

### **Audit committee**

**Date:** Tuesday, 14 March 2017

**Time:** 16:30

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

#### **Committee members:**

##### **Councillors:**

Price (chair)  
Wright (vice chair)  
Driver  
Harris  
Jones (B)  
Kendrick  
Schmierer  
Stonard

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

Committee officer: Jackie Rodger  
t: (01603) 212033  
e: [jackierodger@norwich.gov.uk](mailto:jackierodger@norwich.gov.uk)

Democratic services  
City Hall  
Norwich  
NR2 1NH

[www.norwich.gov.uk](http://www.norwich.gov.uk)

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For information about attending or speaking at meetings, please contact the committee officer above or refer to the council's website



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## Agenda

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| <b>1</b> | <b>Apologies</b><br><br>To receive apologies for absence  |                |
| <b>2</b> | <b>Public questions/petitions</b><br><br>To receive questions / petitions from the public (notice to be given to committee officer in advance of the meeting in accordance with appendix 1 of the council's constitution)         |                |
| <b>3</b> | <b>Declarations of interest</b><br><br>(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)   |                |
| <b>4</b> | <b>Minutes</b><br><br>To agree the accuracy of the minutes of the meeting held on 24 January 2017.  | <b>5 - 8</b>   |
| <b>5</b> | <b>External Audit Plan 2016-17</b><br><br><b>Purpose</b> - This report presents the annual external audit plan 2016-17.   | <b>9 - 28</b>  |
| <b>6</b> | <b>Risk Management report</b><br><br><b>Purpose</b> - To update members on the review by the corporate leadership team, of key risks facing the council, and the associated mitigating actions.                                   | <b>29 - 44</b> |
| <b>7</b> | <b>Draft Internal Audit Plan for Norwich City Council 2017-18</b><br><br><b>Purpose</b> - This report provides the audit committee with an outline of the Internal Audit Plan for Norwich City Council as attached at appendix 1. | <b>45 - 56</b> |

Date of publication: **Monday, 06 March 2017**







**Audit committee**

**16:30 to 17:05**

**24 January 2017**

Present: Councillors Price (chair), Wright (vice chair), Driver, Harris, Jones (B), Kendrick and Schmierer

Apologies: Councillor Stonard (other council business)

**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 22 November 2016.

**4. Certification of claims and returns annual report 2015-16**

The chief finance officer presented the covering report.

The external auditor presented the appended report and answered members' questions. He explained the audit process for the housing benefits subsidy claim and the reasons for the qualification set out in Section 1 of the report. No materiality was allowed and therefore any overpayment or underpayment was counted. He pointed out that a positive was that the number of errors had been fewer than previous years resulting in the lowest amount the council had to repay in recent years. The council was therefore travelling in the right direction and was no different to his other clients.

Discussion ensued in which members asked what measures were taken to drill down errors to see if there was a common cause and avoid similar errors reoccurring. Members also expressed concern that under payments should be avoided to ensure that the council's residents were not adversely affected. The chief finance officer said that the issues raised in the external auditors' report would be followed up with

the revenues and benefits service and internal audit. Quality assurance was in place. The external auditor said that there had been no specific areas where errors had occurred this year. In previous years some errors had been more significant and had been followed up with additional training for individual employees around those areas.

In reply to a question, the chief finance officer said that it was the first year that the council had not incurred additional fees. In previous years the external auditors had been required to conduct further work. The external auditor confirmed that the fee of £2,000 for the quality assurance on the capital pooling return was at the lower end of the approved range of fees.

**RESOLVED** to note the council's external auditor's Certification of Claims and Returns Annual Report 2015-16.

## **5. INTERNAL AUDIT 2016-17 – APRIL TO DECEMBER UPDATE**

The principal audit manager, LGSS, presented the report. The counter-fraud policies had been approved by cabinet and were now being promoted around the council through emails, the council's intranet and posters.

In reply to a question from the chair about information risk, the principal audit manager explained that internal audit attended the corporate information group, which was made up of officers. The group reviewed information risks, such as software attacks and had controls in place to ensure the resilience of information security. This assurance was reflected in the Annual Governance Statement.

Discussion ensued in which members considered the control assurance given to benefits and council tax reduction. The chief finance officer explained the procedures for writing off debts. Debts were written off as a last resort. The chief finance officer was the only officer who could write off debts over £2,000. The corporate leadership team considered debts to be written off at least three times a year and reported to cabinet seeking debt recovery for larger debts, usually business rates. Members noted that in some cases it was either impossible or too costly to recover the debt. The principal audit manager confirmed that he was satisfied with the actions that the team leaders had undertaken.

In reply to a member's question about the National Fraud Initiative, the principal audit manager explained that the responsibility for housing benefit fraud had transferred to the Department of Works and Pensions. The council however could not be complacent and needed to be vigilant against fraud and have sound counter fraud measures in place, for instance there was potential for council tenant fraud around Right to Buy.

The chair referred to paragraph 3.4 and said that the committee had assurance that there were "no outstanding high level actions" arising from the internal audit reviews.

In reply to a question, the principal audit manager said that the internal audit team was on course to deliver the 470 days in the internal audit plan by the end of the financial year. Any changes would be reported to the committee.

**RESOLVED** to note the contents of the report.

CHAIR





**Report to** Audit committee  
14 March 2017  
**Report of** Chief finance officer  
**Subject** External Audit Plan 2016- 17

**Item**

**5**

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**Purpose**

This report presents the annual external audit plan 2016-17.

**Recommendation**

To:

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

**Corporate and service priorities**

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

**Financial implications**

There are no direct financial implications arising from this report.

**Ward/s:** All wards

**Cabinet member:** Councillor Stonard, resources and business liaison

**Contact officers**

Justine Hartley, Chief finance officer

01603 212440

# Report

## Background

1. This report sets out the external auditors' proposed approach to their work for the audit of the accounts for the 2016-17 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 to the council's financial statements for 2016 -17 (section 2 of the audit plan);
  - (b) The auditors' assessment of the key value for money risks (section 3 of the audit plan);
  - (c) The proposed audit process and strategy as set out in Section 4 of the audit plan. In particular, this section confirms that as a result of their review of key processes the external auditors will seek to rely on controls assurance for payroll, with other areas being subject to substantive testing (paragraph 4.2). This section also references that the work of internal audit will be reviewed, and that reliance will be placed on the work of NPS valuation specialists for property values and of actuarial specialists for pension fund valuations;
  - (d) Timetable and key deliverables including reporting requirements relating to the statutory accounts, the Whole of Government Accounts (WGA) return and the achievement of value for money (paragraph 4.7). Members should note that, with the statutory deadline for the signature of the accounts being brought forward for the 2017-18 accounts, the goal for the 2016-17 accounts is to mirror as closely as possible these shorter timescales for production of the draft accounts. The new timescales will require the draft accounts to be signed by 31st May each year, and the audited accounts by 31st July;
  - (e) The proposed audit fee for 2016-17 is £79,914 (paragraph 4.5 and Appendix A) which is the same as the core fee for 2015-16. A further fee of £3,682 was incurred for 2015-16 for work on the council's revised minimum revenue provision policy; and
  - (f) The audit team leads are set out at paragraph 4.6 and there are no changes proposed from the 2015-16 audit.

# Norwich City Council

Year ending 31 March 2017

Audit Plan

14 March 2017

Ernst & Young LLP



Building a better  
working world

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

14 March 2017

Dear Committee Members

## **2016/17 Audit Plan**

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2016/17 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.

We welcome the opportunity to discuss this Audit Plan with you on 14 March 2017 and to 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*  
Enc

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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 Chief Executive of each audited body and 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 from 1 April 2015' issued by 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 statute, and covers matters of practice and procedure which are of a recurring nature.

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

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

# 1. Overview

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

- ▶ Our audit opinion on whether the financial statements of Norwich City Council give a true and fair view of the financial position as at 31 March 2017 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.

In section 2 and 3 of this report we provide more detail on the areas which we believe present significant risk to the financial statements audit and conclusion on the Council's value for money arrangements, and outline our plans to address these risks. Details of our audit process and strategy are set out in section 4.

We will provide an update to the Audit Committee on the results of our work in these areas in our report to those charged with governance scheduled for delivery in September 2017.

## 2. Financial statement risks

We outline below our current assessment of the financial statement risks facing the Council, identified through our knowledge of the Council's operations and discussion with those charged with governance and officers.

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

Significant risks (including fraud risks)	Our audit approach
<b>Risk of fraud in revenue recognition</b>	
<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>We have rebutted this risk for the Council's income and expenditure streams except for the capitalisation of revenue expenditure on Property, Plant and Equipment given the extent of the Council's capital programme.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Review and test revenue and expenditure recognition policies;</li> <li>▶ Review and discuss with management any accounting estimates on revenue or expenditure recognition for evidence of bias;</li> <li>▶ Develop a testing strategy to test material revenue and expenditure streams;</li> <li>▶ Review and test revenue cut-off at the period end date; and</li> <li>▶ Test the additions to the Property, Plant and Equipment balance to ensure that they are properly classified as capital expenditure.</li> </ul>
<b>Risk of management override</b>	
<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>We have assessed journal amendments, accounting estimates and unusual transactions as the area's most open to manipulation.</p>	<p>Our approach will focus on:</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;</li> <li>▶ Reviewing accounting estimates for evidence of management bias; and</li> <li>▶ Evaluating the business rationale for significant unusual transactions.</li> </ul>
<b>Other financial statement risks</b>	
<b>Property, plant and equipment valuation (fixed assets)</b>	
<p>Property, plant and equipment represent a significant balance in the Council's accounts and this is an area which involves judgemental inputs and estimates.</p> <p>The most significant accounting judgement and estimate that the Council forms in this area relates to the valuation of property and land. In order to address this accounting risk the Council employs a valuation expert; Norfolk Property Services.</p> <p>The Council continue to use spreadsheets as a fixed asset register, these are difficult to maintain and lack quality reporting functionality.</p> <p>We will apply a higher inherent risk to property, plant and equipment due to the complexity in accounting, the accounting records used, and the material values involved.</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ Reliance on management's valuations experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified; and</li> <li>▶ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.</li> </ul>

## Other financial statement risks

**Assessment of the group boundary**

The Council set up a new company during 2015/16. The Regeneration Company Limited is an incorporated company wholly owned by Norwich City Council.

