.
- Providing oversight of other public reports, such as the annual report.

**5. Although no single model of audit committee is prescribed, all should:**

- Act as the principal non-executive, advisory function supporting those charged with governance.
- In local authorities, be independent of both the executive and the scrutiny functions; in police bodies, be independent of the executive or operational responsibilities of the police and crime commissioner or chief constable.
- Have clear rights of access to other committees/functions, for example scrutiny and service committees, corporate risk management boards and other strategic groups.
- Be properly accountable to the authority's board or equivalent bodies.
- Meet regularly – at least four times a year, and have a clear policy on those items to be considered in private and those to be considered in public.
- Be able to meet privately and separately with the external auditor and with the head of internal audit.
- Include, as regular attendees, the chief financial officer(s) or appropriate senior and qualified substitute, the chief executive, the head of internal audit and the appointed external auditor. Other attendees may include the monitoring officer (for standards issues) and the head of resources (where such a post exists). These officers should also be able to access the committee, or the chair, as required. The committee should have the right to call any other officers or agencies of the authority as required.
- Report regularly on their work, and at least annually report an assessment of their performance.

## **6. Good audit committees are characterised by:**

- A membership that is balanced, objective, independent of mind, knowledgeable and properly trained to fulfil their role.
- A membership that is supportive of good governance principles and their practical application towards the achievement of organisational objectives.
- A strong independently minded chair – displaying a depth of knowledge, skills and interest.
- Unbiased attitudes – treating auditors, the executive and management fairly.
- The ability to challenge the executive and senior managers when required.



## APPENDIX 2

### AMENDED AUDIT COMMITTEE PROCEDURE RULES

The audit committee will carry out its terms of reference in accordance with the following:

#### ***Corporate governance***

1. Review the effectiveness of internal control across the council and the adequacy of actions taken to address any weaknesses or control failures.
2. Consider the adequacy and effectiveness of the council's arrangements for the identification and management of the organisation's business risks; including the risk management policy, strategy and risk register.
3. Receive and consider regular reports on the risk environment and associated management actions.
4. Review and ensure the adequacy of the council's anti-fraud and corruption policy and strategy and the effectiveness of their application.
5. Review and ensure that adequate arrangements are established and operating to deal with situations of suspected or actual fraud and corruption.
6. Review, consider and agree the AGS including the adequacy of the corporate governance framework and improvement action plan contained within it.
7. Receive periodic updates on improvement actions taken.

#### ***Internal and external audit***

8. Approve the internal audit charter.
9. Approve and monitor delivery of the internal audit strategy.
10. Consider, endorse and monitor delivery of the internal audit annual work programme, including any significant in-year changes to the programme or resource requirements.
11. Ensure adequate resourcing of the internal audit function, approving any significant additional consulting services requested from internal audit not already included in the internal audit annual work programme.
12. Receive and consider the annual internal audit report and opinion on behalf of the council.
13. Oversee the annual review of the effectiveness of the system of internal audit, to include the performance of the internal audit function, compliance with standards and delivery of improvement actions.
14. Contribute to the external quality assessment of internal audit that takes place every five years.
15. Commission work from internal and external audit and consider the resulting reports.
16. Comment on the scope and depth of external audit work and ensure it gives value for money.
17. Ensure that there are effective relationships between external and internal audit, inspection agencies and other relevant bodies, and that the value of the audit process is actively promoted.
18. Seek assurance that action has been taken to implement the recommendations arising from the findings of significant audit and inspection work.

### ***Statement of accounts***

19. Discuss the annual audit plan for the audit of the financial statements with external audit.
20. Consider the external auditor's annual letter, relevant reports and the report to those charged with governance.
21. Review and approve the annual statement of accounts, including subsequent amendments on behalf of the council.

