

Audit committee

Date: Tuesday, 16 October 2018

Time: 17:15

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

Committee members:

Councillors:

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

For further information please contact:

Committee officer: Jackie Rodger
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Democratic services
City Hall
Norwich
NR2 1NH

www.norwich.gov.uk

Informal pre-meeting

There will be an informal discussion for members at 16:30 before the start of the meeting, facilitated by the head of internal audit on the role of the audit committee within the organisation and local government as a tool for good governance.

Information for members of the public

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

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

Agenda

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1 Apologies

To receive apologies for absence

2 Public questions/petitions

To receive questions / petitions from the public

Please note that all questions must be received by the committee officer detailed on the front of the agenda by **10am on Thursday, 11 October 2018**

Petitions must be received must be received by the committee officer detailed on the front of the agenda by **10am on Monday, 15 October 2018**

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

3 Declarations of interest

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

4 Minutes

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To approve the accuracy of the minutes of the meeting held on 24 July 2018

5 Annual Audit Letter 2017-18

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Purpose - This report presents the Annual Audit Letter

6 Internal audit 2018-19 – July to September update (Quarter 2)

41 - 52

Purpose - To advise members of the work of internal audit, completed between July to September 2018, and the progress against the internal audit plan.

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

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

Date of publication: **Monday, 08 October 2018**



Audit committee

16:30 to 17:30

24 July 2018

Present: Councillors Price (chair), Driver (vice chair following appointment), Coleshill, Fullman (left the meeting during item 5 below), Hampton, Smith and Stutely

Also present: Councillor Kendrick (cabinet member for resources)

Apologies: Councillor Lubbock

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 12 June 2018.

4. Annual Governance Statement 2017-18

The head of internal audit (LGSS) presented the report. The committee had considered the draft Annual Governance Statement (AGS) at its June meeting. The AGS had now been signed off by the leader of the council and the chief executive.

RESOLVED to approve the Annual Governance Statement for 2017-18.

5. Financial Statements and Audit Results Report 2017-18

(This report was attached to the supplementary report which was circulated in advance of the meeting.)

The strategic finance business partner (and deputy S151 officer) presented the report. She referred to paragraph 3 of the report and advised members that there were two changes from the draft accounts. The Norfolk Pension Fund had provided updated information about the council's share of the pension fund assets. This had been based on an estimate and been reassessed at the year end. The city council and other councils had been issued with the updated information and the long term pension liability adjusted accordingly. The other change was to reflect that after the reporting date, the council had made the decision to discontinue its joint venture

arrangements with NPS Norwich, Norwich Norse Building and Norwich Norse Environmental.

The chair commented on the cessation of the joint arrangements would have a financial impact on the council. As chair of audit committee, he hoped that the financial team and cabinet members would ensure that he was kept informed of progress as these changes were implemented.

The external auditor (associate partner, Ernst & Young LLP) then presented the Audit Results Report. He confirmed that the audit would be completed by Tuesday, 31 July 2018 and that he expected to issue an unqualified audit opinion on the financial statements. He thanked the chief finance officer and the strategic financial business partner and colleagues for producing “a very good set of draft financial statements”. He referred members to Section 5 (of the report), Value for Money and commented that the council’s general fund reserve balance at 31 March 2021 would remain above the council’s approved minimum level. The medium term financial strategy was predicated on savings.

During discussion the chair referred to the external auditor’s assessment of the council’s financial resilience and assessment of its reserve position, and asked whether the current level of savings and identified underspends could be achieved in the future. The external auditor explained that the value for money assessment of the general fund reserve position to 2021 was based on whether identified schemes had achieved savings. There was a concern generally that identified savings that were “easy wins” had already been achieved and that savings going forward would be more difficult to achieve. He explained that local considerations included ensuring that the council was not wholly reliant on an income stream that would be unavailable in two to three years’ time. The council had earmarked reserves of £7.86 million. External audit had no significant concerns at this point and considered the arrangements “adequate”. The external audit opinion was that the council’s general fund reserve balance of £12.82 million at 31 March 2021 would remain above the authorities approved minimum level.

