

Audit committee

Date: Tuesday, 05 September 2017

Time: 16:30

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

Committee members:

Councillors:

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

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Informal briefing

There will be an informal members' briefing on IT security facilitated by Steve Day, Head of IT (LGSS) at 16:00 in the Mancroft room

Information for members of the public

Members of the public and the media have the right to attend meetings of full council, the cabinet and committees except where confidential information or exempt information is likely to be disclosed, and the meeting is therefore held in private.

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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, 31 August 2017.**

Petitions must be received must be received by the committee officer detailed on the front of the agenda by **10am on Monday, 4 September 2017.**

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 20 June 2017

5 Approval of Council's Financial Statements 2016-17(to follow on supplementary agenda)

5(a) Annual Governance Statement 2016-2017

Purpose - To review and approve the final audited version of the annual governance statement for 2016-17

5(b) Audit Results report 2016-17

Purpose - This report presents the Audit Results Report 2016-17 and the draft Letter of Representation for approval by the committee.

5(c) Statement of Accounts 2016-17

Purpose - This report presents the formal audited statement of accounts, to be authorised by the audit committee audit committee and the chief finance officer by the statutory deadline of 30 September 2017.

6 Internal audit 2017-18 – April to August update (Quarter 1) 11 - 22

Purpose - To advise members of the work of internal audit, completed between April to August 2017, 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 risk which will most impact upon the council's ability to achieve its objectives. The 2017-18 Audit Plan was endorsed by the council's corporate leadership team on 1 March 2017 and approved by the audit committee on 14 March 2017.

7 External audit appointment 23 - 26

Purpose - There is a statutory requirement for the council's Statement of Accounts to be independently audited. The Local Audit and Accountability Act 2014 brings changes to the appointment process for external auditors (referred to in the Act as a local auditor).

The contract for the present external auditors, Ernst & Young LLP (EY), is due to expire 31 March 2018. The council must, by 31 December 2017, have appointed a local auditor to be in place by April 2018, to undertake the audit of the council's financial statements for 2018-19 onwards.

Appointments are made through an audit panel. On 20 September 2017 the Audit Committee approved using the Public Sector Audit Appointments Ltd (PSAA) to act as an audit panel. The PSAA have proposed that the local auditor for the Council continues to be EY, which will provide

continuity.

Date of publication: **Friday, 25 August 2017**



Audit committee

16:35 to 18:45

20 June 2017

Present: Councillors Price (chair), Driver (vice chair following election),
Bradford, Bremner, Jones (B), Lubbock, Maxwell and Schmierer

1. Appointment of vice chair

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

2. Public questions/petitions

There were no public questions or petitions received.

3. Declarations of interest

There were no declarations of interest.

4. Minutes

RESOLVED to agree the accuracy of the minutes of the meeting held on
14 March 2017.

5. Annual report on Internal Audit and fraud 2016-17

The chair took this item first.

The head of internal audit presented the report and explained that it was a summary of the work carried out over the last year. On the basis of the completed work, he said that the council was giving good assurance on compliance and that the committee should be reassured by this.

The principal audit manager continued the presentation and highlighted key areas. He said that the council operated to Public Sector Internal Audit Standards.

He referred to the overview and key findings on page 206 of the agenda papers and said that there were a number of high and medium priority recommendations that were still open. These were to be implemented in the future so were categorised as 'open' rather than 'outstanding'.

The head of internal audit clarified that a 'good rating' was the second highest assurance level with a 'substantial' rating being higher. He said that if the council had set targets to this level, it could indicate that the target risk compliance level was

too high. A 'good' rating shows a balance between risk and control. He added that there were still areas to improve upon and these had been taken very seriously by the council's corporate leadership team.

A member referred to the recent cyber-attack on the NHS computer systems and asked for some more information on data management. The head of internal audit said that a review of data management had taken place and the council had shown good compliance, however, it was a fast moving area so it would always be a challenge to undertake a substantial assessment. Current procedures had been reviewed and that there was an evidence test of resilience in place following a much lower key attack earlier in the year. This had been dealt with and managed using disaster recovery procedures. Further actions were still recommended and developments on these were being taken forward by LGSS. The principal audit manager added that after the NHS cyber-attack, internal audit had looked at the readiness of the council in case the same attack were to take place and concluded that the council was in a good position. As members had more detailed questions around cyber-attack and resilience, the chair suggested that a representative of LGSS attend the next meeting of the audit committee to give members more information on this topic.