### ***Referred powers***

22. Consider and make recommendations on all matters described above.  
Recommendations relating to all paragraphs except 9 – 10 and 12 – 21 shall be made to the cabinet and chief finance officer. Recommendations relating to paragraphs 9 – 10 and 12 – 21 shall be made to the chief finance officer.

### ***Accountability arrangements***

23. Report to those charged with governance on the committee's findings, conclusions and recommendations concerning the effectiveness of their governance, risk management and internal control frameworks, financial reporting arrangements and internal and external audit functions.
24. Report to full council on the committee's performance in relation to the terms of reference and effectiveness of the committee in meeting its purpose.

<b>Report to</b>	Audit committee 11 March 2014	<b>Item</b>
<b>Report of</b>	Head of internal audit and risk management, LGSS	<b>8</b>
<b>Subject</b>	Internal audit and fraud team 2013-14 – November to February update	

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## **Purpose**

To advise members of the work of internal audit and the fraud team between November 2013 and February 2014, and progress against the 2013-14 internal audit plan.

## **Recommendations**

To note the:

- (1) work of internal audit between November 2013 and February 2014
- (2) the progress on the internal audit plan
- (3) the work of the fraud team between November 2013 and February 2014
- (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**

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Steve Dowson 01603 212575

## **Background documents**

None

# Report

## Background

1. The internal audit plan for 2013-14 was endorsed by members in March 2013.
2. This report covers the following areas:
  - audit assurance work November 2013 to February 2014
  - other areas of non-assurance and financial consultancy work
  - the audit plan 2013-14, showing progress against the plan
  - summary of fraud team work November 2013 to February 2014
  - 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 November 2013 to February 2014

4. The following areas were reported on between November 2013 and February 2014:
  - Business continuity management – this review involved completing a scorecard to assess the level to which the council complies with BS25999-1 and best practice in business continuity management. This included work on business continuity plans, exercises and incidents, business impact analysis and resources. The review concluded that the council had scored 63% overall against the scorecard. Recommendations were agreed, but some require consideration at CLT.
  - Academy housing IT system – moderate assurance. There are good arrangements in place over secure hosting of the servers, a formal access request system, backup procedures, a change management system, and test environment. There were good documents around proposed changes by Capita, routine operational tasks in IT, and completion of work requests. Recommendations relating to documentation updates, access controls, program change management and the reporting of system problems were agreed and are due to be implemented by February 2014.
  - Norman Centre – substantial assurance. There was assurance over income collection, reconciliation and banking procedures, and membership/discount cards. Recommendations relating to further security of cash and premises and public liability insurance were agreed and are due to be implemented by February 2014.
  - General ledger – substantial assurance over procedures for raising and authorising journals and departmental transfers. Management were already aware of instances of low level non-compliance with procedures, so no recommendations were necessary.

