

### **Audit committee**

**Date:** Tuesday, 22 January 2019

**Time:** 16:30

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

#### **Committee members:**

##### **Councillors:**

Price (chair)  
Driver (vice chair)  
Coleshill  
Fullman  
Hampton  
Lubbock  
Smith  
Stutely

#### **For further information please contact:**

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## Agenda

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#### 1 Apologies

To receive apologies for absence

#### 2 Public questions/petitions

To receive questions / petitions from the public

Please note that all questions must be received by the committee officer detailed on the front of the agenda by **10am on Thursday, 17 January 2019.**

Petitions must be received must be received by the committee officer detailed on the front of the agenda by **10am on Monday, 21 January 2019.**

For guidance on submitting public questions or petitions please see appendix 1 of the council's constitution.

#### 3 Declarations of interest

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

#### 4 Minutes

5 - 10

To approve the accuracy of the minutes of the meeting held on 16 October 2018

#### 5 Certification of Claims and Returns Annual Report 2017-18 11 - 22

**Purpose** - This report presents the Certification of claims and returns annual report 2017-18.

<b>6</b>	<b>External Audit Plan 2018-19</b>	<b>23 - 66</b>
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**Purpose** - This report presents the annual external audit plan 2018-19.

<b>7</b>	<b>Internal audit 2018-19 – October to December update (Quarter 3)</b>	<b>67 - 78</b>
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**Purpose** - To advise members of the work of internal audit, completed between October to December 2018, and the progress against the internal audit plan.

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

The 2018-19 Audit Plan was approved by the audit committee on 13 March 2018.

<b>8</b>	<b>Exclusion of the public</b>
	Consideration of exclusion of the public.

<b>*9</b>	<b>Risk Based Verification Policy (paragraph 7)</b>
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- This report is not for publication because it would disclose information relating to any action taken or to be taken in connection with the prevention, investigation or prosecution of a crime as in para 7 of Schedule 12A to the Local Government Act 1972.

Date of publication: **Monday, 14 January 2019**





**Audit committee**

**17:20 to 18:55**

**16 October 2018**

Present: Councillors Price (chair), Driver (vice chair), Coleshill, Fullman, Hampton, Lubbock, Smith and Stutely

Also present: Councillor Kendrick (cabinet member for resources)

**1. Public questions/petitions**

There were no public questions or petitions received.

**2. Declarations of interest**

There were no declarations of interest.

**3. Minutes**

**RESOLVED** to agree the accuracy of the minutes of the meeting held on 24 July 2018.

**4. Annual Audit Letter 2017-2018**

(David Riglar, external auditor, Ernst and Young LLP, attended the meeting for this item.)

The external auditor presented the annual audit letter and explained that it was a public facing document which the external auditors issued to the council at the end of its audit procedures. The external auditors' conclusions were set out in the *Executive Summary*. The signing off of the statement of accounts for 2017-18 by the new deadline of 31 July 2018 was a significant achievement by all concerned. Under *Value for Money*, the external auditors have identified the council's commercial activity as a significant risk due to the council's increasing activity in this area.

The external auditor said that data analytics was an integral part of the audit work. The use of data analysers enabled the auditors to capture the whole population of financial data and identify exceptions and anomalies, which were then considered to be at higher risk and subjected to further testing. In reply to a member's question on the quality of information provided in the journals and number of manual adjustments, the external auditor said that the local authority provided a memorandum of completeness when mapping over the data, and that most journals were complete with few manual adjustments.

The external auditor referred members to the *Purpose and Responsibilities* section of the letter and pointed out that the council was responsible for ensuring that proper governance arrangements in accordance with its annual governance statement.

The annual audit letter also addressed the impact of the application of new accounting standards on the council in future years. The external auditor said that CIPFA had issued some provisional guidance which indicated the impact on local authority accounting. In reply to a question from the chair, the chief finance officer confirmed that data information on leases was being collected from all service areas in preparation for the IFRS 16 Leases accounting standard. The CIPFA guidance had served to point the council in the right direction. The chair then referred to IFRS standards IFRS 9 Financial instruments and IFRS 15 Revenue from contracts and customers and asked how this would impact on the business of the council; its trading companies and group accounts; and implications for resources on internal audit. The external auditor said that the funding streams from council tax, non-domestic rates and government grants were excluded but recognised income from fees for services such as planning applications could be considered as material. There would be less impact on local authorities from IFRS 15. The chief finance officer said that she did not have knowledge of the detail and that a briefing on this would be available at a later meeting. The external auditor advised members that CIPFA guidance was that it would not have a major impact on local authorities. The external audit team had discussed the implications of the revised Code of Practice with the finance team and initial work had been started.

The external auditor said that the final audit fees had been approved by the PSAA and submitted to the council's corporate leadership team for approval. The vice chair said that he was concerned that the fees were sufficient to cover the work involved as the fees had been reduced in recent years. The external auditor explained that the schedule of fees was straight forward for the basic audit with extra fees for additional work. There had been planned work around the minimum revenue provision and group consolidation outside the scope of the scale fee and further work had been required on the significant risk identified in regard to Value for Money. The final fee would be reported to the committee in the annual certification report.

Discussion ensued in which a member referred to the *Valuation of Land and Buildings* and page 24 of the statement of accounts and asked for an explanation of the valuation of council houses being greater in 2017-18 than in the previous year but with fewer council properties. He said that he was concerned that the correlation between number of properties and value could mean that properties were over-valued and that this could be a risk to the housing revenue account if the council borrowed against its housing stock. The chair suggested that the committee should ask for a paper from the appropriate officer to explain the methodology used for the valuation of the housing stock. The external auditor said that the housing stock had been valued by Norfolk Property Service and the valuation was calculated on market value based on stipulated factors. The committee concurred that it should consider a report to explain the land valuation at its next meeting.

**RESOLVED to:**

- (1) note the Annual Audit Letter 2017-18;

- (2) note that the final fees for the external audit of the council's financial accounts 2017-18 will be reported to the committee in the Annual Certification report 2017-18;
- (3) ask the chief finance officer to report back to the committee on the impact of the new accounting standards applied under the Code of Practice on Local Authority Accounting in the United Kingdom, standards IFRS 9, IFRS 15 and IFRS 16;
- (4) ask the chief finance officer to report to the committee on the valuation of council housing for the HRA.

## **5. Internal Audit 2018-19: July to September Update (Quarter 2)**

The head of internal audit presented the report.

During discussion the vice chair asked for an explanation for the changes to the internal audit plan and the reasons for the additional 21 days. The head of internal audit said that internal audit had been requested to carry out a significant piece of work that had required extra days and was near conclusion. He explained that there was flexibility in the plan to add additional days when required. In reply to the chair the head of internal audit said that recommendations would be made in response to this investigation into alleged fraud and shared with members. The chair said that the whistleblowing policy was positive for the organisation and that fraud and counter fraud should feature strongly on the work programme.