A member referred to the 'moderate' compliance of the debt recovery audit on page 208 of the agenda papers and asked the principal audit manager whether the errors were in the past or likely to happen in the future and whether constantly changing information from the Department of Work and Pensions had any bearing on this and the risk of fraud. The principal audit manager said that when testing the transactions, they had not found any evidence of fraud. The review looked at sundry debt which included invoices to customers and businesses and these were more reflective of internal financial systems than information needed for council tax and benefit purposes which would be subject to a different review. A new finance system was in the process of being implemented which needed to be monitored but there were no formal concerns around this.

In response to a member's question, the head of internal audit explained the 'limited' compliance assurance rating for capital contracts on page 215 of the agenda papers. He said that this was linked to work on a sheltered housing project which had an overspend against the budget. There had been a 'design creep' with the project relating to incrementally increased specifications. Controls on the works between the council and NPS Norwich had not been fully complied with and budget changes had not been reported upwards. The chief executive officer confirmed that piece of work had been commissioned by the council to look into the overspend as increased costs throughout a development should be reported and then dealt with accordingly by obtaining authority for an increased spend or by scaling back works. A report was commissioned to understand and tighten the control between the council and NPS Norwich as it was important to manage capital projects within allocated budgets. She added that it was rare to ask for an audit but costings should be transparent and lessons needed to be learnt. There was no suggestion that money had been misspent but instead that some spend had not been properly authorised. The head of internal audit said that if there were any further development around this, it would be reported in the next quarterly update.

The chair asked that any issues that members of the committee wanted to be covered in the internal audit plan be put through the chair who could progress these with the auditors.

RESOLVED to:

- (1) note the annual Internal Audit report and opinion, noting the work of the Internal Audit team for 2016 – 17; and
- (2) ask the head of IT services to attend an informal briefing with members of the audit committee to discuss the resilience around cyber attacks

6. Risk Management Report

The chair took this item next.

The principal audit manager presented the report and highlighted the changes to the corporate risk register. He said the he met with the corporate leadership team to discuss changes to the risk environment and if there were any additional changes, these would be brought to the attention of the audit committee.

He reassured members that risks C1 (business continuity and emergency planning) and C3 (information security) had been reviewed in light of the recent cyber-attack on the NHS and there were appropriate procedures in place. There were two elements to these risks, technical and human and that continuing education in these areas was needed to maintain awareness.

There were two risks which were still above the council's risk appetite (the housing investment strategy and public sector finance), which had been approved by this committee and cabinet, and the council had taken all the necessary actions. The chair referred to the heat map on page 198 of the agenda papers and said that there was a balance between mitigation and controls around risk. The report showed that controls had been put in place as far as possible and said that the two red elements in the heat map were currently beyond control of the council and were red due to external factors. The principal audit manager reminded members that the heat map showed residual risk which was calculated using the inherent risk score in tandem with the key controls. In response to a member's question, the principal audit manager said that the corporate leadership team along with relevant senior officers reviewed the key controls each quarter to ensure that the correct controls were in place.

Members then discussed the uncertainty surrounding public sector finances. The chief executive officer said that the council had brought back its housing debt which would have been payable within the thirty year profile. The one percent rent cap imposed has taken significant amounts of money out of the programme of investment. The spending had subsequently been re-profiled and officers were confident that the requirements of the thirty year plan could be met. With regards to the high value voids determinations, there was still uncertainty still around how these would be calculated so there were no means of telling how this would affect finances. She added that overall public sector finance was not in the control of the

council but a five year medium term financial strategy was in place. The government may change the variables around public sector finance which could increase the risk.

A member raised the issue of emergency planning in relation to tower block safety. The chief executive officer said that as soon as the news had broken on the Grenfell Tower tragedy, all council owned tower blocks had been checked and none had the external cladding. Prior to this, there had also been a clampdown on washing lines and flower pots in the tower blocks which were for the safety and security of the tenants. A letter had been sent to all tenants regarding fire safety inspections and NPS (Norwich) were undertaking further checks for any residual risks- none had been identified so far. She said that a fire drill had recently been undertaken in one block and that the council had a history of working in collaboration with other councils regarding emergency planning and reciprocal arrangements.