- Contract management in NPS – substantial assurance. There was assurance over recording keeping and management oversight of major contracts, and controls within Oracle purchasing. Recommendations were agreed to improve written procedures and procedures for disputed invoices in NPS, and improve record keeping in LGSS accounts payable for certain types of urgent payment. Some of the recommendations have already been implemented and should all be complete by February 2014.
- Community infrastructure levy (CIL) – substantial assurance. CIL is a statutory mechanism to allow charging on new buildings to help pay for infrastructure. The council implemented CIL in July 2013, but few transactions were expected in 2013-14. The purpose of the audit was to review the designed controls prior to income being received. There was assurance over ICON and Civica processes, and accounting procedures and work flows to manage the reconciliation of payments. Recommendations were agreed in respect of improving certain Civica processes; training another member of staff in finance; and considering what proportion of CIL will be used to offset administrative expenses. Some of the recommendations have already been implemented and should all be complete by April 2014.
- Budgetary control relating to general fund, housing revenue and capital programmes – full assurance. There are nominated budget managers with access to guidance, training and timely information; significant variances are investigated; and the latest position on revenue budgets and capital programmes is regularly reported to senior managers and members. Two minor recommendations were agreed in relation to tightening the use of ‘miscellaneous’ codes and are due to be implemented by April 2014.
- Housing rents – full assurance. There are robust procedures for updating the housing rents system and general ledger; arrears are closely monitored; reconciliations are carried out promptly; and write-offs are appropriately authorised. Minor recommendations were agreed in relation to strengthening the evidence of testing for annual rent increases and the value of individual write-offs, and are due to be implemented by June 2014.
- Customer contact (general processes) – moderate assurance. The audit involved a review of the customer contact and business support teams. Due to a number of issues that were found in relation to parking permits and other controlled stationery it was decided to report on these separately (see below). For general processes, which include cash income, there was assurance over the handling of cash, reconciliations and security measures, plus robust procedures for dealing with penalty charge notices and parking dispensations. Recommendations were agreed stop occasional hand receipting of cash or cheques outside of the secure area, and to transfer one of the reconciliations to finance. Some of the recommendations have already been implemented and should all be complete by February 2014.
- Customer contact (permit parking and controlled stationery) – limited assurance. Although permits and controlled stationery are held securely, controls over issuing were weak. A number of recommendations were agreed to strengthen procedures – some are complete, and all should be implemented by June 2014.
- Garden waste scheme (brown bins) – no assurance. This review was requested by the head of citywide services because of concerns related to procedures and

an apparent discrepancy between bins paid for to those emptied. Although there were some areas of good practice, there were control weaknesses across most areas. A number of recommendations were agreed by the head of citywide services, to be implemented in time for the main billing run in February 2014.

- Officers' subsistence and use of pool cars – as this was a transactions audit no assurance opinion was issued. All subsistence claims for 2012-13 were checked; no issues were found. Inconsistencies were found with some pool car mileage forms, but responsibility for monitoring these is unclear. A recommendation was agreed to consider options for addressing this risk, which is due to be implemented by March 2014.

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

## **Follow ups**

6. The following audit was followed up:

- Emergency planning – due to staffing changes none of the recommendations were able to be fully implemented by the original deadline of September 2013. These mainly relate to the completion of some operational plans and training records, and improving connectivity on laptops used for emergency planning. However, good progress is being made to address all the issues since the appointment of the new emergency planning manager, and there is nothing outstanding which would prevent an effective response to an emergency.

## **Non-assurance work**

7. The main areas of non-assurance work in the period were:

- Refreshing the council's risk management strategy (approved by cabinet in December) and initiating a review of corporate risks.
- Ensuring continued progress on the national fraud initiative matches from January 2013, and preparing for the February 2014 data upload in relation to the single person discount data matching exercise.

## **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 February 2014, 373 days has been spent on audit assurance work by Norwich-based staff, plus 20 days by other LGSS auditors. Norwich staff also spent 80 days on non-assurance work and unplanned request work.
10. When the audit plan was being drafted this time last year, the council had just heard that the joint bid with other partners for a greater Norwich City Deal had been successful. No details were available at the time, but it was felt prudent to include some time for this in the internal audit plan. Subsequently, Norfolk County Council was made the accountable body, which removed the risk for the council. Following

discussions with the deputy chief executive it was agreed that no internal audit review was necessary.

11. There were six days included in the plan for the Oracle upgrade/replacement project. As this project has been delayed time has been allowed for this in the 2014-15 audit plan (on today's agenda).
12. Two of the ICT audits have been slipped into next year's audit plan due to the LGSS computer auditor post being vacant.
13. The remaining uncompleted audits should all be scoped and started in the current year, with time allowed in next year's plan for completion.