In reply to a question, the head of internal audit explained that the audit on fees and charges – compliance with policy had been pulled from the current work programme. The council still had to adopt a fees and charges policy, and once implemented the audit ensure that fees and charges were compliant with the policy. Fees and charges could be used to influence behaviours. For example, the council could make the decision to provide free car parking to regenerate an area of the city. Members also needed to be assured that concessions on fees and charges for specific groups of people complied with the council's corporate plan priorities. The audit on fees and charges – compliance with policy would be recommended to the corporate leadership team for inclusion on the audit plan for next year.

The vice chair asked whether the head of internal audit considered the five additional days allocated to the audit committee as good use of his and the principal auditor's time. The internal audit referred to the training session and meeting with the chair and vice chair and said that he considered it to be effective use of his time in the short-term. He pointed out that all local authorities had smaller budgets and when comparing the support of the audit committee against an open book review of a major contract, it might not seem such effective use of resources. The chair said that he found the pre-meetings and training sessions "hugely beneficial" and input from internal audit officers was very good value for money in that it helped him to chair meetings and empowered all members of the committee. The vice chair asked whether 17 days could be allocated to audit committee work in next year's audit plan at the start of the year. The head of internal audit said that all councils had smaller budgets which were under pressure and the internal audit budget was no exception. If an important piece of work came though it would need to attract the

necessary resources and other work streams would need to be reviewed accordingly.

Discussion ensued on the internal audit work programme and whether the number of days of officer time should be reviewed given the “significant risk” identified by the external auditor in relation to the changes in the operation of the council with increased commercialisation and taking back contracts in house. The chair pointed out that the current 450 days had been set before the establishment of Norwich Regeneration Ltd (NRL) and asked whether the allocation should be reviewed. The head of internal audit explained that the internal audit work plan was considered each year in discussions with the corporate leadership team and was a risk based approach. The internal audit team comprised two FTEs and some of his time. He explained the processes that would be undertaken to conduct audits of NRL and the five contracts that the council was proposing to take back in house. The corporate leadership team had requested an open book review of the contract management. The vice chair asked why open book reviews had not been conducted previously and was advised by the external auditor that these reviews were something that local authorities had started to do in the last few years. The chief finance officer said that an open book review of NRL, as a wholly owned council company was not required as the financial modelling and accounting for the company was undertaken by LGSS. Finance and the company’s financial results and future plans were taken to cabinet for approval in the company’s business plan. The head of internal audit confirmed that although contract procedure rules was being taken off the work programme, the open book review of contract management would include looking at procurement procedures, terms of reference and performance against service level agreements.

(Councillors Lubbock and Kendrick left the meeting at this point.)

During discussion members commented on the cross-cutting audit assignments which had been completed. The head of internal audit referred to the report and said that the audit of KPIs (key performance indicators) had identified that the council did not have a written performance management framework in place. A member commented that there was no point collecting KPIs if officers did not know what to do with them. The principal auditor said that the recommendations from the audit assignment had been signed off by the strategy manager who had agreed that the performance management framework would be in place by 31 March 2019.

Members noted that there were a number of reports from audit assignments which were still at draft stage or work in progress. The head of internal audit explained that many of the reports had been discussed with management and were waiting to be signed off. The internal audit team followed up after each assignment was completed to ensure that managers had implemented agreed actions.

**RESOLVED** to note the report.

## **6. Reserves**

(The chair agreed to take the following question from Councillor Stutely who had asked the question at a previous meeting and wanted the response minuted in full.)



Councillor Stutely referred to page 5, of the Statement of Accounts 2017-18, and asked the chief finance officer to confirm the minimum level of reserves that the council should keep? The chief finance officer said that the minimum level of reserves was calculated annually and cabinet would recommend it to council as part of the annual budget setting process.

By way of a follow up question, Councillor Stutely said that given there were no guarantees that the council would receive sufficient funding through non-domestic business rates or council tax and the general economic uncertainty around Brexit, could the reserves be used to maintain frontline services. The chief finance officer explained that earmarked reserves were money put aside for planned use as part of the medium term financial strategy. The minimum reserves were to protect the council from risks to ensure that services could continue.

Councillor Stutely then asked about the use of reserves and whether there was an underspend in the planned forecast there would be additional savings. The chief finance officer said that as part of the budget setting process the impact of Brexit and other external factors were taken into account, for instance the implications of the Comprehensive Spending Review which would be withdrawn in 2021, and uncertainty about business rates.

CHAIR



**Report to** Audit committee

22 January 2019

**Report of** Chief finance officer

**Subject** Certification of Claims and Returns Annual Report 2017-18

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**Item**

**5**

### **Purpose**

This report presents the Certification of claims and returns annual report 2017-18.

### **Recommendation**

To review and note the attached report from the council's external auditor.

### **Corporate and service priorities**

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

### **Financial implications**

The Council is awaiting notification from DWP of any payments due as a result of the certification audit.

**Council Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

### **Contact officers**

Karen Watling, chief finance officer

01603 212440

**Background documents:** None

## **Report**

### **Introduction**

1. The annual grant certification report from the council's external auditors is appended to this report and summarises the findings from the 2017-18 certification work undertaken on claims and returns in relation to the housing benefits subsidy claim.

### **Key points to note**

2. The committee is asked to note the following significant matters:
  - a) The housing benefits subsidy claim has been qualified. Details of the qualification are set out in section 1 of the report. Additional work was required by the auditors because of errors found but officers contributed to this work and therefore avoided any additional audit fees.
  - b) Fees for the housing benefits subsidy certification work are summarised in section 2 of the report.
  - c) The Council is awaiting notification from DWP of any payments due as a result of the certification audit.

### **Recommendation**

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

# **Certification of claims annual report 2017/18**

7 January 2019



Audit Committee  
Norwich City Council

07 January 2019

Dear Committee Members

We are pleased to report on our certification work. This report summarises the results of our work on Norwich City Council's 2017/18 claims.

**Scope of work**

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified reporting accountants to certify the claims and returns submitted to them. From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2017/18, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions.