The chair thanked the external auditors and members of the finance team for their hard work in preparing the financial statements to meet the statutory deadlines and commented that the reports were laid out well and showed the methodology used.

In reply to a question from the chair, the external auditor referred to the final page of section 8 of the audit results report, and explained that he was unable to quantify the final fee because of the outstanding audit work and the group accounts which was a new element for the accounts. He considered that the fees for additional work would be around £3,000 to £6,000 and subject to further discussion with the chief finance officer and strategic finance partner. A member asked whether the inclusion of the group accounts would be a one off fee as it was the first year that these had been included but was advised by the external auditor that the fees would be consistent with the changed scope of the audit and this increase would therefore be permanent. He confirmed that no issues had arisen from the outstanding work which needed to be brought to the committee’s attention.

(Councillor Fullman left the meeting at this point.)

The chair referred to the inclusion of Norwich Regeneration Limited in the group accounts and said that it represented only 2 per cent of the group, and asked whether as the company grew the risk to the council as an organisation would increase. The external auditor replied that as the private company developed it would have a greater diversification of risk and that the chair's assumption was correct. The chief finance officer referred to the business plan for the company and said that originally it had been established to build council houses at Three Scores but was now including more sites and would continue to expand as a business. In reply to members' comments the external auditor said that the fee for 2 per cent of the group accounts was relatively small but as the company expanded it would require more audit hours and therefore be reflected in the fees. There was a robust mechanism for agreeing additional fees.

The chair referred to the council's increasing commercial activity and the acquisition of substantial commercial properties and said that it was important that the committee worked with the chief finance officer and internal audit to seek assurance over the coming weeks and months. The chief finance officer explained the procedure for procuring commercial properties to generate income to support the provision of council services and identify areas of the city in need of regeneration. The council had become aware of a potential commercial acquisition that was above the threshold for officer delegations. Governance arrangements for the consideration of this potential acquisition were agreed at a meeting comprising members of cabinet, the corporate leadership team and the group leaders for the Green Party Group and Liberal Democrat Group. The proposal as to whether to submit a bid or not would be considered at the extraordinary meetings of the scrutiny committee and cabinet convened on Wednesday, 1 August, with an informal leader and portfolio meeting held in the interval between the two meetings. If the cabinet agreed to progress with this bid, then there would be further decisions to be made before contracts were signed at cabinet and full council.

The chair referred to the draft letter of management representation as set out in Appendix 3 and thanked the external auditor and team for their work in ensuring that the external audit was completed by the earlier deadline of 31 July 2018.

RESOLVED to:

- (1) approve the Statement of Accounts 2017-18, presented in Appendix 1 of the report, subject to the completion of any outstanding work and if any outstanding audit work gives rise to a material adjustment to the accounts, to delegate approval of the statement of accounts as amended/adjusted in line with audit findings to the chief finance officer, in consultation with the chair (or vice chair) of the committee;
- (2) delegate to the chief finance officer, in consultation with the chair, the signing of the accounts by 31 July 2018;
- (3) note the Audit Results Report, Appendix 2, from the council's external auditor;
- (4) approve the draft letter of management representation presented in Appendix 3 of the report.

6. Internal Audit 2018-19 – April to June Update (Quarter 1)

(Councillor Driver left the meeting for a short period during the consideration of this item.)

The principal auditor (LGSS) presented the report. She referred to the audit assignments which were at the draft report stage or work in progress, and said that these would be reported to the next meeting of the committee. The head of internal audit explained that the committee reviewed progress on the internal audit plan, set out in Appendix A of the report, at its meeting throughout the year and gave officers a steer with regard to the focus of the audit assignments.

The chair commented on the cabinet's recent decision to provide services in house rather than through joint ventures as at present, and asked whether 20 days allocated for the audit assignment on contracts would be adequate. In reply to a question from the chair, the head of internal audit said that he considered the audit should also incorporate a review of contract performance in terms of value for money and governance, and there should be business case and due diligence for the process of taking the contracts back in house. He would be discussing the scope of the audit with the corporate leadership team. The chair said that it was essential that the committee was kept informed about the progress and said that he expected more information at the committee's next meeting. In reply to a member's question regarding the cost of transferring the contracts, the chief finance officer said that there was not yet an agreed timetable for the transfer of contracted services back in house.