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

7. Draft annual governance statement 2016 - 17

The principal audit manager presented the report. He said that section six of the statement documents existing governance issues and also looks forward to future challenges. He highlighted the implementation of the General Data Protection Regulations and said that steps were already being put in place to comply with this. He added that this would also be chance to refresh the code of corporate governance.

In response to a member's question about the accuracy of the fixed asset register, the chief accountant said that tender was in place and that a management system for the register was on track to be implemented by April 2018. She added that a piece of work had been undertaken to cross reference ownership of these assets with the land registry which helped with keeping improvements up to date.

The chair referred to paragraph 6.2 at page 30 of the agenda papers and questioned whether recording council meetings to produce verbatim minutes should be considered. The chief executive officer said that there were resource implications around producing verbatim minutes. She added that the scrutiny committee looked at the cabinet forward agenda as part of their work programme item at each meeting and corporate plan and budget items were also considered by the scrutiny committee. She reminded members that cabinet decisions could be called in to scrutiny and that opposition members attended cabinet meetings and raised issues. Also, members could raise concerns informally with officers.

The chair suggested that all members could benefit from audit training at the start of the civic year. The chief executive officer suggested that this could be included in the member's training programme if agreed by the councillor development group.

RESOLVED to:

- (1) agree that the Annual Governance Statement is consistent with the committee's own perspective on internal control within the council including governance issues and actions,

- (2) approve the revised draft Code of Corporate Governance; and
- (3) ask the councillor development group to consider including audit training for all members in the member's training programme.

8. Statement of accounts 2016-17

The chief accountant presented the report. She said that there were some layout changes to the statement of accounts which would bring the format in line with budget monitoring reports to make these more familiar to the reader. She also highlighted the expanded funding analysis.

In response to a member's question, the chief executive said that bad debt relating to housing benefit was an area being investigated for improvement over the next few years and that an investment was being made in staff time to improve rates of collection. The chief accountant acknowledged that the lack of council tax income from student households was also an income issue.

Members discussed one for one right to buy receipts. The chief accountant explained that when a property was sold under the right to buy scheme, the receipt must be spent on replacement dwellings within three years. When receipts were kept, the council had designated these to be used on development. Due to the one percent rent cap and negotiations, the three year deadline was reached and the receipts had to be surrendered to the government. The chief executive officer added that housing associations had been approached to see if they could use the receipts but they were unable to. The chief accountant said that right to buy take up had increased from 2015-16 and the committee acknowledged the financial impact of this.

In response to a members question on pension liabilities, the chief accountant said that the figures in the report were provided by an actuary based to data given by the council. She confirmed that the estimate was based on the entire workforce taking their pension at the same time and being entitled to their full pension.

(Councillor Lubbock left the meeting at this point).

The chair asked for an explanation of the underspend shown on page 79 of the agenda papers. The chief accountant said that there was a programme of planned maintenance but some works were not needed or a better price was negotiated leading to an underspend.

RESOLVED:

- (1) having reviewed the draft Statement of Accounts 2016-17, to note the report; and
- (2) to ask the chief accountant to include a glossary of terminologies to the statement of accounts 2017 -18.

9. Annual audit report

The chair presented the report. He explained that he considered that a sentence should be added to paragraph 18 of the report to note the committee's concerns at the long term financial implications regarding uncertain government policies.

RESOLVED:

- (1) at point 18 of the report, include a reference to the committee's concerns at the long term financial implications of uncertain government policies; and
- (2) to approve the content of the Annual audit committee report 2016 – 17 and recommend that council adopts it.

CHAIR

Report to	Audit Committee	Item
	5 September 2017	
Report of	Chief Internal Auditor, LGSS	6
Subject	Internal audit 2017-18 – April to August update (Quarter 1)	

Purpose

To advise members of the work of internal audit, completed between April to August 2017, and the progress against the internal audit plan.

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

The 2017-18 Audit Plan was endorsed by the council's corporate leadership team on 1 March 2017 and approved by the audit committee on 14 March 2017.

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:

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Background documents

None

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q1

As at 25th August 2017

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 CLT, was agreed as 450 days. There have been no further changes to the plan for 2017/18. At the end of August 2017, 147 productive days are projected to have been delivered against the plan which reflects the profiling with the majority of testing completed in quarter's two to four. The team has made good progress in delivering the Plan and is on course for delivery by the end of the financial year.