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

We welcome the opportunity to discuss this report with you on 22 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

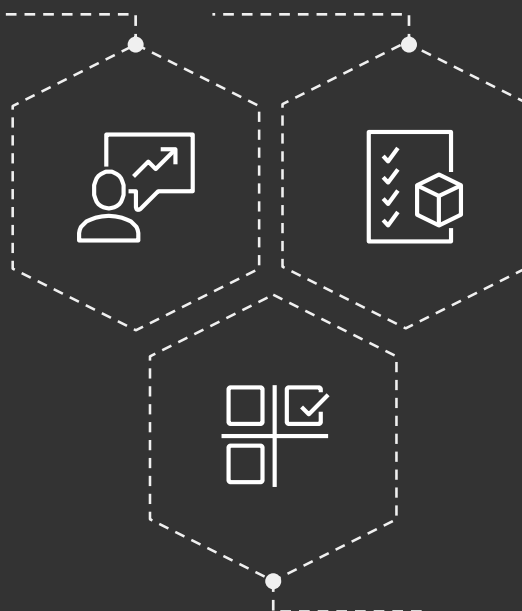
For and on behalf of Ernst & Young LLP

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2017-18 certification fees

**01** Housing benefits subsidy claim

**02** 2017/18 certification fees



**03** Looking forward

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





01

# Housing benefits subsidy claim





## Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£57,308,299
Amended/Not amended	Not amended
Qualification letter	Yes
Fee - 2017-18	£35,780
Fee - 2016-17	£29,819

Recommendations from 2016-17	Findings in 2017-18
None	There were no significant findings and recommendations from our audit of the Housing benefits subsidy audit.

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

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

We found errors and carried out 40+ extended testing in several areas.

40+ testing was carried out in areas where errors have been identified in the certification of previous years claims, specifically Income used in calculating a claimant's entitlement to housing benefit, and the classification of overpayments.

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

These are the main issues we reported:

- ▶ Testing identified one case where the subsidy easement period was incorrectly classified. Subsidy easement allows a 4-5 week grace period for assessment. The error was related to one assessor who has been applying the subsidy easement period incorrectly. This had already been identified by the Housing Benefits team, and action taken to address this.
- ▶ We reported 2 cases where benefit was underpaid as a result of miscalculating the claimant's weekly income.
- ▶ We reported 3 cases where benefit was overpaid as a result of miscalculating the claimant's weekly income.
- ▶ Testing identified 1 case where proof of zero income for the period had not been obtained.
- ▶ We reported 1 case where the overpayment was incorrectly classified when the claimant's tenancy had ended, consequently subsidy was overclaimed.
- ▶ We reported 1 case where the overpayment was incorrectly classified as a result of universal credit and housing benefit overlapping, consequently subsidy was overclaimed.



02

## 2017/18 certification fees





## 2017/18 certification fees

The PSAA determine a scale fee each year for the certification of the housing benefits subsidy claim. For 2017/18, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) and are available on their website ([www.psaa.co.uk](http://www.psaa.co.uk)).

Claim or return	2017/18	2017/18	2016/17
	Actual fee £'s	Indicative fee £'s	Actual fee £'s
Housing benefits subsidy claim	35,780	35,780	29,819



03

## Looking forward



## 2018/19 and beyond

From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body.

As your appointed auditor for the financial statements audit, we are pleased that from 2018/19 the Council has appointed us to act as reporting accountants in relation to the following schemes:

- Housing benefits subsidy claim

We welcome this opportunity to continue undertaking this work for the Council providing a seamless quality service, drawing on vast array of experienced and knowledgeable public sector professionals in these areas, whilst realising the synergies and efficiencies that are achieved by undertaking both the audit and grant work.

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ED None

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**Report to**     Audit committee  
                    22 January 2019  
**Report of**     Chief finance officer  
**Subject**        External Audit Plan 2018-19

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**Item**

**6**

### **Purpose**

This report presents the annual external audit plan 2018-19.

### **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.

**Council Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

### **Contact officers**

Karen Watling, chief finance officer

01603 212440

**Background documents:** None

## **Report**

### **Introduction**

1. This report sets out the external auditors' proposed approach to their work for the audit of the accounts for the 2018-19 financial year, for discussion and agreement with the audit committee.

### **Key points to note**

2. The following significant matters are covered in the report:
  - a) The auditors' assessment of the key financial statement risks (section 2 of the audit plan) which relate to misstatements due to fraud or error. It also sets out other areas of audit focus.
  - b) The auditors' assessment of the key value for money risks (section 3 of the audit plan). This covers both commercialisation and the medium term financial strategy.
  - c) A substantive testing approach will be followed as well as using computer-based data analytics tools to support the audit testing (section 5). The work of internal audit will be reviewed, and reliance will be placed on the work of NPS valuation specialists for property values, actuarial specialists for pension fund valuations and Link Asset Services for financial instrument fair values (section 6).
  - d) The proposed core audit fee for 2018-19 is £61,534 (Appendix A) which is a reduction against the core fee for 2017-18. Further fees are likely to be incurred in relation to the audit of the group accounts and the value for money conclusion.

### **Recommendation**

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





# Norwich City Council and Group

## Audit Plan

Year ended 31 March 2019

11 January 2019



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

11 January 2019

Dear Audit Committee Member

2018/19 Initial Audit Plan

We are pleased to attach our Initial Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2018/19 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This Plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks. This is an initial audit plan as we have not yet completed all our planning procedures. We will provide an updated plan if there are any changes following the completion of these procedures.

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

We welcome the opportunity to discuss this report with you on 22 January 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

*MARK HODGSON*

Mark Hodgson  
Associate Partner  
For and on behalf of Ernst & Young LLP  
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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website ([www.PSAA.co.uk](http://www.PSAA.co.uk)). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated April 2018)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the **Audit Committee and management of Norwich City Council** in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the **Audit Committee, and management of Norwich City Council** those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the **Audit Committee and management of Norwich City Council** for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.





01

# Overview of our 2018/19 audit strategy





## Overview of our 2018/19 audit strategy

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

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	Fraud risk	No change in risk or focus	<p>As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively.</p> <p>As management is in a unique position to manipulate accounting records directly or indirectly by overriding controls that otherwise appear to be operating effectively.</p>
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk above we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate specific risk, given the extent of the Council's capital programme.
Accounting adjustments made in the 'Movement in Reserves Statement'.	Fraud Risk	No change in risk or focus	Linking to our fraud risk above we have considered the accounting adjustments made in the Movement in Reserves statement as a separate specific risk, given the financial pressure the Council is under to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

## Overview of our 2018/19 audit strategy

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

### Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	Due to the complexity in accounting for land and buildings and the material values involved, there is a higher risk that asset valuations contain material misstatements.
Pensions valuations and disclosures	Inherent risk	No change in risk or focus	The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.
Implementation of new accounting standards	Inherent risk	New area of focus	The 2018/19 CIPFA Code of practice on local authority accounting confirms that the Local Government will implement International Financial Reporting Standard ("IFRS") 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers.
Group Accounts	Inherent Risk	Downgrade of risk from previous year	We identified this as a significant risk in 2017/18 as this was the first year in which the Council needed to prepare group accounts. We have downgraded the risk this year to an inherent risk due to the complexity of group accounting.