## **Summary of fraud team work November 2013 to February 2014**

14. A summary of work by the fraud team from November 2013 to either the end of January 2014 for monthly figures or February 2014 follows:
  - Number of benefit cases referred to the fraud team – 213 (772 to 31 Jan)
  - Number of referred benefit cases investigated – 121 (416 to 31 Jan)
  - Number of benefit sanctions and prosecutions – 13 (34 to 26 Feb)
  - As at the end of February, 7 cases were awaiting reassessment from fraud investigations and Benefits has a dedicated resource to deal with the backlog.
  - At present there are 19 benefit cases outstanding from the national fraud initiative, of which 17 are being investigated as possible fraud cases and 2 are with the benefits section to carry out enquiries.
  - One fraud awareness session was carried out for new benefits staff.

## **National fraud initiative (NFI) 2012-13**

15. This is the main data matching exercise by the Audit Commission which occurs every two years. The results were received at the end of January 2013.
16. 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.
17. 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 84% of reports have been closed. The council's progress was rated as 'green' by the external auditors in their recent audit results report.
18. So far the exercise has uncovered one housing fraud which led to the recovery of a council property.
19. In addition, £44,792 of housing benefit overpayments has been identified - one overpayment of £1,353 which was due to fraud, and 27 cases totalling £43,439 which

were due to either council or customer error. All the overpayments are recoverable by reductions in weekly benefits.



LGSS Internal Audit - Audit Plan for Norwich City Council 2013-14					
	2013-14				
		Actual to Wk 47			
<b>Audit Assurance Work</b>	<b>Estimated Days</b>	<b>Norwich staff</b>	<b>Camb. staff</b>	<b>Total</b>	<b>Comments</b>
<b>Managed audits</b>					
Purchasing & payments	25	1.2		1.2	In progress. To include review of purchase card use
Accounts receivable (debtors)	15			0.0	
NCC payroll	10	11.2		11.2	In progress
Housing rents/arrears	20	25.0		25.0	Complete
Housing benefits	25	10.0		10.0	In progress
Council tax	10	4.6		4.6	In progress
NNDR	10	2.4		2.4	In progress
<b>Sub-total</b>	<b>115</b>	<b>54.4</b>	<b>0</b>	<b>54.4</b>	
<b>Corporate</b>					
City Deal	20				Norfolk County Council is accountable body
Treasury & cashflow management	10	14.5		14.5	In progress
General ledger	10	8.0		8.0	Complete
CIL income / arrangements	10	12.0		12.0	Complete
Oracle upgrade/replacement	6				Upgrade/replacement will now be in 2014-15
Procurement & contract management arrangements, as follows:	60				
Cash receipting replacement project		15.9		15.9	Complete. Embedded audit presence on project team
New payroll contract		3.8		3.8	Complete. Embedded audit presence on project team
Procurement guide & toolkit		0.3		0.3	Complete
Construction industry tax scheme		6.9		6.9	Complete
Contract management in NPS		9.6		9.6	Complete
Outsourcing arrangements	30				Management of joint ventures / shared services
Budgetary control	20	13.0		13.0	Complete. Revenue and capital
Probity	10	10.1		10.1	Complete. Pool cars, fuel cards and travel & subsistence
<b>Sub-total</b>	<b>176</b>	<b>94.1</b>	<b>0</b>	<b>94.1</b>	
<b>Business relationship management</b>					
Asset management	20				Housing & non-housing
ICT audits:	10	3.8		3.8	
Parking Gateway	10				Slip to 14-15 due to computer auditor vacancy
Bacstel IP	10				Slip to 14-15 due to computer auditor vacancy
Remote / mobile computing	10				
GCSX / PSN compliance	10				
<b>Sub-total</b>	<b>70</b>	<b>3.8</b>	<b>0</b>	<b>3.8</b>	
<b>Operations</b>					
Emergency planning / resilience	10	10.1		10.1	Complete
HCA arrangements	10	11.0		11.0	Complete
HRA business plan & HIP	10				Risk also identified on p.22 of AGR for 2011-12
On-street parking / highways agency	15	0.2		0.2	Preparation
Safety of council properties	20	14.1		14.1	Complete
<b>Sub-total</b>	<b>65</b>	<b>35.4</b>	<b>0</b>	<b>35.4</b>	