During 2015/16 the nature of this arrangement was assessed to determine whether the company should be consolidated into the Council's financial statements. We agreed with your officers' assessment that no group accounts were required. This will need to be revisited during 2016/17.

Our approach will focus on:

- ▶ Reassess the relationship with the company to determine where overall control lies with regard to the operation and delivery of services;
- ▶ Review the assessment of materiality; and
- ▶ Ensure appropriate consolidation procedures are applied if the company is consolidated into the Council's financial statements.

**Pension valuations and disclosures**

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

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

The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.

As part of their actuarial review, Councils are being asked to make additional payments to the pensions scheme to fund deficits.

Our approach will focus on:

- ▶ Liaising with the auditors of the Norfolk Pension Fund, to obtain assurances over the information supplied to the actuary in relation to Norwich City Council;
- ▶ Assessing the conclusions drawn on the work of the actuary by the Consulting Actuary commissioned by Public Sector Auditor Appointments, PwC; and
- ▶ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

**CIPFA Code change – CIES format**

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the code) this year changing the way the financial statements are presented.

The new reporting requirements impact the Comprehensive Income and Expenditure Statement (CIES) and the Movement in Reserves Statement (MiRS), and include the introduction of the new 'Expenditure and Funding Analysis' note as a result of the 'Telling the Story' review of the presentation of local authority financial statements.

The Code no longer requires statements or notes to be prepared in accordance with SeRCOP. Instead the Code requires that the service analysis is based on the organisational structure under which the authority operates. We expect this to show the Council's segmental analysis.

This change in the code will require a new structure for the primary statements, new notes and a full retrospective restatement of impacted primary statements. The restatement of the 2015/16 comparatives will require audit review, which could potentially incur additional costs, depending on the complexity and manner in which the changes are made.

Our Approach will focus on:

- ▶ Review of the expenditure and funding analysis, CIES and new notes to ensure disclosures are in line with the code;
- ▶ Review of the analysis of how these figures are derived, how the ledger system has been re-mapped to reflect the Council's organisational structure and how overheads are apportioned across the service areas reported; and
- ▶ Agreement of restated comparative figures back to the Council's segmental analysis and supporting working papers.



## 2.1 Responsibilities in respect of fraud and error

We would like to take this opportunity to remind you that management has the primary responsibility to prevent and detect fraud. It is important that management, with the oversight of those charged with governance, has a culture of ethical behaviour and a strong control environment that both deters and prevents fraud.

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

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

- ▶ Identifying fraud risks during the planning stages;
- ▶ Enquiry of management about risks of fraud and the controls to address those risks;
- ▶ Understanding the oversight given by those charged with governance of management's processes over fraud;
- ▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;
- ▶ Determining an appropriate strategy to address any identified risks of fraud; and
- ▶ Performing mandatory procedures regardless of specifically identified risks.

### 3. Value for money risks

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.

For 2016/17 this is based on the overall evaluation criterion:

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

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

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

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

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

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

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

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

Significant value for money risks	Our audit approach
<b>Sustainable resource deployment: Achievement of savings needed over the medium term</b>	
<p>The medium term financial strategy (MTFS) sets a net savings requirement for the Council of £1.9 million each year from 2018/19 to 2022/23. This is on top of £2.3 million savings to be delivered in the 2017/18 budget.</p> <p>The Council have identified savings for 2017/18 and for the first time, proposals for the following year (2018/19) have also been published. These projections will be revisited and presented to the Council for agreement on an annual basis.</p> <p>There remains a risk that the proposals for 2017/18 and 2018/19 are not delivered, and further savings will not be identified to close the funding shortfall in future years (2019/20 to 2022/23).</p>	<p>Our approach will focus on:</p> <ul style="list-style-type: none"> <li>▶ The adequacy of the Council's budget monitoring process, comparing budget to outturn;</li> <li>▶ The robustness of any assumptions used in medium term planning;</li> <li>▶ The Council's approach to prioritising resources whilst maintaining services; and</li> <li>▶ The savings plans in place, and assessing the likelihood of whether these plans can provide the Council with the required savings/efficiencies over the medium term.</li> </ul>

## 4. Our audit process and strategy

### 4.1 Objective and scope of our audit

Under the Code of Audit Practice our principal objectives are to review and report on the Council's:

- ▶ Financial statements
- ▶ 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 report to you by exception in respect of your governance statement and other accompanying material as required, in accordance with relevant guidance prepared by the NAO on behalf of the Comptroller and Auditor General.

Alongside our audit report, we also review and report to the NAO on the Whole of Government Accounts return to the extent and in the form they require.

#### 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.

### 4.2 Audit process overview

We will obtain an understanding of the Council's system of internal control. We assess the adequacy of specific controls that respond to significant risks of material misstatement. Where we intend to place reliance on particular controls for the purposes of our audit, we will carry out procedures to test the operating effectiveness of those controls and use the results of those procedures to determine the nature, timing and extent of further audit procedures to be performed.

Our initial assessment of the key processes across the Council has identified payroll as a key process where we will seek to test key controls.

We plan to test other transactions and balances substantively at year end.

#### **Analytics**

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

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

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

## Internal audit

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

## 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
Property, Plant and Equipment, and Investment Properties	Management expert – valuation specialists (Norfolk Property Services)
Pension valuations and disclosures	Management expert – actuarial specialists to the Norfolk Pension Fund (Hymans Robertson) / EY Pension Team

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 environment 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 expert 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.

## 4.3 Mandatory audit procedures required by auditing standards and the Code

As well as the financial statement risks (section two) and value for money risks (section three), we must 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.
- ▶ Reviewing and reporting on the Whole of Government Accounts return, in line with the instructions issued by the NAO.

### **4.4 Materiality**

For the purposes of determining whether the financial statements are free from material error, we define materiality as the magnitude of an omission or misstatement that, individually or in aggregate, could reasonably be expected to influence the users of the financial statements. Our evaluation requires professional judgement and so takes into account qualitative as well as quantitative considerations implied in the definition.

We have determined that overall materiality for the financial statements of the Council is £3.6 million based on 2% of gross expenditure on provision of services. We will communicate uncorrected audit misstatements greater than £181,778 to you.

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 the circumstances that might ultimately influence our judgement. 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 financial statements, including the total effect of any audit misstatements, and our evaluation of materiality at that date.

### **4.5 Fees**

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government. PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code. The indicative fee scale for the audit of Norwich City Council is £79,914.

### **4.6 Your audit team**

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

### **4.7 Timetable of communication, deliverables and insights**

We have set out below a timetable showing the key stages of the audit, including the value for money work and the Whole of Government Accounts. The timetable includes the deliverables we have agreed to provide to the Council through the Audit Committee's cycle in 2016/17. These dates are determined to ensure our alignment with PSAA's rolling calendar of deadlines.

From time to time matters may arise that require immediate communication with the Audit Committee and we will discuss them with the Chair as appropriate.

Following the conclusion of our audit we will prepare an Annual Audit Letter to communicate the key issues arising from our work to the Council and external stakeholders, including members of the public.

<b>Audit phase</b>	<b>Timetable</b>	<b>Audit Committee timetable</b>	<b>Deliverables</b>
Risk assessment and setting of scopes	<b>February 2017</b>	<b>March 2017</b>	Audit Plan
Testing routine processes and controls	<b>February 2017</b>	<b>March 2017</b>	Progress Report
Year-end audit	<b>July to September 2017</b>		
Completion of audit	<b>September 2017</b>	<b>September 2017</b>	<ul style="list-style-type: none"> <li>• Report to those charged with governance via the Audit Results Report;</li> <li>• Audit report (including our opinion on the financial statements; and, overall value for money conclusion);</li> <li>• Reporting to the NAO on the Whole of Government Accounts return.; and</li> <li>• Audit completion certificate.</li> </ul>
Conclusion of reporting	<b>October 2017</b>	<b>November 2017</b>	Annual Audit Letter

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

## 5. Independence

### 5.1 Introduction

The APB Ethical Standards and ISA (UK and Ireland) 260 'Communication of audit matters with those charged with governance', requires us to communicate with you on a timely basis on all significant facts and matters that bear on our independence and objectivity. The Ethical Standards, as revised in December 2010, require that we do this formally both at the planning stage and at the conclusion of the audit, as well as during 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 EY including consideration of all relationships between you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality Review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> </ul>	<ul style="list-style-type: none"> <li>▶ A written disclosure of relationships (including the provision of non-audit services) that bear on our objectivity and independence, the threats to our independence that these create, any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ Written confirmation that we are independent;</li> <li>▶ Details of any inconsistencies between APB Ethical Standards, the PSAA Terms of Appointment and your policy for the supply of non-audit services by EY and any apparent breach of that policy; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

During the course of the audit we must also communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of our safeguards, 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 contracted services, and details of any written proposal to provide non-audit services.

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 are disclosed and analysed in appropriate categories.

### 5.2 Relationships, services and related threats and safeguards

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

#### ***Self-interest threats***

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

At the time of writing, there are no long outstanding fees.