## Overview of our 2018/19 audit strategy

### Materiality

Planning  
materiality  
**£2.608m**

Materiality has been set at £2.608 million for the Council and £2.612m for the Group, which represents 2% of the prior years gross expenditure on provision of services.

Performance  
materiality  
**£1.956m**

Performance materiality has been set at £1.956 million for the Council and £1,959m for the Group, which represents 75% of materiality.

Audit  
differences  
**£0.130m**

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £130,000 for the Council and the Group. Other misstatements identified will be communicated to the extent that they merit the attention of the Audit Committee.

# Overview of our 2018/19 audit strategy

## Audit scope

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

- Our audit opinion on whether the financial statements of Norwich City Council give a true and fair view of the financial position as at 31 March 2019 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

## Audit team

Mark Hodgson



**Mark Hodgson - Associate Partner**

Mark has over 20 years experience of Local Authorities, Pension Funds and their respective audits.



**Sappho Powell - Manager**

Sappho has over 12 years experience of Local Authority audits.





## 02 Audit risks



## Audit risks

# Our response to significant risks

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

	What is the risk?	What will we do?
<p><b>Misstatements due to fraud or error *</b></p>	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.</p> <p>For the Council, we have identified the capitalisation of revenue and accounting adjustments made in the movement in reserves statement as the key areas at risk of manipulation.</p>	<p>We will undertake our standard procedures to address fraud risk, which include:</p> <ul style="list-style-type: none"> <li>• Identifying fraud risks during the planning stages.</li> <li>• Inquiring of management about risks of fraud and the controls put in place to address those risks.</li> <li>• Understanding the oversight given by those charged with governance of management's processes over fraud.</li> <li>• Considering the effectiveness of management's controls designed to address the risk of fraud.</li> <li>• Determining an appropriate strategy to address those identified risks of fraud.</li> <li>• Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.</li> </ul> <p>To address the residual risk of management override we perform specific procedures which include:</p> <ul style="list-style-type: none"> <li>▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements, for example using our journal tool to focus our testing on specific journals such as those created at unusual times or by staff members not usually involved in journal processing;</li> <li>▶ Assessing key accounting estimates for evidence of management bias; and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>



## Audit risks

### Our response to significant risks (continued)

#### Misstatements due to fraud or error - the incorrect capitalisation of revenue expenditure \*

#### Financial statement impact

We have identified a risk of expenditure misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to capitalisation of revenue expenditure and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

#### What is the risk?

The Council is under financial pressure to achieve budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way to achieve these targets.

We consider the risk applies to capitalisation of revenue expenditure. Management could manipulate revenue expenditure by incorrectly capitalising expenditure which is revenue in nature and should be charge to the comprehensive income and expenditure account.

#### What will we do?

Our approach will focus on:

- Sample testing additions to Property, Plant and Equipment (PPE) to ensure that they have been correctly classified as capital and included at the correct value in order to identify any revenue items that have been inappropriately capitalised; and
- Using our data analytics tool to identify and test journal entries that move expenditure into capital codes.

## Our response to significant risks (continued)

**Misstatements due to fraud or error - accounting adjustments made in the 'Movement in Reserves Statement' \***

### Financial statement impact

We have identified a risk of misstatements due to fraud or error that could affect the income and expenditure accounts.

We consider the risk applies to accounting adjustments made in the movement in reserves statement and could result in a misstatement of cost of services reported in the comprehensive income and expenditure statement.

### What is the risk?

The Council is under financial pressure to achieve its revenue budget and maintain reserve balances above the minimum approved levels. Manipulating expenditure is a key way of achieving these targets.

We consider the risk applies to accounting adjustments made in the movement in reserves statement.

- The adjustments between accounting basis and funding basis under Regulation changes the amounts charged to General Fund balances. Regulations are varied and complex, resulting in a risk that management misstatement accounting adjustments to manipulate the General Fund balance. We have identified the risk to be highest for adjustments concerning:
- Revenue Expenditure Funded from Capital Under Statute (REFCUS)
- Minimum revenue provision

### What will we do?

Our approach will focus on:

- Sample testing REFCUS to ensure the expenditure meets the definition of allowable expenditure, or is incurred under direction from the Secretary of State; and
- Reviewing the Council's policy and application of the 'Minimum Revenue Provision'.



## Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

### What is the risk?

#### Valuation of Property, Plant and Equipment – Inherent risk

The fair value of property, plant and equipment (PPE) and investment properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

#### Pension liability valuation– Inherent risk

The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding its membership of the Local Government Pension Scheme administered by Norfolk County Council.

The Council's pension fund deficit is a material estimated balance and the Code requires that this liability be disclosed on the Council's balance sheet. At 31 March 2018 this totalled £23.903 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the County Council.

Accounting for this scheme involves significant estimation and judgement and therefore management engages an actuary to undertake the calculations on their behalf. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates. For 2018/19 it is possible these entries will be subject to further volatility as a consequence of Brexit.

### What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Consider the work performed by the Council's valuers (Valuation office), including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample testing key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer. Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider circumstances that require the use of EY valuation specialists to review any material specialist assets and the underlying assumptions used; and
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

In order to address this risk we will carry out a range of procedures including:

- ▶ Liaise with the auditors of Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Norwich City Council;
- ▶ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by The National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.
- ▶ Review the impact of Brexit on the value of Pension Fund assets and consider whether there are any risks of material misstatement arising from this.

## Other areas of audit focus (cont.)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

What is the area of focus?	What will we do?
<p><b><u>IFRS 9 financial instruments</u></b></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> <li>▶ How financial assets are classified and measured;</li> <li>▶ How the impairment of financial assets are calculated; and</li> <li>▶ The disclosure requirements for financial assets.</li> </ul> <p>There are transitional arrangements within the standard; and the 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19 including;</li> <li>▶ Consider the classification and valuation of financial instrument assets, such as Norwich Airport investment and Norwich Regeneration Limited;</li> <li>▶ Review new expected credit loss model impairment calculations for assets; and</li> <li>▶ Check additional disclosure requirements.</li> </ul>
<p><b><u>IFRS 15 Revenue from contracts with customers</u></b></p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 CIPFA Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.</p> <p>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Assess the Council's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. This will include Local Authority Trading Companies consolidated into the Authority's Group Accounts;</li> <li>▶ Consider application to the Council's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and</li> <li>▶ Check additional disclosure requirements.</li> </ul>



## Audit risks

### Other areas of audit focus (cont.)

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures.

#### What is the area of focus?

#### What will we do?

##### Group Accounts

In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity is at a level considered material, which requires the Council to prepare group accounts.

We identify this as an inherent risk as the Council this can be a complex area of accounting.