The head of internal audit said that the audit report on the audit assignment of Norwich Regeneration Ltd was almost complete and would be reported to the next meeting. Discussion ensued in which the external auditor explained that its audit was of the accounts and that internal audit provided assurance on the private company's management and governance arrangements. The head of internal audit confirmed that the audit looked at the controls and procedures that the council had in place to hold the company to account. The chair said that this was an important piece of work and commended internal audit for conducting a thorough audit, pointing out that he would like to have access to the full report. The chief finance officer said that as these were currently received by the corporate leadership team a formal request for the reports could be considered. Members concurred in supporting the chair's request to access internal audit assignment reports.

The vice chair asked whether progress on the internal audit plan was on track for the first quarter and asked whether Appendix A was up to date. The head of internal audit said that audits were started but not always completed in the same quarter. He explained that if an audit took more days then it had an impact on the plan which would be discussed with the corporate leadership team and reported to committee. The internal audit team recorded their time on a management system.

RESOLVED to:

- (1) note the report on the work of the internal audit team and progress against the internal audit plan;

- (2) ask the chief executive and corporate leadership team for copies of internal audit reports to be circulated to the chair and any interested member of the committee.

CHAIR

Report to Audit committee
 16 October 2018
Report of Chief finance officer
Subject Annual Audit Letter 2017-18

Item

5

Purpose

This report presents the annual audit letter.

Recommendation

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

Corporate and service priorities

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

Financial implications

There are no direct financial implications arising from this report.

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officer

Karen Watling, chief finance officer

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REPORT

Background

1. The annual audit letter communicates to the members of Norwich City Council the key issues arising from the audit work carried out for the year ended 31 March 2018 by our external auditors. The letter is brought to the attention of all members and is also made available to external stakeholders, including members of the public, by publication on the council's website alongside the statement of accounts.

Key Findings, control themes and observations

2. The detailed findings of the audit work were reported to this committee on 24 July 2018 as part of the 2017-18 Audit Results Report. The key findings, control themes and observations contained in the letter are based on the findings in the audit results report.

Looking Ahead

3. The "Focused on your future" section of the letter draws attention to new accounting standards and summarises the potential implications for local authority accounts. We will work closely with the auditors assess the implications of the standards on the Council accounts ahead of the year end.

Fees Update

4. EY will verbally update the audit committee on the scale fee for the 2017-18. The final fee for the certification of claims and returns will be confirmed upon completion of the work on housing benefits.

Norwich City Council

Annual Audit Letter for the year
ended 31 March 2018

29 August 2018

Contents



Public Sector Audit Appointments Ltd (PSAA) have issued a '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)

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

The 'Terms of Appointment (updated 23 February 2017)' 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 Annual Audit Letter is prepared in the context of the Statement of responsibilities. It is addressed to the Members of the audited body, and is prepared for their sole use. We, as appointed auditor, take no responsibility to any third party.

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



01 Executive Summary



Executive Summary

We are required to issue an annual audit letter to Norwich City Council (the Council) following completion of our audit procedures for the year ended 31 March 2018. Below are the results and conclusions on the significant areas of the audit process.

Area of Work	Conclusion
Opinion on the Council's:	Unqualified - the financial statements give a true and fair view of the financial position of the Council as at 31 March 2018 and of its expenditure and income for the year then ended.
▶ Financial statements	
▶ Consistency of other information published with the financial statements	Other information published with the financial statements was consistent with the Annual Accounts.
Concluding on the Council's arrangements for securing economy, efficiency and effectiveness	We concluded that you have put in place proper arrangements to secure value for money in your use of resources.
Area of Work	Conclusion
Reports by exception:	
▶ Consistency of Governance Statement	The Governance Statement was consistent with our understanding of the Council.
▶ Public interest report	We had no matters to report in the public interest.
▶ Written recommendations to the Council, which should be copied to the Secretary of State	We had no matters to report.
▶ Other actions taken in relation to our responsibilities under the Local Audit and Accountability Act 2014	We had no matters to report.
Area of Work	Conclusion
Reporting to the National Audit Office (NAO) on our review of the Council's Whole of Government Accounts return (WGA).	The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.