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 the Council.

We confirm that no member of our audit engagement team, including those from other service lines, is in this position, in compliance with Ethical Standard 4.

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

***Self-review threats***

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

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

***Management threats***

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

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

***Other threats***

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

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

***Overall Assessment***

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

## **5.3 Other required communications**

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 within EY for maintaining objectivity and independence can be found in our annual Transparency Report, which the firm is required to publish by law. The most recent version of this report is for the year ended June 2016 and can be found here:

<http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2016>



## Appendix A Fees

A breakdown of our agreed fee is shown below.

	Planned Fee 2016/17 £'s	Scale fee 2016/17 £'s	Outturn fee 2015/16 £'s	Explanation
Opinion Audit and VFM Conclusion	79,914	79,914	83,596	In 2015/16 we undertook a review of the Council's approach to the Minimum Revenue Provision. This additional work had an additional fee of £3,682 and was approved by Public Sector Audit Appointments Ltd (PSAA).
<b>Total Audit Fee – Code work</b>	<b>79,914</b>	<b>79,914</b>	<b>83,596</b>	
Certification of claims and returns <sup>1</sup>	29,819	29,819	35,780	

*All fees exclude VAT.*

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

- ▶ Officers meeting the agreed timetable of deliverables;
- ▶ The operating effectiveness of the internal controls for the key processes outlined in section 4.2 above;
- ▶ 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.

<sup>1</sup> Our fee for the certification of grant claims is based on the indicative scale fee set by the PSAA.

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

There are certain communications that we must provide to the [Audit Committee]. These are detailed here:

Required communication	Reference
<b>Planning and audit approach</b> Communication of the planned scope and timing of the audit including any limitations.	► Audit Plan
<b>Significant findings from the audit</b> <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
<b>Misstatements</b> <ul style="list-style-type: none"> <li>► Uncorrected misstatements and their effect on our audit opinion</li> <li>► The effect of uncorrected misstatements related to prior periods</li> <li>► A request that any uncorrected misstatement be corrected</li> <li>► In writing, corrected misstatements that are significant</li> </ul>	► Audit Results Report
<b>Fraud</b> <ul style="list-style-type: none"> <li>► Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>► Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>► A discussion of any other matters related to fraud</li> </ul>	► Audit Results Report
<b>Related parties</b> Significant matters arising during the audit in connection with the entity's related parties including, when applicable: <ul style="list-style-type: none"> <li>► Non-disclosure by management</li> <li>► Inappropriate authorisation and approval of transactions</li> <li>► Disagreement over disclosures</li> <li>► Non-compliance with laws and regulations</li> <li>► Difficulty in identifying the party that ultimately controls the entity</li> </ul>	► Audit Results Report
<b>External confirmations</b> <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
<b>Consideration of laws and regulations</b> <ul style="list-style-type: none"> <li>► Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>► Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of</li> </ul>	► Audit Results Report

Required communication	Reference
<b>Independence</b> Communication of all significant facts and matters that bear on EY's objectivity and independence Communication of key elements of the audit engagement director's consideration of independence and objectivity such as: <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>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> </ul>
<b>Going concern</b> Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: <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>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<b>Significant deficiencies in internal controls identified during the audit</b>	<ul style="list-style-type: none"> <li>▶ Audit Results Report</li> </ul>
<b>Fee Information</b> <ul style="list-style-type: none"> <li>▶ Breakdown of fee information at the agreement of the initial audit plan</li> <li>▶ Breakdown of fee information at the completion of the audit</li> </ul>	<ul style="list-style-type: none"> <li>▶ Audit Plan</li> <li>▶ Audit Results Report</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>
<b>Certification work</b> <ul style="list-style-type: none"> <li>▶ Summary of certification work undertaken</li> </ul>	<ul style="list-style-type: none"> <li>▶ Annual Report to those charged with governance summarising grant certification work.</li> <li>▶ Annual Audit Letter if considered necessary</li> </ul>

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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**Report to** Audit Committee  
14 March 2017  
**Report of** Chief Internal Auditor, LGSS  
**Subject** Risk Management report

**Item**

6

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**Purpose**

To update members on the review by the corporate leadership team, of key risks facing the council, and the associated mitigating actions.

**Recommendation**

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

**Corporate and service priorities**

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

**Financial implications**

None

**Ward/s:** All wards

**Cabinet member:** Councillor Stonard – Resources and Business Liaison

**Contact officers**

Duncan Wilkinson, Chief Internal Auditor, LGSS	01908 252089
Neil Hunter, Deputy Head of Internal Audit, LGSS	01223 715317
Jonathan Tully, Principal Audit Manager, LGSS	01603 212575

**Background documents**

None

# Report

## Background

1. Risk management is a fundamental aspect of the council's business practices. Cabinet has an executive role in the management of risks across the council through its role of ensuring the delivery of the council's priorities.
2. Audit committee provides independent assurance of the adequacy of the council's risk management framework and the associated control environment.
3. The Corporate Risk Register was previously reported to audit committee on 22 November 2016 and cabinet on 18 January 2017.

## Review of corporate risks

4. As required by the Risk Management Strategy, on 1 March 2017, the corporate leadership team (CLT) carried out its regular review of the key risks to achieving the council's priorities and has updated the Corporate Risk Register.

## Corporate risk register

5. The updated risk register, with tracked changes in red, is attached at **appendix 1**.
6. The template for risk registers includes scoring for **inherent** risks (before any mitigating controls are considered) and **residual** risk (after taking account of key controls, which are listed). Any planned actions to further mitigate risks are also shown.
7. The council has a risk appetite which illustrates the level of risk it is willing to take. In exceptional circumstances it may not be possible, or proportionate, to implement controls that reduce the residual risk score within this appetite. In this instance the risk would be managed, and the aim would be to reduce this below the risk appetite. The maximum risk appetite score is set at 15, as a multiple of residual likelihood and residual impact. The Risk Management Policy states that "in exceptional circumstances cabinet can approve a residual risk in excess of the risk appetite if it is agreed that it is impractical or impossible to reduce the risk level below 16."
8. The residual risk score for risk B1, public sector funding, is 20 and remains above the council's risk appetite. This was approved by cabinet on 8 July 2015, and given the uncertainties around future grant and business rates income it is CLT's view that this should remain as a 'red' risk. Further details of these risks were included in the reports presented to the budget meeting of the council on 23 February 2016.
9. The residual risk score for risk A8, housing investment strategy, is 20 and remains above the council's risk appetite. This was approved by cabinet on 14 September 2016, reflecting the potential impact of legislative change and financial challenges, and it is CLT's view that this should remain as a 'red' risk. The risk was considered as part of the overall Housing Revenue Account budget, which was presented and approved by cabinet on 3 February 2016.
10. Changes to the risk register, and relevant updates, include:

Risk	Description
A1 Customer demand	The Council recognises the challenge of managing customer demand. The action plan has been updated to reflect that the Council is embedding a 'digital first' approach across services to help deliver change. The risk profile has not changed.
A2 Corporate plan	The Council approved the Corporate Plan 2015-20 in February. This is an interim plan, with a further plan to be developed alongside the city vision. A new Head of Transformation has been appointed to lead this, and the implementation date of the actions has been updated to December 2017. The risk profile has not changed.
A3 Partnership and management	The Council has a number of key partnerships including LGSS, NPS Norwich, and nplaw. An existing key control includes reviewing the governance arrangements and, as this has recently been completed, the action plan has been updated. The risk profile has not changed.
A4 Safeguarding	It is important that policies and procedures are in place and regularly reviewed. Latest updates reflect that guidance will be provided for contract managers to ensure satisfactory performance for safeguarding and equality duties of key contractors, following the annual review of contract compliance. Refresher workshops on safeguarding have been completed for all front line staff, and safeguarding policy & procedures being are revised. The action plan has been updated, and the risk profile has not changed.
A8 Housing Investment Strategy	Regular review of the Housing Revenue Account Business Plan and Housing Investment Plan are completed to reflect the financial position. The Housing Investment Plan was recently reviewed and the action plan has been updated accordingly. The risk profile has not changed.
C1 Emergency planning	The Council delivers a range of complex services, and a range of unplanned events could disrupt the ability to deliver services at a time of increasing demand. It is good practice to test the robustness of business continuity plans. A planned business continuity exercise was recently completed to review resilience, and the action plan has been updated. The risk profile has not changed.
C2 ICT Strategy	ICT should be maintained and updated to ensure that it continues to deliver Council services efficiently. The Council is currently refreshing its Human Resource and Finance systems, which will help to maintain resilience of key systems. In addition a new Head of ICT has been appointed through LGSS. The risk profile has not changed.

Risk	Description
C5  Fraud and corruption	Poor internal controls can lead to fraudulent acts against the council, resulting in losses. Counter fraud policies have been reviewed, consulted upon, and published since the last risk register review. Up to date policies help to mitigate risks by educating employees and ensuring that the Council follows good practice. The register has been updated and the risk profile has not changed.

### Corporate residual risk map

11. An updated risk map is included at **appendix 2** which shows the residual risk level for each of the risks. This gives a quick view of where each risk sits in relation to the council's risk appetite, i.e. there should be no risks with a residual score greater than 15, unless specifically approved by cabinet.
12. The residual risk score for B1 (public sector funding) and A8 (housing investment strategy) are above the council's level for risk appetite, and are red. All other residual risk scores are amber.

### Conclusion

13. Risk management review processes are well embedded within the council, and members can be assured that the Corporate Risk Register is up to date following review by CLT of the key risks to achieving the council's objectives.
14. Each risk shows the owner and the key controls, both in place or planned, designed to minimise any impact on the council and its provision of services to stakeholders.
15. The Risk Management Strategy requires managers to keep all risks under review, and the Corporate Risk Register is updated accordingly.