We will:

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



03

## Value for Money Risks







# Value for Money

## Background

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

For 2018/19 this is based on the overall evaluation criterion:

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

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

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

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

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

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

Our risk assessment supports the planning of sufficient work to enable us to deliver a safe conclusion on arrangements to secure value for money and enables us to determine the nature and extent of further work that may be required. If we do not identify any significant risks there is no requirement to carry out further work. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

We have not yet fully completed our value for money planning risk assessment for 2018/19. However, our initial planning procedures have resulted in the identification of the growing commercial activity of the Council as an area that may present a significant risk and which we therefore need to undertake more work on as part of our risk assessment, as outlined on the following page. We have also identified financial resilience as a risk given the budget gaps identified in the medium term financial plan.

As part of our value for money planning risk assessment for 2018/19 we will consider the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be financially modelled, we would expect that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers. Our risk assessment will consider both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.



## Value for Money Risks

What is the significant value for money risk?	What arrangements does the risk affect?	What will we do?
<p><b>Commercialisation</b></p> <p>The Council continues to identify new ways to generate income in the current constrained financial environment. In 2018/19 the Council has increased investments in commercial property and the investment in the Council's own company, Norwich Regeneration Limited. This has included diversifying the investment portfolio and purchasing assets out of area.</p> <p>Entering into commercial activity on an increased scale requires the Council to continue to have appropriate governance and corporate arrangements in place to appropriately plan and deliver these schemes.</p> <p>We have identified a risk due to the increasing activity by the Council in this area.</p>	<p>Taking informed decisions.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>• Consideration of the Council's Commercial Property Strategy to ensure it is in line with current guidance;</li> <li>• The purchase of investment properties in the year to ensure they are in line with the Council's strategy;</li> <li>• a review of the updated Norwich Regeneration Limited business plan and how it aligns with Council priorities;</li> <li>• the financial modelling of the returns from commercial activity included in the medium term financial strategy.</li> </ul>
<p>The latest Medium Term Financial Plan (MTFP) shows there is a gap between funding and expenditure in years 2019/20 to 2021/22 of £13.6 million with a further £0.6 million of funding from uncertain grant streams.</p> <p>Savings plans have yet to be fully developed to address the gap and the commercialisation agenda above is one approach to mitigating the risk.</p> <p>Given the level of the savings required this presents a risk to the Council's financial position.</p>	<p>Deploy resources in a sustainable manner</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>▶ Monitor the financial position for the remainder of 2018/19, including delivery of savings;</li> <li>▶ Review the arrangements that the Council have put in place for identifying medium term savings requirement and development of its budget and MTFP;</li> <li>▶ Obtain supporting information in respect of the key savings; and</li> <li>▶ Undertake a sensitivity analysis of past and current activity on future reserves.</li> </ul>



04

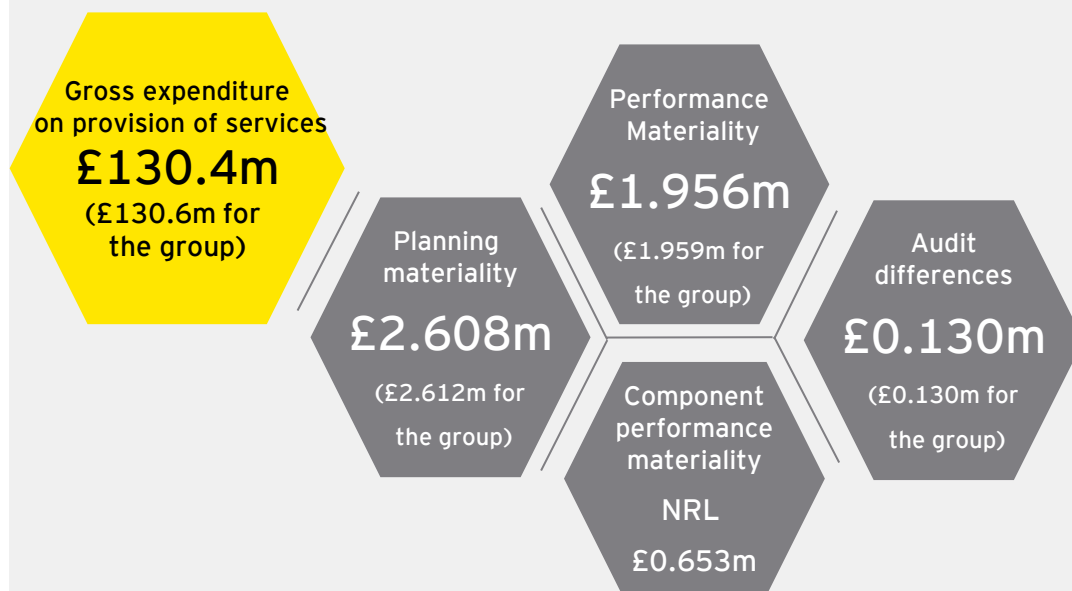
## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2018/19 has been set at £2.608 million (£2.612 million for the group). This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have chosen this percentage on the basis of there being no shareholders; no traded debt or covenants; limited changes in the business environment; good viability of the business and limited external financing. We have provided supplemental information about audit materiality in Appendix D.



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

### Key definitions

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

**Performance Materiality** - the amount we use to determine the extent of our audit procedures. We have set performance materiality at £1.956 million (£1.956 million for the group) which represents 75% of planning materiality.

**Component performance materiality range** - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. Assigned performance materiality is £0.653 million for Norwich Regeneration Limited (NRL).

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

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

**Specific materiality** - We have set a specific materiality for the areas below which reflects our understanding that an amount less than our materiality may influence the economic decisions of users of the financial statements:

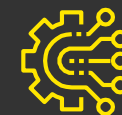
- Remuneration disclosures, related party transactions and councillor allowances - As these disclosures are considered to be of interest to users of the accounts we have adopted judgement in ensuring that we have tested the disclosures in sufficient detail to ensure they are correctly disclosed.





05

## Scope of our audit



## Our Audit Process and Strategy

### Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

#### 1. Financial statement audit

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

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

##### Procedures required by standards

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

##### Procedures required by the Code

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

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

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



## Our Audit Process and Strategy (continued)

### Audit Process Overview

Our audit involves:

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

For 2018/19 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

Analytics:

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

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

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

Internal audit:

We will regularly meet with the Head of Internal Audit, and review internal audit plans and the results of their work. We will review the findings from these reports, together with reports from any other work completed in the year, in our detailed audit plan, where they raise issues that could have an impact on the financial statements.

## Scoping the group audit

### Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

### Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below.