Progress against the plan

Finalised Assignments

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

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Off contract spend	Good	Good	Minor
Cross cutting	Debt recovery	Good	Satisfactory	Moderate
Cross cutting	Treasury Management	Substantial	Substantial	Minor
Cross cutting	Financial System – IT General Controls	Good	Good	Minor
Cross cutting	Making Every Penny Count – Strategy	Substantial	Substantial	Minor
Cross cutting	Business planning – benefits realisation	Substantial	Substantial	Minor
Cross cutting	HRA Business planning	Substantial	Substantial	Minor
Cross cutting	General computer controls	Good	Good	Moderate
Cross cutting	Scheme of delegation - Policy and compliance	Substantial	Substantial	Minor
Cross cutting	Agency staff compliance	Satisfactory	Satisfactory	Minor
Cross cutting	Travel & Subsistence - compliance	Satisfactory	Satisfactory	Minor
Cross cutting	Invoices over £500	Good	Good	Minor
Cross cutting	Disabled Facility Grant	NA – Unqualified grant certification		
Cross cutting	City Cycle Ambition Grant – 3RW	NA – Unqualified grant certification		

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.

A number of reviews from 2016/17 were finalised in the April, and these were reflected in the Annual Report on Internal Audit and Fraud, which was presented to the Audit Committee in June.¹ In addition the team has finalised work from the 2017/18 plan. Key points include:

Disabled Facility Grant

Norfolk County Council received £6.3m capital funding from the Department of Health for Disabled Facility Grants as part of the Better Care Fund in 2016/17. £882k was allocated to Norwich City Council and we reviewed the expenditure to the accompanying grant conditions.

We reviewed five DFG claims for reasonableness and accuracy, plus reviewed client contributions, and other relevant claims. The Council pays the contractor, and invoices the grant applicant where they are required to pay a contribution to the works. Case records are input into Uniform, and financial transactions are also recorded on the Oracle financial management system. Comparison of this data highlighted that £500 of client contributions had not been invoiced, and £5k had not been recorded in the case records. Consequently the grant return was revised and records updated. The team has agreed to proactively reconcile these records in future and review the way they are recording data.

Cycle City Ambition Grant

The Council was awarded grant funding for the development of cycleways, from the Department for Transport. An addendum to the grant scheme of £715k was also awarded to provide cycle paths linking into the city, known as Three Rivers. As this was beyond the City Council boundaries it was the responsibility of Norfolk County Council, but was administered by the City Council through the main grant scheme. We were required to certify the grant claim for this addendum.

Norwich City Council had asked the County Council to provide a statement of assurance that the funds had been spent in accordance with the grant conditions. As part of the budget calculation Norwich City Council was required to pay back £5k of unspent funds to the DfT.

We reviewed the supporting information, which was referred back to the County Council for clarification on the expenditure. Consequently a revised statement of assurance was provided which identified £53k of unspent funds. Norwich City Council referred back to the DfT, and they confirmed that the City Council could retain these funds providing they could demonstrate that it would contribute to the main cycleway scheme.

Invoices over £500

A sample of invoices over £500 was reviewed to establish compliance with contract procedures, and there is good assurance for both the control environment and compliance. There was adequate segregation of duties between raising and authorisation of requisitions, receipting of purchase orders and setting up payment of invoices. Quotations / tenders were completed in line with contract procedures, to obtain value for money. The invoices were paid by BACS promptly, and invoices over £500 were published on the council website as per the Transparency Code 2015.

¹ <https://cmis.norwich.gov.uk/live/Meetingscalendar/tabid/70/ctl/ViewMeetingPublic/mid/397/Meeting/399/Committee/5/SelectedTab/Documents/Default.aspx>

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	Council Tax
Cross cutting	NNDR
Cross cutting	Housing Rents & Arrears
Cross cutting	Housing Benefits
Cross cutting	Procurement Governance
Cross cutting	Information Governance Policies
Cross cutting	Treasury Management
Cross cutting	Purchase to Pay
Cross cutting	Use of GPC

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

We have commenced a number of reviews classed as Key Financial Systems. Due to their significance, reviews of these systems are prioritised and we are making good progress on Council Tax, National Non Domestic Rates, Housing Rent and Arrears, and there are no significant areas of concern.

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 carried out the current exercise to the deadlines set by the Cabinet Office. From a total of 3346 matches there are a total of 715 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. Work has commenced on reviewing these matches and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported.