## CORPORATE RISK REGISTER

Version Date: March 2016

Details of Risk					Inherent Risk			Key Controls	Residual Risk			Actions					
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact		Score & RAG	Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG
CUSTOMER PERSPECTIVE																	
A1	Customer demand	1. Customer demand exceeds our capacity to deliver services as they are currently configured 2. Transfer of demand arising from service delivery changes or budget cuts by other public agencies 3. Excessive customer demand in key areas, particularly in relation to the need to cut services, or changes to policies e.g. council tax reduction scheme; universal credit	1. Unable to cope with demand 2. Complaints 3. Reputation damage 4. Increased homelessness risk to housing	D-CC	All	4	4	16 (R)	1. Proactive research on customer profile, forward planning, e.g. anticipating future events that will generate higher demand and use of data held to map and channel shift. 2. Data capture, consultation, survey and service planning. 3. Being robust about the role and responsibilities of Norwich City Council 4. Customer centre redesign 5. New 'self-serve' website including responsive forms, housing repairs diagnostics, customer portal, and full functionality on mobile devices	3	2	6 (A)	<del>1. Customer service improvement plan for F2F service – Phase 4</del> Embed 'digital first' approach across services to deliver significant behaviour change.	Head of customer services	Sep-17		G
A2	Delivery of the corporate plan and key supporting policies and strategies within the council's strategic framework	Corporate priorities are not on target to be delivered. The council has a clear set of corporate priorities within its corporate plan. Within the council's wider strategic framework, there are a number of key corporate strategies and policies which must be delivered across the organisation to realise the council's priorities e.g. environmental strategy, housing strategy etc. Policy from the new government will be further changing the framework for local government and put new requirements on the council that must be met in a number of different areas. When this is combined with the very significant savings the council will need to make to meet the government funding reductions, there is a risk that these changes will reduce the capacity of the council to deliver on its key corporate priorities.	1. Key priorities for the city are not delivered 2. Adverse public opinion 3. Projects / work completed to a lower quality 4. Negative impact on outcomes for citizens 5. Negative performance ratings for the council 6. Continual over-stretching of capacity	CEO	All	4	4	16 (R)	1. Regular review of corporate plan, medium term financial strategy and other key policies and strategies. 2. Effective performance and programme management 3. Corporate planning and service planning aligned with budget setting to ensure resources are in place to deliver priorities. 4. Effective preparation for changes in government policy. 5. Effective transformation programme to ensure savings are delivered. The balance between the corporate plan and resources available is anticipated to shift over the coming years bringing significant challenges for the Council. As a result the Council's Cabinet approved on June 8 2016 the initiation of a process to: a) Work with partners in the public, private, voluntary and community sectors to develop a new city vision b) Develop a revised corporate plan, priorities and performance measures which reflects the council's part in supporting that vision c) Determine a new blue print or operating model to guide how the council works in future which reflects available resources	3	4	12 (A)	a) Work with partners in the public, private, voluntary and community sectors to develop a new city vision b) Develop a revised corporate plan, priorities and performance measures which reflects the council's part in supporting that vision c) Determine a new blue print or operating model to guide how the council works in future which reflects available resources	CEO	Dec-17		G

Details of Risk									Inherent Risk			Residual Risk			Actions			
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG	Key Controls	Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG	
A3	<p>Relationship management with key service delivery partners and the management of contracts.</p> <p>The council has a number of key partnerships with LGSS, NPS Norwich, and NP Law. There is also a highways agency agreement with Norfolk County Council. This approach to service delivery requires a different managerial approach by the city council.</p> <p>The council also has a number of key contracts and partnerships which require strong, consistent procurement and client management.</p>	<p>1. Partnerships not managed effectively and key service outcomes not achieved.</p> <p>2. Contracts not managed effectively, and key service outcomes not achieved.</p>	<p>1. The council doesn't get value for money</p> <p>2. Benefits of partner and contract arrangements not realised</p> <p>3. Constant negotiation around the service delivery agreement</p> <p>4. Specification not adhered to</p> <p>5. Services not provided at an acceptable level</p> <p>6. Customer and staff complaints</p>	D-BS	5	3	4	12 (A)	<p>1. Governance structure is in place to manage the individual partnership agreements (e.g. NPS Norwich Board, LGSS liaison group, NP Law Board, all major contracts have strategic and operational governance arrangements with officer and member representation.</p> <p>2. In response to the council operating model training requirements have been reviewed and staffing structures refreshed to reflect this change.</p> <p>3. A contract and business relationship management toolkit has been deployed. This aims to create consistency of management of both financial and performance objectives and monitoring and management of all economic, social and environmental issues associated with the service.</p> <p>4. Internal audit periodically reviews arrangements to ensure that robust governance by client managers is in place for LGSS, nplaw, NPS Norwich, Norwich Norse (Environmental) and Norse Environmental Waste Service.</p> <p>5. Regular reviews of joint ventures.</p>	2	4	8 (A)	<p>Review of joint-venture working-currently underway</p>	D-BS	Mar-17			
A4	<p>Safeguarding children, vulnerable adults and equalities duties</p>	<p>1. Safeguarding and equalities duties and responsibilities not embedded throughout the council and its contractors/ commissioned services/ partners.</p> <p>2. Continued change in council service delivery model with an increase in the number of partnership arrangements is likely to require new arrangements for the delivery of safeguarding and equalities duties.</p> <p>3. Impact of cuts on care services and benefit funding.</p> <p>4. Critical incident</p> <p>5. Change in contractor/ commissioned service/partner</p> <p>6. Reduced service provision</p> <p>7. Not being able to attract staff with diverse abilities and backgrounds</p> <p>8. Reviews of safeguarding at Norfolk County Council found a number of significant issues, which increases the risks for partner organisations</p>	<p>1. Vulnerable adults and children at greater risk of exclusion or harm</p> <p>2. Individuals from a community of identity dealt with inappropriately and at risk of exclusion</p> <p>3. Risk of judicial review on accessibility of services</p> <p>4. Risk of damage to reputation if an employee discrimination claim is made based on equalities legislation</p> <p>5. NCC's reliance on systems at Norfolk and impact on Norwich City Council if these are inadequate</p>	D-N	All	3	4	12 (A)	<p>1. Safeguarding policy &amp; procedures in place and reviewed annually through safeguarding group.</p> <p>2. Safeguarding duties included in new contracts to ensure duties are embedded with new contractors. Where appropriate, joint training/awareness sessions are held.</p> <p>3. Equalities duties overseen by BMG</p> <p>4. A contract and business relationship management toolkit has been deployed. This aims to create consistency of management of both financial and performance objectives and monitoring and management of all economic, social and environmental issues associated with the service and particularly in relation to safeguarding</p> <p>5. Equality training for all staff and managers</p> <p>6. Mental health awareness training for employees</p> <p>7. Safeguarding training provided to all staff.</p> <p>8. Safeguarding guidance provided to all councillors</p> <p>9. External review of the council's approach through the annual self-assessment against Sec.11 of Children Act 2014, then challenge session with chair of Norfolk Safeguarding Children Board (NSCB).</p> <p>10. NCC plays full part in Norfolk Public Protection Forum</p> <p>11. NCC chief executive chairs Community Safety Partnership linking to domestic abuse across the county</p> <p>12. Constantly monitoring outcomes from serious case reviews (children adult and domestic abuse) and ensure any recommendations are actioned.</p>	2	4	8 (A)	<p>Guidance will be provided for contract managers to ensure satisfactory performance for safeguarding and equality duties of key contractors, following the annual review of contract compliance.</p> <p>Refresher workshops on safeguarding completed for all front line staff.</p> <p>Safeguarding policy &amp; procedures being revised.</p>	D-N	June 2017.		G	

Details of Risk									Inherent Risk			Residual Risk			Actions				
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG	Key Controls	Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG		
A6	Delivery of Joint Core Strategy (JCS). The council, through the Greater Norwich Growth Board, is seeking to promote delivery of the JCS. If delivered, JCS will see more than 30,000 homes built in the greater Norwich area, and 35,000+ jobs created over next 15 years	Delivery of the JCS may be jeopardised by: 1. Markets failing to deliver on preferred development sites identified for housing 2. Changing approaches to calculating housing land supply to require all the backlog in housing supply that has arisen since 2008 to be met in the next five-year period rather than over the remainder of the plan period of the JCS (i.e. up to 2026). 3. Failure to deliver the infrastructure required to support development 4. The council increasingly relies on income from NNDR (business rates). This may be at risk if other councils allow commercial developments on the edge of the city but outside the boundary or the number of commercial premises in the City reduce. 5. Partners across the Greater Norwich area not working effectively together because of conflicting priorities.	1. Reputation damage  2. Significant likelihood that the overall development strategy for the Greater Norwich area will not be delivered	Head of planning services	2 & 4	3	4	12 (A)	1. Ensuring that strategies being prepared with GNGB colleagues are as robust as possible and firmly grounded in reliable evidence.  2. Inter-authority working based on consensus decision-making ensures all parties are in agreement with the agreed policy framework.  3. All policy work is supported by comprehensive and up-to-date evidence in accordance with government guidelines.  4. Greater Norwich Growth Board responsible for ensuring funding is available for investment in infrastructure to support growth.	3	3	9 (A)							
A8	Housing Investment Strategy As part of the reform of the HRA the council has taken on a substantial debt to replace the former negative housing subsidy system. This debt is currently planned to be repaid over a period not exceeding 30 years. In addition to debt repayments the council has adopted a new standard for investment in the housing stock and a commitment to fund a new build programme. However, recent developments in welfare and housing legislation require rent reductions and the prospect of paying an annual determination which will impact significantly on the levels of funding available for stock investment and improvement.	1. Reduction in rental income arising from: • compulsory 1% reduction in social housing rent for next four years wef April 2016 • higher level of council house sales due to improved incentives • increasing debt or other factors  2. Impact of determination to fund RTB for Registered Providers  3. Significant increase in the cost of delivering improvement works  4. Failure to deliver by contractors	1. Failure to deliver the Norwich Standard within the expected timescale  2. Lack of resources to be able to maintain the Norwich Standard.  3. Lack of resources to support a new build programme.  4. Requirement to sell off stock to fund determination  5. Reduced tenant satisfaction  6. Need to reprogramme the housing investment plan	D-N	4	5	5	25 (R)	1. Regular review of HRA business plan and housing investment plan to reflect financial position of the HRA. In particular we await indicative figures for the annual determination which is likely to require further reworking of the HRA business plan and changes to planned levels of spend.  2. The timescale for delivering the Norwich Standard to all properties and the level of spend on the routine maintenance / replacement programme together with the delivery of any agreed new build programme.  3. Regular review of key projects.  4. Effective contract management  5. Work with Registered Providers to maximise use of retained Right to Buy receipts for the development of new social housing where spend by the Council is not possible.	5	4	20 (R)	Review housing investment plan	D-N-CFO	-Feb-17				