Executive Summary (cont'd)

As a result of the above we have also:

Area of Work	Conclusion
Issued a report to those charged with governance of the Council communicating significant findings resulting from our audit.	Our Audit Results Report was issued on 17 July 2018.
Issued a certificate that we have completed the audit in accordance with the requirements of the Local Audit and Accountability Act 2014 and the National Audit Office's 2015 Code of Audit Practice.	Our certificate was issued on 31 July 2018.

In January 2019 we will also issue a report to those charged with governance of the Council summarising the certification work we have undertaken. We would like to take this opportunity to thank the Council's staff for their assistance during the course of our work.

MARK HODGSON

Mark Hodgson

Associate Partner

For and on behalf of Ernst & Young LLP



02 Purpose and Responsibilities

Purpose and Responsibilities

The Purpose of this Letter

The purpose of this annual audit letter is to communicate to Members and external stakeholders, including members of the public, the key issues arising from our work, which we consider should be brought to the attention of the Council.

We have already reported the detailed findings from our audit work in our 2017/18 Audit Results Report to the 24 July 2018 Audit Committee, representing those charged with governance. We do not repeat those detailed findings in this letter. The matters reported here are the most significant for the Council.

Responsibilities of the Appointed Auditor

Our 2017/18 audit work has been undertaken in accordance with the Audit Plan that we issued on 21 February 2018 and is conducted in accordance with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office.

As auditors we are responsible for:

- ▶ Expressing an opinion:
 - ▶ On the 2017/18 financial statements; and
 - ▶ On the consistency of other information published with the financial statements.
- ▶ Forming a conclusion on the arrangements the Council has to secure economy, efficiency and effectiveness in its use of resources.
- ▶ Reporting by exception:
 - ▶ If the annual governance statement is misleading or not consistent with our understanding of the Council;
 - ▶ Any significant matters that are in the public interest;
 - ▶ Any written recommendations to the Council, which should be copied to the Secretary of State; and
 - ▶ If we have discharged our duties and responsibilities as established by the Local Audit and Accountability Act 2014 and Code of Audit Practice.

Alongside our work on the financial statements, we also review and report to the National Audit Office (NAO) on your Whole of Government Accounts return. The extent of our review and the nature of our report are specified by the NAO or the Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the return.

Responsibilities of the Council

The Council is responsible for preparing and publishing its statement of accounts accompanied by an Annual Governance Statement. In the AGS, the Council reports publicly each year on how far it complies with its own code of governance, including how it has monitored and evaluated the effectiveness of its governance arrangements in year, and any changes planned in the coming period.

The Council is also responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.



03

Financial Statement Audit

Financial Statement Audit

Key Issues

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

We audited the Council's Statement of Accounts in line with the National Audit Office's 2015 Code of Audit Practice, International Standards on Auditing (UK and Ireland), and other guidance issued by the National Audit Office and issued an unqualified audit report on 31 July 2018.

Our detailed findings were reported to the 24 July 2018 Audit Committee.

The key issues identified as part of our audit were as follows:

Significant Risk	Conclusion
Management override of control	
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.	We obtained a full list of journals posted to the general ledger during the year, and analysed these journals using criteria we set to identify any unusual journal types or amounts. We then tested a sample of journals that met our criteria and tested these to supporting documentation.
ISA 240 mandates we perform procedures on: accounting estimates, significant unusual transactions and journal entries to ensure they are appropriate and in line with expectations of the business.	We considered the following accounting estimates most susceptible to bias: <ul style="list-style-type: none">- None routine income and expenditure accruals- Provisions, specifically the Non-Domestic Rates (NDR) appeals provision and the minimum revenue provision (MRP)
We are also required to identify specific additional risks of management override. The specific additional risk identified is with regards to manipulation of accounting estimates with the estimates most likely to be subject to management override of controls being non-routine income and expenditure accruals and provisions and specifically Non Domestic Rates (NDR) appeals Provision and the Minimum Revenue Provision (MRP).	We reviewed the Council's MRP policy and identified a number of revisions to ensure it is compliant with regulations. Management agreed to update the policy and the revised policy was approved by Full Council under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 (as amended) on 24 July 2018. Sufficient evidence was provided to support the provision with no audit adjustments being required.
	Our audit work on none routine income and expenditure accruals and the NDR appeals provision did not identify any issues.
	We evaluated the business rationale for any significant unusual transactions.
	We have not identified any material weaknesses in controls or evidence of material management override.
	We have not identified any instances of inappropriate judgements being applied.
	We did not identify any other transactions during our audit which appeared unusual or outside the Council's normal course of business.