Implementation of management actions

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule.

There are currently no outstanding high level actions, and this provides positive assurance of the Council's 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.

Corporate Risk Register

The team has facilitated updates of the Corporate Risk Register. The current register, which was approved by CLT and the Audit Committee in May 2017, has two risks which exceed the Council's risk appetite:

- risk B1, public sector funding, and
- risk A8, housing investment strategy.

It was agreed that all appropriate mitigation had been considered and the residual score would remain above the level of the Council's risk appetite.

The next review of the register will be completed in October. In addition, the annual review of the Risk Management Policy will be completed, to ensure that it continues to provide the Council with an effective approach to risk management. An update will be reported to Cabinet in January, following the Audit Committee meeting.

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.

Use of Social Media

The Chief Surveillance Commissioner circulated a letter to Councils which highlighted their concerns with compliance with Regulatory Investigation Powers Act (RIPA) in the public sector, specifically with the use of Social Media. The Act regulates the powers of public bodies to carry out surveillance and investigation, and the interception of communications.

The letter recommended that Internal Audit should complete some assurance work in this area. The Council has a RIPA gatekeeper, to review and process requests, and we met with them to discuss the letter from the Office of Surveillance Commissioners.

The Council has RIPA policies and procedures, and these will be updated to specifically include guidance for the use of Social Media. Historic RIPA authorisations were reviewed and there was no record of Social Media being used for RIPA enquiries.

We agreed, with the relevant Directors, to circulate a survey as proportionate next steps and to get a feel for how Social Media is being used. This indicated the Council is using Social Media sites, such as Facebook, Twitter and LinkedIn. Examples include proactively finding information about events which may be illegal or have a risk, locating debtors, and to find evidence which may be used in court proceedings and committal hearings. Viewing publicly available information on websites, where there is a low expectation of privacy, is unlikely to require a RIPA authorisation. However, if Social Media is being used, there is a potential risk of non-compliance with legislation.

Initial feedback is that Officers are aware of RIPA requirements, and the survey has helped to promote this. Further guidance is expected to be provided by the Home Office. The Chief Surveillance Commissioner indicated that they would examine Social Media Use during their next inspection. An inspection was previously completed in 2013 and the Council provided a statistical update in 2016. It is not known when the next inspection is due, however it is good practice for the Council to proactively review this.

Implementation of new IT System

The Council is implementing a new Finance System for HR and Finance.

The Project Board have requested that Internal Audit is involved to proactively provide advice on governance, risk and internal controls during project delivery.

Annual Governance Statement

We produced the Annual Governance Statement, which is a key piece of work which accompanies the Statement of Accounts. The team worked with Service Leads to map sources of assurance, and to identify any potential governance risks.

In addition we reviewed and updated the Council's Code of Corporate Governance, reflecting the latest professional guidance from CIPFA and SOLACE.

Both these documents were reported to the Audit Committee, and approved, at the June meeting. The final version of the Annual Governance Statement will be signed, and approved, with the Statement of Accounts for the September meeting. The Code of Corporate Governance will be further reviewed by the Constitution Working Party in the autumn.

Development

Continuous improvement

The LGSS Internal Audit team follows good professional practice such as the Public Sector Internal Audit Standards, and the supporting Local Government Application Note. In addition the team is externally reviewed against the standards, and completes a continuous review of its processes as good practice.

The Internal Audit team has reviewed the audit definitions which are issued on conclusion of audit work. The methodology and approach continues to be relevant, and some minor revisions have been made to the terminology which should add clarity to the reporting process. The audit definitions are listed in Appendix B.

Customer Satisfaction

LGSS circulates an annual customer satisfaction survey. The Internal Audit satisfaction indicators have improved and score 100% in all categories. This is a very positive result given the period of change in 2016/17. The questions ask customers to report if they: understand the reasons for internal audit and the arrangements for carrying them out; find recommendations helpful in improving the controls of risks; and if they find internal audit are polite and professional.

There has been a slight decrease in the performance of risk management. Managers are asked whether they 'understand the risk management strategy and how to apply it', and only 84% replied positively. The internal audit team engaged with both the Corporate Leadership Team and Members in 2016/17 to promote risk management. The survey identifies a further opportunity to engage with service leads and operational managers in 2017/18. The Council has relevant online training, which we are reviewing and will promote with the strategy this year.