<b>Strategy, people &amp; democracy</b>					
Commissioning / partnerships	15	26.4		26.4	Draft report issued. Includes grants awarded under commissioning programme
<b>Sub-total</b>	<b>15</b>	<b>26.4</b>	<b>0</b>	<b>26.4</b>	
<b>Customers, communications &amp; culture</b>					
Managing customer demand	10	9.4		9.4	In progress
The Halls	10	15.0		15.0	Complete
Norman Centre	10	11.6		11.6	Complete
Tourist Information Centre	10	11.3		11.3	Complete
<b>Sub-total</b>	<b>40</b>	<b>47.3</b>	<b>0</b>	<b>47.3</b>	
<b>Non-specific</b>					
Ad-hoc investigations	20	2.6		2.6	Contingency
To complete 2012-13 plan:	25				
Business support/customer contact teams		14.2		14.2	Complete
Anti-fraud measures		3.0		3.0	Complete
Accounts receivable		17.8		17.8	Complete
Accounts payable		3.4		3.4	Complete
Payroll		4.5		4.5	Complete
Treasury management		2.8		2.8	Complete
Housing rents		0.8		0.8	Complete
General ledger		10.3		10.3	Complete
Planning income		2.3	1.1	3.4	Complete
Business continuity management		2.1		2.1	Complete
Homelessness		0.5	2.9	3.4	Complete
Housing voids		1.4	5.8	7.2	Complete
Members allowances		2.9		2.9	Complete
Performance management		2.7		2.7	Complete
Information management					In progress
Transformation					
Register of electors					
ICT audits:					
Academy (housing)		9.3	3.6	12.9	Complete
Oracle (financial)		11.5	3.1	14.6	Complete
Disaster recovery		0.4	3.3	3.7	Complete

Follow-ups:	20				
Sports facilities		1.6		1.6	
Care & repair contract		1.0		1.0	
HCA		0.4		0.4	
Starters & leavers		0.3		0.3	
Contract management procedures		0.8		0.8	
Oracle purchasing		1.2		1.2	
Council tax		0.4		0.4	
NNDR		0.2		0.2	
Housing & council tax benefits		2.3		2.3	
Emergency planning		1.7		1.7	
Homeless		1.1		1.1	
Off-street parking		2.5		2.5	
Construction industry tax scheme		0.4		0.4	
Norman Centre		0.8		0.8	
Planning income		1.5		1.5	
Housing voids		1.2		1.2	
Others		2.2		2.2	
<b>Sub-total</b>	<b>65</b>	<b>112.1</b>	<b>19.8</b>	<b>131.9</b>	
<b>Total for audit assurance work</b>	<b>546</b>	<b>373.5</b>	<b>19.8</b>	<b>393.3</b>	
<b>Consultancy &amp; non-assurance work</b>					
Corporate governance	15	20.4		20.4	Preparation of annual governance statement; corporate governance group
Fraud, incl. NFI work	34	20.4		20.4	Fraud survey. Key contact duties for NFI 2012 (matches) and 2013 (data upload)
Advice, other unplanned work requests	30	18.7		18.7	Contingency
Work request - review garden waste scheme		20.1		20.1	Complete
<b>Total for non-assurance/consultancy work</b>	<b>79</b>	<b>79.6</b>	<b>0</b>	<b>79.6</b>	
<b>Total Allocated Days</b>	<b>625</b>	<b>453.1</b>	<b>19.8</b>	<b>472.9</b>	
<b>Indicative resources</b>					
Regional audit & risk manager	20				
Principal client auditor	175				
Client auditors x 2	400				
LGSS support	30				
	<b>625</b>				



<b>Report to</b>	Audit committee 11 March 2014	<b>Item</b>
<b>Report of</b>	Head of internal audit and risk management, LGSS	<b>9</b>
<b>Subject</b>	Draft internal audit plan for Norwich City Council 2014-15	

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## **Purpose**

This report provides the audit committee with an outline of the 2014-15 internal audit plan for Norwich City Council as attached at annex 1.