Details of Risk					Inherent Risk				Key Controls	Residual Risk			Actions				
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG		Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG
FINANCE AND RESOURCES																	
B1	Public sector funding	1. Further economic decline. 2. Change in national government policy as a result of the economic position 3. New policies and regulations place a major financial burden on the council 4. Effects of funding cuts on major partners despite increased referrals, e.g. health and social care or county budgets, may result in increased costs for the council 5. Uncertainties over central government financing, e.g. new homes bonus; changes to housing finance within the Housing and Planning Bill 6. Risks from 100% retention of business rates	1. Major reduction in public sector funding, including consequences of changes in funding arrangements for other bodies. 2. Impact on balancing the budget – significant change and financial savings required. 3. Unable to make saving within the required timescales 4. Requirement to sell off housing stock to fund determination. 5. Erosion of reserves 6. Major financial problems 7. Reputation damage 8. Possible industrial action 9. Changes become “knee jerk” 10. Govt intervention 11. Council loses critical mass in key areas 12. Service failures 13. Potential disproportionate impact on the poorest and most vulnerable members of society	CFO	All	5	5	25 (R)	1. Comprehensive 5-year transformation programme based on minimum resource allocation and robust benefit realisation.  2. Medium Term Financial Strategy incl. reserves policy, financial reporting to BMG & cabinet, transformation projects regularly monitored, MTFS is regularly reviewed and updated.  3. HRA business plan.  4. Weekly review by CLT of government announcements to assess implications and response required.  5. Keep service design under review  6. Continual review of financial position by the council and major partners	5	4	20 (R)					
B2	Income generation	1. Further economic decline. 2. Under-utilisation of assets 3. CIL (community infrastructure levy) income is below expectations. 4. Collapse in world markets leading to loss of income 5. Low economic growth or recession reduces income 6. Other triggers: a) Bethel St Police Station – market value payment b) Triennial pensions review. c) VAT partial exemption. d) Variable energy prices. e) Increasing voids due to market and economy factors. f) Loss of major tenant. g) GNGP board or cabinet decision on CIL investment arrangements. h) The council increasingly relies on income from NNDR (business rates). This is a volatile income stream and may be at risk from changes to Government policy around planning and if other councils allow commercial developments on the edge of the city but outside the boundary. The move to 100% Local Authority retention of business rates by 2020 will also transfer the risk entirely to LAs. i) Lack of experience in some services for generating income	1. Inability to raise capital receipts 2. Impact on balancing the budget – significant change and financial savings required. 3. Decline in income streams (e.g. rents from investment properties) – insufficient funds to maintain current service levels 4. Unable to make saving within the required timescales 5. Erosion of reserves 6. Major financial problems 7. Reputation damage 8. Govt intervention 9. Council loses critical mass in key areas 10. Service failures 11. Potential disproportionate impact on the poorest and most vulnerable members of society 12. Damage/costs across void portfolio 13. Essential infrastructure to deliver growth in the GNGP area is delayed.	CFO	All	5	4	20 (R)	1. Comprehensive 5-year transformation programme based on minimum resource allocation, maximisation of income generation and robust benefit realisation.  2. Medium Term Financial Strategy incl. reserves policy, capital and revenue financial reporting to BMG & cabinet, transformation projects regularly monitored, MTFS is regularly reviewed and updated.  3. HRA business plan kept under review.  4. GNGP have an agreed investment plan for the Greater Norwich area and have appointed consultants to advise on the use of CIL to help deliver this programme.  5. Clear strategy for investment  6. Commercial skills training provided to all Heads of Service  7.Element of CIL programme controlled by Norwich prioritised and caution taken to ensure spend not incurred until monies certain to be received.  8. Independent review of income generation opportunities completed Spring 2016 and options built in to the transformation programme.	4	3	12 (A)				G	

Details of Risk						Inherent Risk			Key Controls	Residual Risk			Actions				
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG		Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG
B3	Level of reserves  The council has a legal duty to ensure it has a prudent level of reserves to conduct its business	1. Government policy. 2. Economic climate 3. Reserves fall below acceptable levels	1. Inadequate levels of reserves publicly reported by external auditors 2. Government intervention 3. Impact on reputation of the council	CFO	All	3	4	12 (A)	1. Medium term financial strategy (MTFS). 2. Development of the 5-year corporate plan and transformation programme in conjunction with the MTFS. 3. HRA Business Plan. 4. Planning and delivery of transformation (savings and income generation) programme. 5. Contract and business relationship management to identify and respond to business delivery risks. 6. Budget development, in-year monitoring and control	2	3	6 (A)					
B4	Capital developments	1. Housing / other developments may take longer to proceed than planned. 2. Housing / other developments may cost more than planned. 3. Interest rates on debt may rise beyond projections. 4. Developments may not generate planned levels of income. 5. Asset sales may not be sufficient to fund major repairs	1. Delay in income streams may put pressure on revenue budgets. 2. Reduced net revenue contribution from developments. 3. May put pressure on revenue budgets / reserves to service debts 4. Pressure on capital budgets	CFO	All	5	4	20 (R)	1. Medium Term Financial Strategy incl. reserves policy, capital and revenue financial reporting to BMG & cabinet, transformation projects regularly monitored, MTFS is regularly reviewed and updated. 2. HRA business plan. 3. Capital Management Group set up and reporting quarterly to CLT 4. Business cases for individual investments and continual review of investments 5. Balanced risk profile 6. Business plan for new housing development company approved by cabinet. 7. Housing company's own risk register 8. Continuing policy to only commit spend once resources are available.	3	4	12(A)					



Details of Risk										Inherent Risk			Key Controls	Residual Risk			Actions			
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG	Likelihood	Impact	Score & RAG	Actions		Owner	Target Date	Revised Target Date	Action RAG			
PROCESSES AND SYSTEMS																				
C1	Emergency planning and business continuity  (The council delivers a range of complex services to vulnerable elements of the community. Organisations generally are experiencing significant continuity events once every five years on average)	Occurrence of a significant event: • Loss of City Hall • ICT failure • Contractor collapse • Severe weather events – storms, heatwaves, strong winds • Flooding • Sea level rise • Fuel shortages • Communications failure • Pandemic • Loss of power  The council, businesses and members of the public in the city will also be at risk from the local effects of climate change in the medium to long term.	1. Service disruption and inability to deliver services 2. Disruption of the delivery of goods and services to the council 3. Increased requests for council resources and services 4. Health and safety impact on staff and vulnerable residents 5. Damage to council property and impact on tenants 6. Reputation damage 7. Years to recover	D-BS	All	4	4	16 (R)	1. The council is a member of the Norfolk Resilience Forum, which has produced a Norfolk Community Risk Register 2. Business continuity team with access to resources; action plans have been used to deal with actual total City Hall IT failure; alternative site for customer contact team; disaster recovery plan and the use of Blackberries for communications. 3. The council has a major emergency management strategy and emergency planning room established at City Hall. Approach has also been used to test business continuity in the event of the main works contractor changing. 4. Flu pandemic plan. 5. Adaptations to protect the council from the local effects of climate change and address the causes are covered by corporate strategies such as the environmental strategy, together with service plans. 6. A new business continuity management policy and framework was approved by cabinet 25 June 2014. 7. A business impact analysis for each service is signed off by the head of service and executive head of service. 8. Business continuity steering group chaired by the D-BS. 9. Overall business continuity plan reviewed by CLT. 10. Periodic business continuity exercises, and lessons learnt communicated through BMG.	4	3	12 (A)	The emergency planning manager presented a report on business continuity to CLT on 2 March 2016.  A business continuity exercise is taking place in December 2016.	D-BS	Dec-16	-	G			
C2	ICT strategy.  The council has transferred its ICT service to LGSS. The ICT Programme Board works alongside LGSS to keep up to date the ICT strategy for the council	ICT strategy fails to support the organisation moving forward and the blueprint for a new council	1. Incoherent approach to ICT systems 2. Systems not customer friendly 3. Systems are not integrated with one another 4. Drain on resources as staff work around the systems 5. Lack of accuracy in key data 6. Data are unreliable 7. Key information not trusted 8. Hinders management and service improvements 9. Failure to deliver council priorities	D-BS	All	3	4	12 (A)	1. NCC has developed an ICT strategic direction document detailing the key areas where ICT is required to support business objectives and change.  2. Management of the LGSS relationship will seek to ensure that NCC requirements are delivered.  3. The council has an ICT Programme Board, attended by LGSS IT.	2	4	8 (A)								