1	Full scope audits
Nil	Specific scope audits
1	Review scope audits
Nil	Specified procedures
Nil	Other procedures

### Scope definitions

**Full scope:** locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

**Specific scope:** locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

**Review scope:** locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

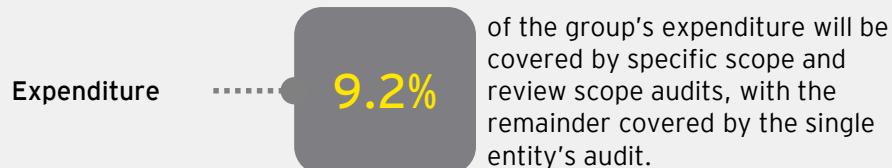
**Specified Procedures:** locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

**Other procedures:** For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations.

## Scoping the group audit (continued)

### Coverage of Revenue/Profit before tax/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the group's expenditure and group's revenue.



Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Norwich Regeneration Limited (NRL) will be audited by Aston Shaw, a non-EY member firm, who will confirm their independence via our group instructions.

NPS Norwich Ltd, Norwich Norse (Environmental) Limited and Norwich Norse (Building) Limited will be audited by PwC, a non-EY member.

### Key changes in scope from last year

There have been no changes in scope from last year. NRL remains a significant component, categorised as specific scope.

### Group audit team involvement in NRL component audit

Auditing standards require us to be involved in the work of our component teams. We have listed our planned involvement below.

- We provide specific instruction to component team and our expectations regarding the detailed procedures;
- We set up initial meeting with component team to discuss the content of the group instructions;
- We will consider the need to perform a file review of component team's work where appropriate; and
- We will attend a closing meeting with component team to discuss their audit procedures and findings.

### Details of review scope procedures for NPS Norwich Ltd, Norwich NORSE (Environmental) Limited and Norwich NORSE (Building) Limited

In order to provide us a reasonable assurance over NPS Norwich Ltd, Norwich Norse (Environmental) Limited and Norwich Norse (Building) Limited, we will carry out analytical review procedures and seek management representation.



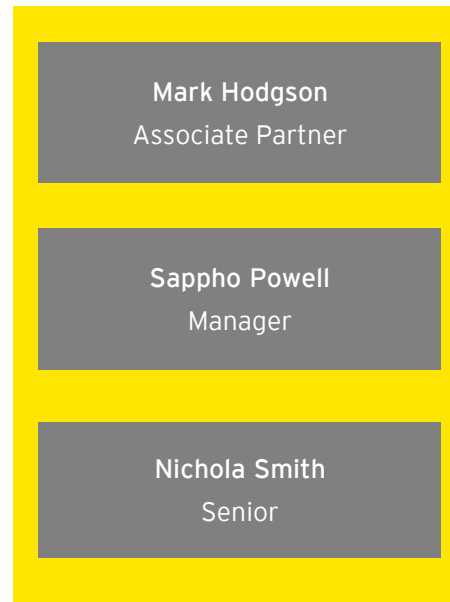
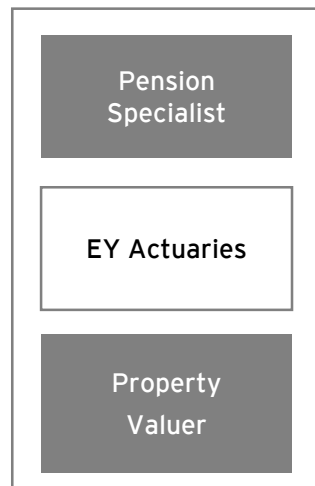
06

## Audit team



## Audit team

### Audit team structure:



### Working together with the Council

We will continue to work together with officers to establish strong communication and processes for the 2018/19 audit.

We will continue to keep our audit approach under review to streamline it where possible.



## Use of specialists

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

Area	Specialists
Valuation of Land and Buildings	We will consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used by the Council's valuers, NPS.
Pensions disclosure	EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office) who will review the work of Hymans Robertson, the actuaries to the Norfolk County Council Pension Fund.
Fair value of financial instrument disclosure	Management expert - for the provision of fair value information in respect of financial instruments (Link Asset Services)

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

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

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





07

## Audit timeline







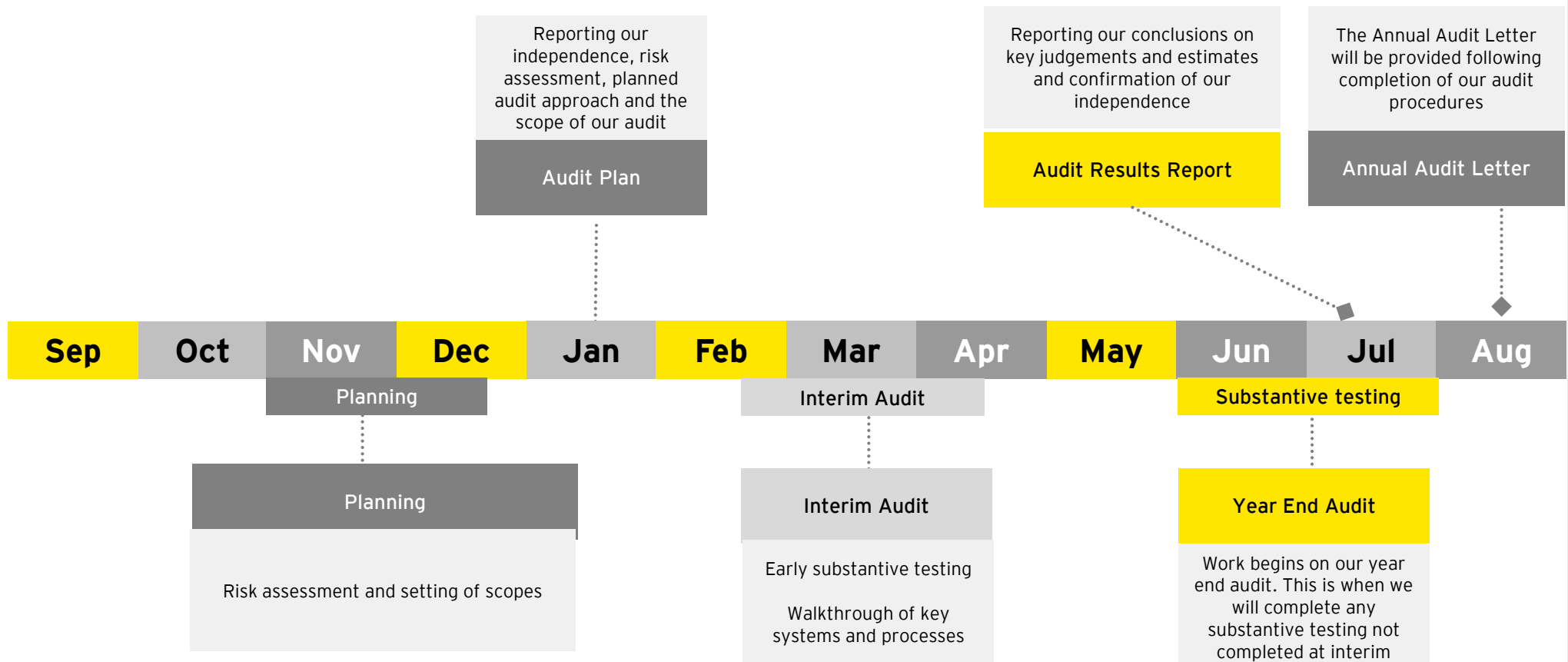
## Audit timeline

# Timetable of communication and deliverables

### Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2018/19.