Appendix A – Internal audit plan

Norwich 2017/18

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days
Operational plan grand total				450.0
Making Every Penny Count Total				35.0
Invoices over £500	Open	Q2	Q2	5.0
Transformation projects	Not started	All Year	NA	30.0
Anti-Fraud and Corruption Total				25.0
National Fraud Initiative	Open	All Year	NA	20.0
Fraud Investigations	Open	All Year	NA	5.0
Key Financial Systems Total				160.0
Accounts Receivable	Not started	Q3	NA	15.0
Purchase to Pay	Open	Q3	NA	20.0
Payroll	Open	Q2	NA	15.0
Housing Rents & Arrears	Open	Q2	NA	20.0
Housing Benefits	Open	Q2	NA	20.0
Council Tax	Open	Q1	NA	15.0
NNDR	Open	Q1	NA	15.0
Treasury Management	Open	Q3	NA	15.0
Procurement Governance	Open	Q2	NA	15.0
Debt Recovery	Not started	Q3	NA	10.0
Commissioning & Contracts Total				45.0
Contract Management	Not started	Q4		15.0
NPS Contract monitoring	Not started	Q2		20.0
Regeneration company	Not started	Q2		5.0
Commissioning	Not started	Q3		5.0
Risk-Based Audits Total				5.0
Safe Recruitment	Not started	Q3		5.0
Policies & Procedures Total				15.0
Financial Regulations (Norwich) 2018	Open	Q4		5.0
Business Continuity Policy	Open	Q2		5.0
Information Governance Policies	Open	Q2		5.0
Compliance Total				20.0
Fees and Charges	Not started	Q3		5.0
Grants to Voluntary Organisations	Not started	Q3		5.0
Use of GPC	Open	Q2		5.0
Contract Extensions	Not started	Q2		5.0
ICT and Information Governance Total				25.0
Information Security	Not started	Q3		10.0

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days
Financial Systems IT & General Computer Controls	Not started	Q3		15.0
Governance Total				25.0
Attend Information Governance Group	Open	All Year	NA	5.0
Attend Data Breach Response	Open	All Year	NA	5.0
Attend Corporate Governance Group	Open	All Year	NA	5.0
Annual Governance Statement	Open	Q1	Q2	10.0
Risk Management Total				16.0
Risk Management	Open	All Year	NA	12.0
Risk Management Policy	Not started	Q3		4.0
Grant assurance Total				10.0
Disabled Facility Grant	Open	Q1	Q2	5.0
Cycle highways grant	Open	Q4		5.0
Advice & Guidance Total				45.0
Advice & Guidance	Open	All Year	NA	25.0
Follow-Ups of Agreed Actions	Open	All Year	NA	20.0
Reporting Total				24.0
Committee Reporting	Open	All Year	NA	8.0
Management Reporting	Open	All Year	NA	8.0
Audit Plan	Open	All Year	NA	8.0

Appendix B – Audit Definitions

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

Control Environment / System Assurance

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

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

Compliance Assurance

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

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

Organisational Impact

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

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

Findings prioritisation key

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

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

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

Report to Audit committee
5 September 2017
Report of Chief internal auditor, LGSS
Subject External audit appointment

Item
7

Purpose

There is a statutory requirement for the council's Statement of Accounts to be independently audited. The Local Audit and Accountability Act 2014 brings changes to the appointment process for external auditors (referred to in the Act as a local auditor).

The contract for the present external auditors, Ernst & Young LLP (EY), is due to expire 31 March 2018. The council must, by 31 December 2017, have appointed a local auditor to be in place by April 2018, to undertake the audit of the council's financial statements for 2018-19 onwards.

Appointments are made through an audit panel. On 20 September 2017 the Audit Committee approved using the Public Sector Audit Appointments Ltd (PSAA) to act as an audit panel. The PSAA have proposed that the local auditor for the Council continues to be EY, which will provide continuity.

Recommendation

To note the report and recommend to cabinet that it endorses the proposal from the panel of the Public Sector Audit Appointments Ltd (PSAA) that Ernst & Young LLP continues to be the council's external auditor.

Corporate and service priorities

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

Financial implications: None directly.