Details of Risk						Inherent Risk			Key Controls	Residual Risk			Actions				
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG		Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG
C3	Information security	1. Sensitive and/or personal data is sent to the incorrect recipient or not kept securely, or is lost 2. Data is emailed to insecure email addresses. 3. Laptop or memory stick containing data is lost or stolen. 4. Information is sent to incorrect addresses. 5. External malicious attack (hacking) 6. Hard copy data is lost or stolen	1. Fine up to £0.5 million 2. Potential harm to data subjects through loss, release or corruption of personal data 3. Reputational risk	D-BS	5	5	4	20 (R)	1. Regularly remind all managers, employees and members of their responsibilities for the use of and security of data. 2. Prohibit using mobile devices to store or process sensitive or personal data unless device is encrypted. 3. Encrypt lap tops and data sticks when they are used to store or process sensitive or personal data. 4. Proper disposal of confidential waste. 5. Updated IT User Security policy issued April 2015 to all staff and other people who access the councils systems (e.g. partners, contractors etc.) 6. The council has achieved public sector network (PSN) & payment card industry (PCI) compliance 7. The council has an ICT programme board, attended by LGSS IT. 8. Corporate information assurance group 9. Annual security report from LGSS IT 10. Information risk policy and risk assessment 11. Business continuity and disaster recovery arrangements 12. Incident response plan and lessons learned 13. Horizon scanning for potential legislative change, such as the EU General Data Protection Regulation (GDPR).	3	4	12 (A)	Systems Support is attending training sessions, and will report back to CLT on developments from the GDPR.	D-BS	Mar-18		

Details of Risk						Inherent Risk			Key Controls	Residual Risk			Actions				
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG		Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG
C4	Failure of major contractor or legal challenge following an unsuccessful tender bid	1. The council has a number of key contractors who may be vulnerable to market and economy factors. 2. In addition the number of legal challenges (and therefore injunctions preventing a contract award) is increasing due to the financial pressures and reducing workload 3. Key contractor goes into administration or an injunction is issued preventing the award of a new contract	1. Customer and staff complaints 2. Services not delivered 3. Contingency plans have to be invoked 4. Cost and time to retender contract 5. Cost and time to defend legal challenge 6. Additional unforeseen costs impact delivery of balanced outturn and reserve levels	D-BS	5	4	3	12 (A)	1. Monitor major contractors for warning signs and make any necessary contingency plans. Recently put into practice and contingency plans tested. 2. Ensure a robust procurement process is followed in accordance with the appropriate procurement regulations, NCC processes and best practice. 3. NPS JV extended to include works division. This arrangement enables the JV to carry out work that was previously contracted to private sector. This approach is in line with the Council's operating model. This provides enhanced security over the supplier and increased direct control by the council. 4. Contingency budget and allowance for failures within the calculation of prudent minimum balance of reserves 5. More use of shared services reduces size and scope of contracts with private sector providers (e.g. ICT) 6. Increased use of framework contracts increases resilience against contractor failure.	3	3	9 (A)					
C5	Fraud and corruption	1. Poor internal controls lead to fraudulent acts against the council, resulting in losses. 2. Bribery Act 2010 came into force 1 July 2011 – lack of guidance or policies - council fails to prevent bribery 3. Failure in internal control. 4. Discovery of fraudulent acts. 5. Allegations received. 6. Member of staff or councillor breaks the law.	1. Loss of income or assets 2. Adverse public opinion 3. Effect on use of resources 4. Increased costs of external audit 5. Cost of investigation and rectifying weaknesses 6. Prison	CFO	5	3	3	9 (A)	1. Internal audit 2. Anti-fraud and corruption policy, 3. Payment Card Industry security assessment to protect card payments, 4. National Fraud Initiative, 5. Whistleblowing policy 6. Review and update as necessary policies and procedures. 7. Assess risk of bribery, train staff and monitor and review procedures. 8. Robust procurement procedures, e-tendering portal and governance by the procurement team 9. Delegation procedures 10. Money laundering policy	2	3	6 (A)	<del>Review needed of anti-fraud, whistleblowing and anti-bribery policies. The review has created new draft policies, which are now being consulted with stakeholders.</del>	CFO	Dec-16	Mar-16	G



Details of Risk						Inherent Risk			Key Controls	Residual Risk			Actions				
Risk No.	Risk Description	Caused by	Effect	Owner	Council Priorities	Likelihood	Impact	Score & RAG		Likelihood	Impact	Score & RAG	Actions	Owner	Target Date	Revised Target Date	Action RAG
LEARNING AND GROWTH																	
D1	Industrial action	1. Changes to pension regulations and pay restraint and changes to terms and conditions could lead to industrial action by employees 2. National negotiating framework - failure to agree. 3. Ballot of union members. 4. Implementation of changes to the LGPS. 5. Implementation of government interventions on pay	1. Loss of key services 2. Public safety 3. Loss of income 4. Reputation	D-BS	All	3	4	12 (A)	2 stages – managing the threat of industrial action and responding to industrial action 1. Identify and agree with UNISON exemptions from strike action 2. Identify and implement business continuity/contingency plans to maintain essential services and ensure statutory duties are met 3. CLT agree and implement strategy for response to strike action i.e. assessing the scale of the action, communications, response depending on nature of the action, wider industrial relations implications, deductions from pay etc. 4. National and regional guidance 5. Statutory immunities – Trade Union Labour Relations (Consolidation) Act 6. Well embedded business continuity and industrial action plans	3	2	6 (A)					

#### Council Priorities 2015-2020:

1. To make Norwich a safe, clean and low-carbon city
2. To make Norwich a prosperous and vibrant city
3. To make Norwich a fair city
4. To make Norwich a healthy city with good housing
5. To provide value for money services

#### Key to risk owners (above):

CEO	Chief executive officer
D-N	Director of neighbourhoods
D-BS	Director of business services
D-CC	Director of customers and culture
D-R&D	Director of regeneration and development
CFO	Chief finance officer (s151)



## Summary of Residual Scores for Corporate Risks

March 2017

Impact	Very High	5					
	High	4		A3, A4, C2	A2, B4, C3		A8, B1
	Medium	3		B3, C5,	A6, C4	B2, C1	
	Low	2			A1, D1		
	Negligible	1					
			1	2	3	4	5
			Very rare	Unlikely	Possible	Likely	Very Likely
			Likelihood				

**Red scores** – in excess of the council's risk appetite (risk score 16 to 25) – action needed to redress, quarterly monitoring. In exceptional circumstances cabinet can approve a residual risk in excess of the risk appetite if it is agreed that it is impractical or impossible to reduce the risk level below 16. Such risks should be escalated through the management reporting line to CLT and cabinet.

**Amber scores** – likely to cause the council some difficulties (risk score 5 to 15) – quarterly monitoring

**Green scores** (risk score 1 to 4) – monitor as necessary



<b>Report to</b>	Audit Committee	<b>Item</b>  <b>7</b>
	14 March 2017	
<b>Report of</b>	Chief Internal Auditor, LGSS	
<b>Subject</b>	Draft Internal Audit Plan for Norwich City Council 2017-18	

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### **Purpose**

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

### **Recommendation**

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

### **Corporate and service priorities**

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

### **Financial implications**

None

### **Ward/s: All wards**

**Cabinet member:** Councillor Stonard – Resources and Business Liaison

### **Contact officers**

Duncan Wilkinson, Chief Internal Auditor, LGSS	01908 252089
Neil Hunter, Deputy Head of Internal Audit, LGSS	01223 715317
Jonathan Tully, Principal Audit Manager, LGSS	01603 212575

### **Background documents**

None



# **1. THE INTERNAL AUDIT PLAN**

## **1.1 BACKGROUND**

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

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

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

## **1.2 AUDIT PLANNING**

PSIAS Performance Standard 2010 – *Planning* states that:

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

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

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

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

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

## **1.2 THE PLANNING PROCESS**

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

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

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

### **1.3 THE ANNUAL PLAN**

The Internal Audit Plan for the next year must be sufficiently flexible to enable assurance to be obtained over current risk areas, as well as emerging risks, and those risks which are yet to be identified. This is particularly relevant as we move into 2017/18, with the Council continuing to evolve in the face of ongoing financial challenges.

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

The audit plan reflects the environment in which public sector audit operates, recognising that this has changed considerably over the past few years with more focus on, for example, better assurance, safeguarding and making every penny count. The planned audit coverage is intended to ensure stakeholders receive a valuable assurance and that the audit service tangibly adds value to the organisation.

Maintaining an audit plan which is dynamic, challenging and prioritised based on the organisation's risks is not a new concept; however, in the current environment it is ever more critical if Internal Audit is to help the Council to respond effectively to the scale of change required in 2017/18 and beyond.

### **1.4 HOW ASSURANCE CAN BE GIVEN**

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

#### **1.4.1 Key Financial Systems**

This is the traditional area of internal audit work, required by external audit, and very much focuses on providing the Section 151 officer assurance that "the Council has made arrangements for the proper administration of its financial affairs." These systems are agreed in advance with External Audit and are used as the basis by which External Audit are able to place reliance on Internal Audit work. These are generally the systems that have the highest financial risk. These reviews also give an opinion as to the effectiveness



of financial management procedures and the arrangements to ensure the integrity of accounts.

#### 1.4.2 Policies & Procedures

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

#### 1.4.3 Compliance

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

#### 1.4.4 Making Every Penny Count

This assurance block incorporates the on-going work on initiatives to promote the value of *making every penny count* across the organisation. Although each audit we undertake should have value for money at its core, the team will be suggesting areas where this work can be expanded.