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





08

## Independence



## Introduction

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

### Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> <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> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard [note: additional wording should be included in the communication reflecting the client specific situation]</li> </ul>	<ul style="list-style-type: none"> <li>▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; 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.

## Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

### Overall Assessment

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

### Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with 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.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 42%. This is based on the planned fee for the agreed upon procedures work for the Housing Benefits certification work. No additional safeguards are required.

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

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

### Self review threats

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

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

### Management threats

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

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



## Relationships, services and related threats and safeguards

### Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.  
There are no other threats at the date of this report.

Description of service	Related independence threat	Period provided	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2018/19. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £25,760 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2018/19 financial statements.	Relates to 2018/19 return for the period to 31 March 2019.	<p>We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2018/19.</p> <p>The agreed upon procedures focus on the specific requirements of the certification arrangements. No other threats to independence have been identified.</p>

## Other communications

### EY Transparency Report 2018

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>





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## Appendices



## Appendix A

### Fees

Public Sector Audit Appointments Ltd (PSAA) has published the fee scale for the audit of the 2018/19 accounts of opted-in principal local government and police bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

A breakdown of our fees is shown in the table below.

	Planned fee 2018/19	Scale fee 2018/19	Expected Final Fee 2017/18
	£'s	£'s	£'s
Total Fee - Code work (Note 1 and 2)	61,534	61,534	96,188 - Note 2
Total audit	61,534	61,534	96,188
Other non-audit services not covered above - Housing Benefits (Note 3)	25,760	-	35,780
Pooling of Housing Capital Receipts (Note 4)	-	-	2,000 to 3,500 - Note 4
Total other non-audit services	25,760	-	37,780 to 39,280
Total fees	87,294	61,534	133,968 to 135,468

*All fees exclude VAT*

#### Note 1

The planned fees for 2018/19 may be subject to a scale fee variation due to increases in the scope of the audit as summarised below:

- Audit of the group accounts. This is likely to be between £3,000 to £5,000 depending on the scale and complexity of the work.
- Significant risk identified in relation to the value for money conclusion

**Note 2** - An additional fee for 2017/18 has been discussed and agreed with management but is still subject to approval by the Public Sector Audit Appointments. We will formally report the final fee once the approval process is complete. We are currently showing the Scale fee for 2017/18.

**Note 3** - From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit (it was in 2017/18).

The planned fee shown, is based on the level of error within the current claim and the work required to certify that. This may change dependent on the level of error within the claim under review.

## Appendix A

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### Fees continued

**Note 4** - As set out in the *Independence* section above, we have completed procedures for the Pooling of Housing Capital Receipts return for 2017/18. We have not yet been engaged to undertake this work for 2018/19 but will provide an update on this as required. Work on the return is ongoing and will likely to be between £2,000 and £3,500.

The proposed fees presented are based on the following assumptions:

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




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

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

## Appendix B

# Required communications with the Audit Committee




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

Our Reporting to you		
Required communications	 What is reported?	  When and where
Terms of engagement	Confirmation by the Governance and Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit Plan - January 2019
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> </ul>	Audit Results Report - July 2019



## Appendix B




# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> <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>Audit Plan - January 2019</p> <p>Audit Results Report - July 2019</p>
External confirmations	<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>	Audit Results Report - July 2019
Consideration of laws and regulations	<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 Governance and 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 Governance and Audit Committee may be aware of</li> </ul>	Audit Results Report - July 2019
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report - July 2019







## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> <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>	Audit Results Report - July 2019
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - July 2019
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the Governance and 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>	Audit Results Report - July 2019
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <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>	Audit Results Report - July 2019

## Appendix B

# Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	  When and where
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - July 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - July 2019
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - July 2019
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Plan - January 2019 Audit Results Report - July 2019 Annual Audit Letter - August 2019
Certification work	Summary of certification work undertaken	Annual Certification report - December 2019

## Additional audit information

### Other required procedures during the course of the audit

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

#### Our responsibilities required by auditing standards

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

### Purpose and evaluation of materiality

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

Materiality determines:

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

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

<b>Report to</b>	Audit Committee 22 January 2019	<b>Item</b>
<b>Report of</b>	Chief Internal Auditor, LGSS	<b>7</b>
<b>Subject</b>	Internal audit 2018/19 – October to December update (Quarter 3)	

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### **Purpose**

To advise members of the work of internal audit, completed between October to December 2018, and the progress against the internal audit plan.

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

The 2018-19 Audit Plan was approved by the audit committee on 13 March 2018.

### **Recommendations**

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

### **Corporate and service priorities**

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

### **Financial implications**

None

**Ward/s:** All wards

**Cabinet member:** Councillor Kendrick – Resources

### **Contact officers:**

Duncan Wilkinson, Chief Internal Auditor, LGSS 01908 252089

Neil Hunter, Head of Internal Audit, LGSS 01223 715317

Magen Powell, Principal Auditor, LGSS 01603 212575

### **Background documents**

None







**NORWICH**  
City Council

# **LGSS Internal Audit & Risk Management**

## **Norwich City Council**

Quarterly update report

Q3

*As at 11<sup>th</sup> January 2019*

## Resources

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

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

The original plan, approved by Corporate Leadership Team (CLT), was agreed as 450 days. At the end of December 2018, 370 productive days have been delivered against the plan. This reflects the original profiling with the majority of testing completed in quarter's two to four.

CLT has delegated the responsibility for agreeing changes to the Plan midyear to the Director of Business Services. In line with changing risks and priorities facing the council the Director of Business Services approves suggested changes to the plan.

## Progress against the plan

### Finalised Assignments

Since the previous report to Committee the following audit assignments have reached completion as set out below:

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Commercial Rents	Satisfactory	Satisfactory	Minor
Cross cutting	Council Tax	Good	Good	Minor
Cross cutting	National Non – Domestic Rates (NNDR)	Substantial	Good	Minor
Cross cutting	Accounts Payable	Substantial	Substantial	Minor
Cross cutting	Accounts Receivable	Substantial	Substantial	Minor

At the conclusion of an audit assignment an assurance opinion of the system is reported and these are explained further in Appendix B – Audit Definitions.