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officers

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Background documents

None

Report

Background

1. The Local Audit and Accountability Act 2014 closed the Audit Commission and established transitional arrangements for the appointment of external auditors and the setting of audit fees for councils.
2. On 5 October 2015 the Secretary of State Communities and Local Government (CLG) determined that the transitional arrangements for local government bodies would be extended by one year to also include the audit of the accounts for 2017-18.
3. The council's current external auditor is Ernst & Young LLP (EY). The contract is currently managed by Public Sector Audit Appointments Limited (PSAA), the transitional body set up by the Local Government Association (LGA) with delegated authority from the Secretary of State CLG.
4. When the current transitional arrangements come to an end on 31 March 2018 the council will need to appoint a local auditor. The Act requires that a relevant authority, i.e. Norwich City Council, '...consult and take in to account advice from its audit panel when selecting and appointing a local auditor'.
5. The Local Government Association (LGA) successfully lobbied for councils to be able to 'opt-in' to a Sector Led Body (SLB) appointed by the Secretary of State under the Act. An SLB has the ability to negotiate contracts with external audit firms nationally, maximising the opportunities for the most economic and efficient approach to procurement of external audit on behalf of the whole sector. PSAA is the Sector Led Body.
6. On the 20 September 2016 the audit committee considered options for forming an audit panel and agreed that continuing to use the PSAA would be best value. The committee recommended to cabinet that this option should be progressed. Cabinet endorsed the recommendation, and PSAA was appointed as an audit panel by a full council decision on 29 November 2016.

Consultation for auditor proposal

7. The scope of the audit will continue to be specified nationally. The National Audit Office (NAO) is responsible for writing the Code of Audit Practice, which all firms appointed to carry out the council's audit must follow.
8. The PSAA completed a tender exercise to identify who could be local auditors. Accounting firms had to demonstrate that they have the required skills and experience and be registered with a Registered Supervising Body approved by the Financial Reporting Council.
9. Subsequently the PSAA wrote to the council, on 15 August 2017, proposing that Ernst & Young (EY) continues to be our local auditor.
10. Ernst & Young LLP (EY) is a multinational professional services firm with 231,000 employees based in over 150 countries worldwide. They provide assurance, tax, consulting and advisory services, and are one of the "Big Four" accounting firms. EY employs around 13,000 people in the UK. There are 240 staff including 14 Key

Audit Partners who currently work full-time in the Government and Public Sector assurance service team, who are also able to draw from an extensive pool of specialists.

11. In developing this appointment proposal, PSAA applied the following principles, balancing competing demands, based on the information provided by audited bodies and audit firms:
 - ensuring auditor independence, as required by the Regulations;
 - meeting commitments to the firms under the audit contracts;
 - accommodating joint/shared working arrangements where these are relevant to the auditor's responsibilities;
 - ensuring a balanced mix of authority types for each firm;
 - taking account of each firm's principal locations; and
 - providing continuity of audit firm if possible, but avoiding long appointments.
12. The council can object or confirm this proposal. Reasons for objection, could include an independence issue, partnership arrangements (i.e. if we wanted to change to the same auditor as a partner council), or dissatisfaction with the service. The PSAA can reject an objection. If they agreed to an objection, they would appoint another auditor for us.
13. The External Auditor assesses their independence as part of their annual plan (reported annually to Audit Committee in March). There is also an opportunity to discuss perceived independence and objectivity, through the Audit Committee, as part of their audit results (reported annually in September). In addition the PSAA has a complaints process, and will undertake contract monitoring of the audit firms.
14. There is no prescribed process for consultation. For transparency the audit committee could support the proposal for EY, and recommend this is endorsed by cabinet and council, reflecting the previous report on external audit appointments.
15. The council must respond to this consultation by 27 September. Following consultation, all appointments must be approved by the PSAA Board. This is scheduled for the meeting of the Board on 14 December, following which the PSAA will write to all opted-in bodies to confirm the appointments.

Summary

16. Section 7 of the Local Audit and Accountability Act 2014 (the Act) requires a relevant authority to appoint a local auditor to audit its accounts for a financial year not later than 31 December in the preceding year. Section 8 governs the procedure for appointment including that the authority must consult and take account of the advice of its auditor panel on the selection and appointment of a local auditor.
17. Further information on the auditor appointment process is available on the PSAA website: <https://www.psaa.co.uk/appointing-person/frequently-asked-questions/>
18. The auditor panel has proposed that EY continues to be our local auditor for the next 5 years. The committee should object or support the proposed appointment.