#### 1.4.5 Commissioning and Contracts

Within this assurance block, a number of days are included for capital and current contract reviews. The first stage will be to agree the higher risk contracts for review and will incorporate open-book assurance where required to ensure that these are operating in accordance with the terms of the contracts. Work to examine the commissioning process as a whole is also included in this assurance block.

#### 1.4.6 Anti-Fraud and Corruption

This is a high-risk area across the public sector. This includes both reactive and pro-active elements, along with initiatives to raise awareness of the council's anti-fraud and corruption culture and to report on the arrangements in place. In accordance with the Council's agreed savings for LGSS no time is allocated for this work in the plan, but instead it has been agreed that any such work will be taken on a risk and reward basis with pieces of work agreed on an individual basis and expected to cover costs by savings generated.

#### 1.4.7 ICT and Information Governance

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

## 1.5 PLAN SUMMARY AND RESOURCES

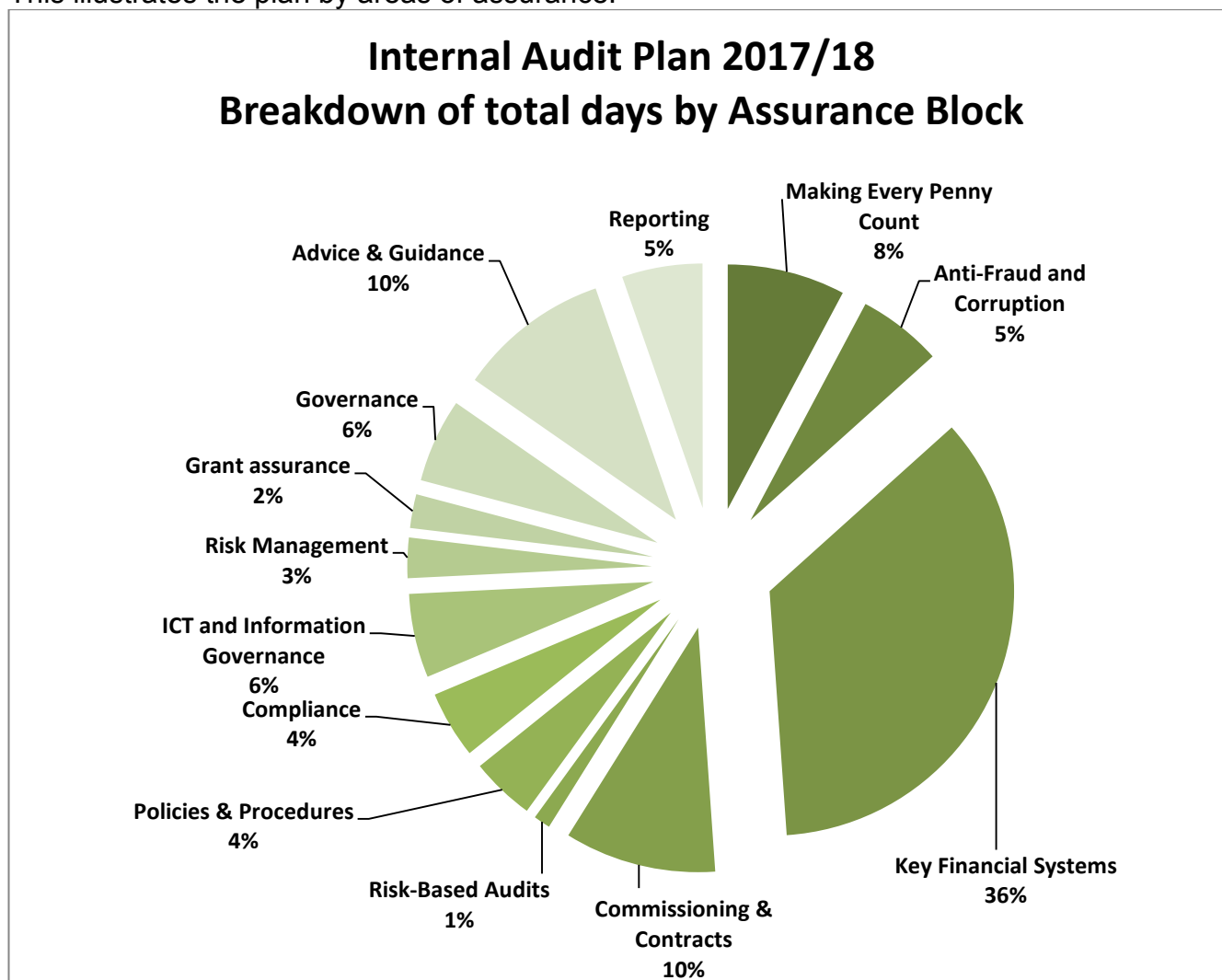
In summary, the audit plan maintains a focus on risk-based and compliance audits as well as providing assurance on key financial systems. This reflects the need to focus on the management of emerging risks and to ensure the continued operation of key controls within the Council's governance arrangements, systems and processes.

The audit plan has been agreed as 450 days. Reviews of all the Council's risks, controls and systems would exceed 450 days. Therefore ongoing risk assessment of this work will be completed to ensure that resources are targeted to the highest-priority areas.

Full details of the plan are appended to this report for information. The proposed approximate split of time across the audit plan is illustrated as follows:

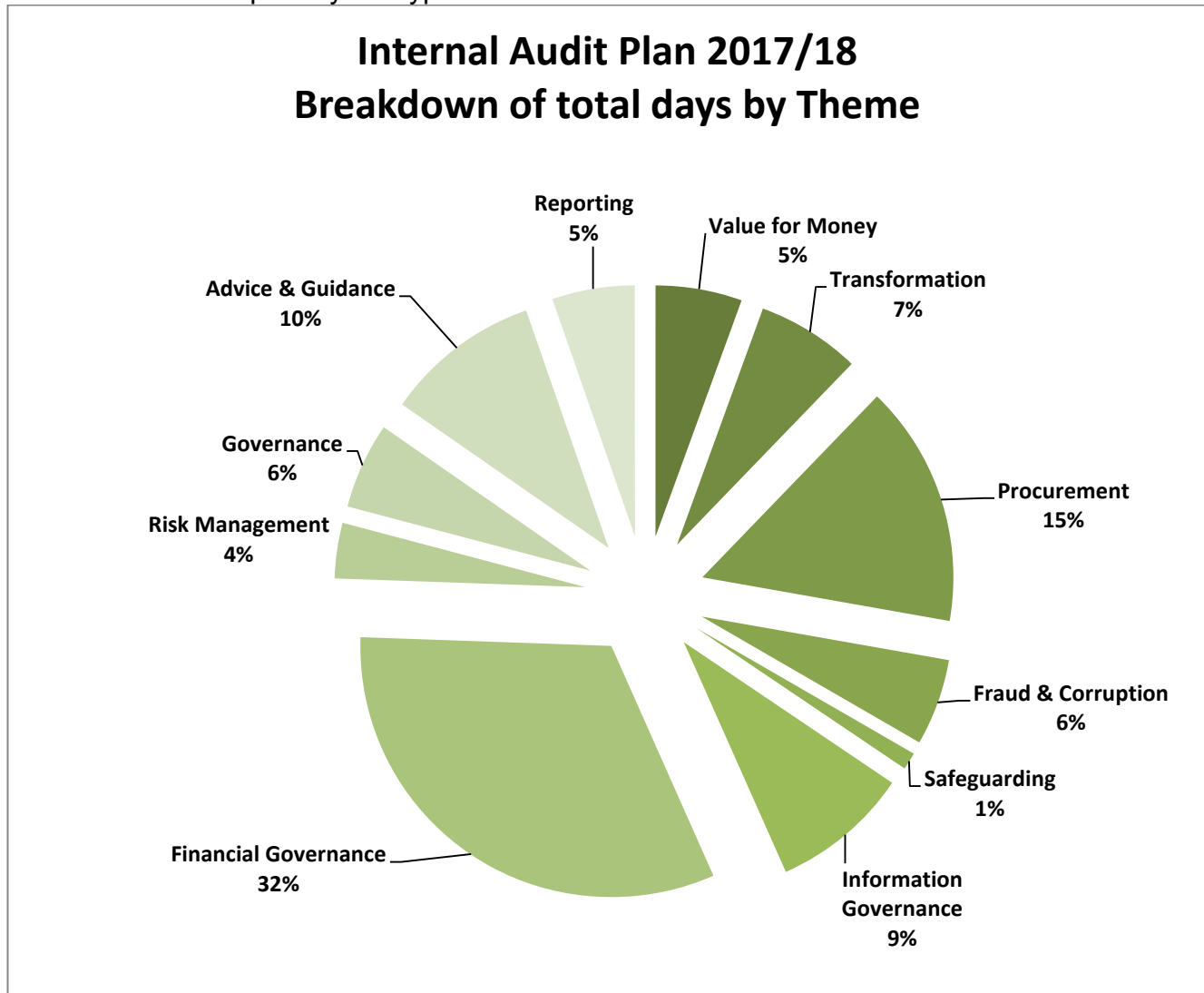
### Assurance block

This illustrates the plan by areas of assurance:



### Theme

This illustrates the plan by the type of review:



## 1.6 CONCLUSION

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

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

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

## 1.7 THE DRAFT INTERNAL AUDIT PLAN

The Draft Internal Audit Plan is presented at Appendix 1.