### Commercial Rents

The audit identified that a list of total rental values for the whole portfolio of income generating properties managed by NPS Norwich Ltd (NPSN) is not available and there is no evidence of any agreement between the council and NPSN relating to how the budgets for rental income will be calculated. Management is aware of the current challenges regarding performance management of the commercial property portfolio, and these are being addressed through the development of the Commercial Investment Unit.

### Council Tax

Council tax visiting officers follow a schedule compiled at the start of the year with all types of discounts and exemptions that require review. Testing confirmed that this schedule omitted the categories for disregard discounts for students (if only some household members are students) and exemptions for people under 18 (if all household members are under 18). As a result, the audit confirmed that end dates for disregard discounts for students and exemptions for people under 18 have not always been input on the system when held.

The service is in the process of obtaining system reports of all discounts and exemptions where no end date is held to quantify number of accounts affected.

### National Non – Domestic Rates (NNDR)

The current corporate financial procedures do not detail any financial limits for approval of refunds. The practice is that all refunds of any value are authorised by any team leader or operations manager.

There are no procedures in place to ensure that access levels to the revenues system (Northgate) are reviewed on a regular basis

Internal audit has recommended an efficiency opportunity to cease completing the check of write-offs processed through the revenue system to the authorised records held on Civica. The service has agreed to this.

### Accounts Payable

Minor queries were raised as a result of the audit testing which were satisfactorily answered or left with management, and there are therefore no issues to report from the audit work this year.

### Accounts Receivable

Minor queries were raised as a result of the audit testing which were satisfactorily answered or left with management, and there are therefore no issues to report from the audit work this year.

### **Draft / Interim reports / Work in progress**

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

Directorate	Assignment
Cross cutting	Fees and Charges Policy
Cross cutting	Governance Arrangements – Norwich Regeneration Limited
Cross cutting	Project Management
Cross cutting	Housing Rents and Arrears
Cross cutting	Debt Recovery

Directorate	Assignment
Cross Cutting	Treasury Management
Cross Cutting	Housing Benefits
Cross Cutting	Safeguarding Policy Review
Cross Cutting	Contract Management joint ventures

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

## Fraud and corruption update

### Data matching

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

The Council has submitted all required data sets for the 2018/19 main exercise and awaits the results which will become available from 31 January 2019.

The Cabinet Office requires Council Tax and Electoral Register data annually for council tax single person discount matching, submissions for this exercise are in progress and it is anticipated both datasets will be uploaded prior to the 28 February 2019 deadline.

## Implementation of management actions

There are currently no outstanding high level actions, and this provides positive assurance of the Councils commitment to maintain the internal control environment.

## Summaries of completed audits with limited or no assurance

At the conclusion of an audit an assurance opinion of the system is reported. This reflects the effectiveness of control, compliance and organisational impact. These are explained further in Appendix B – Audit Definitions

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

## **Other audit activity**

In addition to completing ongoing audit reviews, the Internal Audit team has been conducting work in the following areas:

### **Advice and assurance**

The team provides both proactive and responsive advice where it helps to improve the control environment. There is a contingency in the plan for handling queries, and planning for significant pieces of work which may be commissioned throughout the year. We have assisted the Council in several areas to date.

### **Risk Management**

Internal Audit met with the Corporate Leadership Team on 14 November 2018 and facilitated a strategic risk identification session. As a result, senior management identified nine corporate risks facing the Council and risk owners.

Work is now underway to identify events or conditions that cause a risk to occur (triggers). By identifying the triggers, the Council is better able to identify any controls or mitigating actions necessary to prevent the risk occurring or to recover quickly should a risk occur.

A report is being presented to Cabinet on 6 February 2019 with an update on the corporate risk register and this will be presented to Audit Committee on 12 March 2019.

### **Transformation - Implementation of new IT System**

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



## Appendix A – Internal audit plan

### Norwich 2018/19

Audit	Status	Qtr opened / planned	Qtr closed	Profiled days
National Fraud Initiative	Ongoing	All year	N/a	20
Fraud Investigations	Ongoing	All year	N/a	25
<b>Total Anti-Fraud and Corruption:</b>				<b>45</b>
Accounts Receivable	Complete	Q3	Q3	15
Purchase to Pay	Complete	Q3	Q3	15
Payroll	In progress	Q3		15
Housing Rents/Arrears	In progress	Q3		20
Housing Benefits	In progress	Q3		20
Council Tax	Complete	Q2	Q3	15
NNDR	Complete	Q2	Q3	15
Treasury Management	In progress	Q3		15
Debt Recovery	In progress	Q3		10
<b>Total Key Financial Systems:</b>				<b>140</b>
Risk Management	Not started	All year	N/a	20
<b>Total Risk Management:</b>				<b>20</b>
Contract Management	In progress	Q3		35
<b>Total Contracts:</b>				<b>35</b>
Fees and Charges Policy	In progress	Q1		10
Commercial Rents	Complete	Q1	Q3	15
Attend HR & Finance Project Meetings	Ongoing	All year	N/a	15
Project Management	In progress	Q2		10
Norwich Regeneration Limited	In progress	Q2		15
<b>Total Risk-Based Audits:</b>				<b>65</b>
Annual Key Policies & Procedures Review	In progress	Q3		6
Financial Regulations	Not started	Q4		2
<b>Total Policies &amp; Procedures:</b>				<b>8</b>
Fees and Charges	Complete	Q1	Q1	1
Key Performance Indicators	Complete	Q1	Q1	10
Procurement Compliance	Not started	Q4		20
Contract Extensions	Complete	Q1	Q1	5
<b>Total Compliance:</b>				<b>36</b>
Information Security & GDPR	Not started	Q4		15
Financial Systems IT & General Computer Controls	Not started	Q4		10
<b>Total ICT and Information Governance:</b>				<b>25</b>
Attend Information Governance Group	Ongoing	All year	N/a	5

Audit	Status	Qtr opened / planned	Qtr closed	Profiled days
Attend Data Breach Response	Ongoing	All year	N/a	5
Attend/facilitate Corporate Governance and RM Group	Ongoing	All year	N/a	5
Annual Governance Statement	Complete	Q1	Q1	10
<b>Total Governance:</b>				<b>25</b>
Disabled Facility Grant	Complete	Q1	Q2	12
Cycle highways grant	Not Started	Q4		5
<b>Total Grant assurance:</b>				<b>17</b>
Advice & Guidance	Ongoing	All year	N/a	10
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10
<b>Total Advice &amp; Guidance:</b>				<b>20</b>
Committee Reporting	Ongoing	All year	N/a	17
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	8
<b>Total Reporting:</b>				<b>35</b>
<b>Operational Plan Total - 2018/19</b>				<b>471</b>

## Appendix B – Audit Definitions

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

### Control Environment / System Assurance

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

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

### Compliance Assurance

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

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

## Organisational Impact

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

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

## Findings prioritisation key

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

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

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