## **Recommendation**

To endorse the draft internal audit plan for Norwich City Council for 2014-15

## **Corporate and service priorities**

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

## **Financial implications**

None directly

Ward/s: All wards

Cabinet member: Councillor Waters – Deputy leader and resources

## **Contact officers**

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Steve Dowson, audit manager      01603 212575

## **Background documents**

Service and corporate risk registers

# Report

## Background

1. The proposed audit committee procedure rules (on today's agenda) include "Consider, endorse and monitor delivery of the internal audit annual work programme, including any significant in-year changes to the programme or resource requirements."
2. Internal audit provides an independent assurance function which reviews and reports on the adequacy and effectiveness of the council's risk management, governance and internal control processes. In doing so it contributes to the proper, economic, efficient and effective use of the council's resources.
3. As a requirement of the Accounts and Audit Regulations 2011, the council is required to make provision for internal audit in accordance with "proper practices in relation to internal control." The previous CIPFA Code of Practice for Internal Audit has been replaced by the UK Public Sector Internal Audit Standards, effective from 1 April 2013.
4. The standards require, amongst other things, the head of internal audit to prepare a risk-based internal audit plan which takes into account 'the requirement to produce an annual internal audit opinion and the assurance framework'. In preparing the plan, he or she 'takes into account the organisation's risk management framework' or 'uses his/her own judgment of risks after consideration of input from senior management'.
5. The standards also state that the plan must be linked to a high-level statement of how the internal audit service will be delivered.
6. Since 2012-13 the internal audit function has been delivered by LGSS. The majority of the plan will be delivered by Norwich-based LGSS staff, supplemented as necessary by resources from the wider LGSS internal audit and risk team, eg specialist computer auditor for ICT audits.
7. LGSS ensures that the audit plan is delivered in accordance with the requirements of the council under the service level agreement, and to the standard expected by the external auditor (Ernst & Young LLP) under the 'managed audit' regime.

## Audit planning methodology

8. The draft CIPFA statement on the Role of the Head of Internal Auditor (HIA) in Local Government outlines that a key principle role of the HIA must be to give, "an objective and evidenced based opinion on all aspects of governance, risk management and internal control".
9. Taking this into account, the bulk of internal audit's planned work is therefore devoted to reviewing and providing assurance on the council's control environment. The plan has also taken account of national and local developments and initiatives to ensure that audit coverage is directed towards areas of highest risk or current importance to the council. The draft plan has therefore been prepared by reference to the corporate and service risk registers, and references to specific risks can be found in the columns headed 'Corporate risk' and 'Service risk'.

10. The plan has also been developed through consultation with the business manager's group, which comprises members of corporate leadership team, the chief finance officer (section 151 officer), executive heads and heads of service. Where appropriate the plan has either been revised or additional areas of focus added.
11. In order to deliver the planned work, the annual risk based plan is then translated into individual audit assignments by:
- The identification and recording of the objectives, risks and controls;
  - Evaluating and reviewing the application of risk management processes associated within the system;
  - Evaluating the controls in place to mitigate material risks, forming an opinion on the appropriateness of design and operating effectiveness of these controls;
  - Determining an appropriate strategy to test the effectiveness of controls;
  - Arriving at conclusions and reporting them, leading to management actions;
  - Providing an opinion on the effectiveness of the control environment; and
  - Monitoring the implementation of agreed changes to the internal control arrangements.
12. There are some areas of a corporate governance or consultancy nature which do not form part of internal audit's assurance work, and these are shown separately at the end of the plan under the heading *Non-assurance and consultancy work*.
13. The draft plan itself is shown at **annex 1**. Members will note that the indicative resources for 2014-15 are 600 days, which is a slight reduction of 25 days compared to the 2013-14 plan.
14. The plan will be kept under review in conjunction with the council's assurance processes and any changes to priorities or the risk environment. Members will be kept informed of any significant changes to and progress against the plan as part of the regular reporting process.