Draft Internal Audit Plan 2017/18						
Audit	2017/18	2018/19	Assurance Block	Theme	Directorate	Why?
<b>Making Every Penny Count</b>						
Invoices over £500	5	0	Making Every Penny Count	Value for Money	Cross-Cutting	Selection of five transactions over £500, to be checked against the published list, to ensure compliance with contract procedure rules, achievement of value for money, and to gain explanations from Officers where appropriate.
<b>TRANSFORMATION AGENDA</b>						
Transformation projects	30	0	Making Every Penny Count	Transformation	Cross-Cutting	This review will focus on projects included within the 2017/18 transformation plan at key stages throughout the year. The 'standard' approach will include: robustness of business case; options appraisal; deliverability; project management and timescales; risk management; and benefits realisation.
<b>Total Making Every Penny Count:</b>	<b>35</b>	<b>0</b>				
<b>Anti-Fraud and Corruption</b>						
National Fraud Initiative	20	20	Anti-Fraud and Corruption	Fraud & Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds - data matching
Fraud Investigations	5	5	Anti-Fraud and Corruption	Fraud & Corruption	Cross-Cutting	Deterrent; stopping fraud; recouping lost funds - initial review
<b>Total Anti-Fraud and Corruption:</b>	<b>25</b>	<b>25</b>				
<b>Key Financial Systems</b>						
Accounts Receivable	15	15	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Purchase to Pay	20	20	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Payroll	15	15	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Housing Rents/Arrears	20	20	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Housing Benefits	20	20	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Council Tax	15	15	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
NNDR	15	15	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Treasury Management	15	15	Key Financial Systems	Financial Governance	Cross-Cutting	Key Financial System review, scope agreed with External Audit.
Procurement Governance	15	15	Key Financial Systems	Procurement	Cross-Cutting	Review covering policies and procedures governing procurement processes, and arrangements for monitoring compliance with procurement policies.
Debt Recovery	10	10	Key Financial Systems	Value for Money	Cross-Cutting	Review of debt recovery, with a focus on: appropriate policies and procedures for debt recovery; areas of high debt write-offs; and debt recovery timescales.
<b>Total Key Financial Systems:</b>	<b>160</b>	<b>160</b>				

Audit	2017/18	2018/19	Assurance Block	Theme	Directorate	Why?
<b>Commissioning &amp; Contracts</b>						
Contract Management	15	15	Commissioning & Contracts	Procurement	Cross-Cutting	Current contract audit, based on assessment of risk by CLT.
NPS Contract monitoring	20	20	Commissioning & Contracts	Procurement	Cross-Cutting	Looking at the governance arrangements between NoCC and NPS. A review of HRA business planning with a focus on spending to maintain and improve the housing stock. Contract monitoring including verification of KPIs.
Regeneration company	5	5	Commissioning & Contracts	Procurement	Cross-Cutting	Review of development of regeneration company.
Commissioning	5	5	Commissioning & Contracts	Procurement	Cross-Cutting	Review of commissioning, to ensure that the early stages of the commissioning cycle enable best value to be achieved through subsequent procurement and contract management processes, with a focus on: assessment and identification of need; consideration of options; and development of the service specification.
Waste management	0	10	Commissioning & Contracts	Procurement	Cross-Cutting	Review of waste management, contractual arrangements, tariffs, charges and recycling credits.
<b>Total Commissioning &amp; Contracts:</b>	<b>45</b>	<b>55</b>				
<b>Risk-Based Audits</b>						
Safe Recruitment	5	0	Risk-Based Audits	Safeguarding	Cross-Cutting	Ensuring that appropriate checks are completed for employees, such as DBS checks.
Car park income	0	5	Risk-Based Audits	Safeguarding	Cross-Cutting	Review of car park income processes for MSCP, Off street, and banking procedures.
Licensing	0	5	Risk-Based Audits	Safeguarding	Cross-Cutting	Review of licensing system and processes.
Tenant contributions	0	5	Risk-Based Audits	Safeguarding	Cross-Cutting	Review of charges in excess of normal rent payments.
<b>Total Risk-Based Audits:</b>	<b>5</b>	<b>15</b>				
<b>Key Policies &amp; Procedures</b>						
Financial Regulations & Contract Procedure Rules	5	5	Policies & Procedures	Governance	Cross-Cutting	Review of key documents which support financial transactions against topical good practice and governance developments.
Business Continuity Policy	5	0	Policies & Procedures	Governance	Cross-Cutting	Review of policies which support long term continuity and emergency planning.
Information Governance Policies	5	0	Policies & Procedures	Information Governance	Cross-Cutting	Review of arrangements for Information Security, with a focus on: policies and procedures; communication and staff awareness.
<b>Total Policies &amp; Procedures:</b>	<b>15</b>	<b>5</b>				

Audit	2017/18	2018/19	Assurance Block	Theme	Directorate	Why?
<b>Compliance</b>						
Fees and Charges	5	5	Compliance	Value for Money	Cross-Cutting	Review of fees and charges, to identify compliance with the Council's Fees & Charges policy.
Grants to Voluntary Organisations	5	5	Compliance	Value for Money	Cross-Cutting	Reviewing grants made by the Council to voluntary organisations, to identify: how available grants are advertised and communicated; whether appropriate grant agreements are in place; arrangements for outcomes monitoring; and whether any organisations are receiving multiple grants.
Agency staff compliance	0	5	Compliance	Procurement	Cross-Cutting	Review of the use of agency staff to identify areas of high expenditure and/or non-compliance with Council policies on agency staffing.
Key Performance Indicators	0	5	Compliance	Governance	Cross-Cutting	Review of a sample of Key Performance Indicators to confirm that they are calculated and reported accurately in order to fully inform decision-making.
Scheme of Delegation compliance	0	5	Compliance	Governance	Cross-Cutting	Review of a sample of decision-making to confirm that the Council's Scheme of Delegation is being complied with and that officers do not take decisions which are beyond their delegated powers.
Use of GPC	5	5	Compliance	Procurement	Cross-Cutting	Review of the use of Government Purchase Cards, to confirm that cards are used in accordance with policies; that expenditure is monitored and approved appropriately; that best value is achieved; and that the risk of fraud is minimised.
Contract Extensions	5	5	Compliance	Procurement	Cross-Cutting	Review of extensions made to contracts, to understand the reasons that contracts are extended, and whether extensions are achieving value for money.
Off contract spend	0	5	Compliance	Procurement	Cross-Cutting	Review of expenditure made outside framework and corporate contracts, to ensure best value is achieved and to identify any areas where there may be potential to improve corporate contracts.
<b>Total Compliance:</b>	<b>20</b>	<b>40</b>				
<b>ICT and Information Governance</b>						
Information Security	10	10	ICT and Information Governance	Information Governance	Cross-Cutting	Review of arrangements for Information Security, with a focus on: compliance with legislative and policy requirements; compliance monitoring; and incident handling.
Financial Systems IT & General Computer Controls	15	15	ICT and Information Governance	Information Governance	Cross-Cutting	Review of financial system user controls, e.g. user access, payment instruments and processing (e.g. BACS). Review of the General Computer Controls in place, with a focus on: access controls; physical security controls; system and data backup and recovery; system development and program change management controls.
<b>Total ICT and Information Governance:</b>	<b>25</b>	<b>25</b>				

Audit	2017/18	2018/19	Assurance Block	Theme	Directorate	Why?
<b>Governance</b>						
Attend Information Governance Group	5	5	Governance	Information Governance	Cross-Cutting	Attending corporate project group
Attend Data Breach Response	5	5	Governance	Information Governance	Cross-Cutting	Reviewing effectiveness of internal controls.
Attend Corporate Governance Group	5	5	Governance	Governance	Cross-Cutting	Corporate Governance Group; Policy Updates
Annual Governance Statement	10	10	Governance	Governance	Cross-Cutting	Assurance mapping and draft to accompany statement of accounts
<b>Total Governance:</b>	<b>25</b>	<b>25</b>				
<b>Risk Management</b>						
Risk Management	12	12	Risk Management	Risk Management	Cross-Cutting	Administration and reporting of corporate risk register and supporting documents.
Risk Management Policy	4	4	Policies & Procedures	Risk Management	Cross-Cutting	Annual review of framework (policy and strategy) to best practice.
<b>Total Risk Management:</b>	<b>16</b>	<b>16</b>				
<b>Grant assurance</b>						
Disabled Facility Grant	5	5	Grant assurance	Financial Governance	Cross-Cutting	Certification to Norfolk CC - to be completed by 31st May 2017
Cycle highways grant	5	5	Grant assurance	Financial Governance	Cross-Cutting	Certification to DfT - to be completed by 31st March 2018 (Yr 2 of 3)
<b>Total Grant assurance:</b>	<b>10</b>	<b>10</b>				
<b>Advice &amp; Guidance</b>						
Advice & Guidance	25	25	Advice & Guidance	Advice & Guidance	Cross-Cutting	Providing support and guidance to staff on ad-hoc queries, and internal controls.
Follow-Ups of Agreed Actions	20	20	Advice & Guidance	Advice & Guidance	Cross-Cutting	Confirming agreed actions have been implemented to reduce key organisational risks.
<b>Total Advice &amp; Guidance:</b>	<b>45</b>	<b>45</b>				
<b>Reporting</b>						
Committee Reporting	8	8	Reporting	Reporting	Cross-Cutting	Reporting to Audit Committee.
Management Reporting	8	8	Reporting	Reporting	Cross-Cutting	Reporting to CLT.
Audit Plan	8	8	Reporting	Reporting	Cross-Cutting	Development of the Internal Audit Plan and any in-year revisions / updates.
<b>Total Reporting:</b>	<b>24</b>	<b>24</b>				
<b>Operational Plan Total - 2017/18</b>	<b>450</b>	<b>445</b>				