## Conclusion

15. The audit planning process and internal audit plan for the council for 2014-15 provides members with assurance on the council's main business risks, and supports the annual governance statement. Any significant amendments to the plan resulting from changes in priorities or risks will be reported, together with progress against the plan.

LGSS Internal Audit - Draft Audit Plan for Norwich City Council 2014-15					
	2014-15				
<b>Audit Assurance Work</b>					
	<b>Estimated Days</b>	<b>Comments</b>	<b>Corp Risk</b>	<b>Service Risk</b>	<b>3-yr Plan</b>
<b>Fundamental systems</b>					
Accounts payable (creditors)	20	)			
Accounts receivable (debtors)	15	)			
NCC payroll	15	)			
Housing rents/arrears	20	) Audited annually under managed audit regime			
Housing & council tax benefits	25	)			
Council tax	15	)			
NNDR	15	)			
<b>Sub-total</b>	<b>125</b>				
<b>Corporate</b>					
Procurement & contract management arrangements	35	Allowance for possible input to tendering, monitoring, procedural compliance. Involvement in specific contracts. Plus presence on project teams	A3, C4		Y
Claims certification	20				Y
Probity	20				Y
<b>Sub-total</b>	<b>75</b>				
<b>Business relationship management</b>					
Financial IT system replacement	30	Upgrade or replace Oracle Financials			
Council tax & NNDR systems	15	VFM review - impact of scheme changes on collection rates			
ICT audits:	10	Embedded assurance - Corporate Information Assurance Group			
Civica	10	)			
Northgate	10	) Taken from IT audit needs analysis			
Workforce	10	)			
Parking Gateway	10	B/f from 2013-14 due to computer auditor vacancy			
Bacstel IP	10	B/f from 2013-14 due to computer auditor vacancy			
<b>Sub-total</b>	<b>105</b>				
<b>Operations</b>					
CIL income	10			P8	Y
Provision market	15				Y
Licensing	10				Y
Leasehold services	15				Y
Cemeteries	15				Y
Home improvements	15				Y
Off-street parking	15			CD2	Y
<b>Sub-total</b>	<b>95</b>				



	Estimated Days	Comments	Corp Risk	Service Risk	3-yr Plan
<b>Strategy, people &amp; democracy</b>					
<b>Sub-total</b>	<b>0</b>				
<b>Customers, communications &amp; culture</b>					
Land charges	10				Y
<b>Sub-total</b>	<b>10</b>				
<b>Non-specific</b>					
Ad-hoc investigations	20	Contingency			
To complete 2013-14 plan	35				
Follow-ups	25	Follow ups required by PSIAS			
<b>Sub-total</b>	<b>80</b>				
<b>Total for audit assurance work</b>	<b>490</b>				
<b>Consultancy &amp; non-assurance work</b>					
Corporate governance	30	Co-ordination & preparation of AGS; corporate governance group			
Anti-fraud and NFI work	45	Fraud risks & key contact duties for NFI 2014-15 (upload) and 2013-14 (SPD match)	C5		
Advice, unplanned work requests	35	Contingency			
<b>Total for non-assurance/consultancy work</b>	<b>110</b>				
<b>Total Allocated Days</b>	<b>600</b>				
<b>Indicative resources post-restructure</b>			<b>Service risks:</b>		
Head of audit	10		<u>P = Planning:</u>		
Principal client auditor	140		Risk 8: Community Infrastructure Levy was introduced in July 2013. Risk is that levies due are not collected through administrative or process error		
Client auditors x 2	400				
LGSS support	50				
	600				
			<u>CD = City development:</u>		
			Risk 2: Reduced car parking income (off or on-street) due to economic or other effects		