Financial Statement Audit (cont'd)

The key issues identified as part of our audit were as follows: (cont'd)

Significant Risk	Conclusion
<p>Risk of fraud in revenue and expenditure recognition</p> <p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.</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>One area susceptible to manipulation is the capitalisation of revenue expenditure on Property, Plant and Equipment and Investment Properties given the extent of the Council's Capital programme.</p>	<p>We undertook specific testing on capital additions to ensure capital expenditure had been capitalised appropriately and in line with accounting policies. We designed journal procedures to identify any manual adjustment journal types moving amounts from revenue to capital codes.</p> <p>Our testing has not identified any material misstatements from revenue and expenditure recognition.</p> <p>Overall our audit work did not identify any material issues or unusual transactions to indicate any misreporting of the Council's financial position.</p>
<p>Group Accounts</p> <p>In 2015 the Council incorporated Norwich Regeneration Limited (NRL), a company, with the Council as the sole owner. Activity has increased in the company in 2017-18 to a level that is considered material. This will require the Council to prepare group accounts.</p> <p>We identify this as a significant risk as the Council has not prepared group accounts in the past and this can be a complex area of accounting.</p>	<p>We reviewed the group accounts assessment prepared by the Council and concluded that the accounting framework and accounting policies are aligned to the Norwich City Council Group.</p> <p>We concluded, based on the size of NRL that it would be assigned a specific scope audit, as it makes up only 2% of the Norwich City Council Group, but includes material balances once consolidated within the group accounts.</p> <p>We issued group instructions and reviewed in the in scope balance work undertaken by the component auditor and concluded that the work undertaken was sufficient to conclude the balances are fairly stated.</p> <p>We have noted some adjustments to the group accounts including the need to include an inventories accounting policy given the significance of the balance to the group accounts and some other minor differences. None were above our reporting levels communicated to you in our audit plan.</p>

Financial Statement Audit (cont'd)

Other Key Findings

Conclusion

Valuation of Land and Buildings

Property, Plant and Equipment represents a significant balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet.

The council engage Norfolk Property Services, to value the Council's asset base, who will apply a number of complex assumptions and assess the Council's assets to identify whether there is any indication of impairment and changes to their usual life.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

The Council continue to use spreadsheets as a fixed asset register, these are difficult to maintain and lack quality reporting functionality.

Following full consideration of their work, we have placed reliance on the Council's valuation expert. We sample tested key asset information used by the valuation expert and agreed these items to supporting evidence. Our testing did not identify any material misstatements from inappropriate judgements being applied to the property valuation estimates.

Our consideration of the annual cycle of valuations did not identify any issues with the implemented plan or with the movement on assets not revalued in year.

Our audit work did not identify any issues with the accounting treatment for valuations.

Pension Liability Valuation

The Local Authority Accounting Code of Practice and IAS 19 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 material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.

This information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.

Accounting for this scheme involves significant estimation and judgement.

ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

We have reviewed the assessment of the pension fund actuary by PWC and EY pensions and have undertaken the work required.

A movement on the total fund asset between the estimated year end balance and the actual was identified by the pension fund auditor. The impact of this was an understatement of the Council's pension assets by £2.144 million. This was corrected by management during the course of our audit.

We have not identified any issues with the accounting entries and disclosures made within the financial statements.

The Council's Statement of Accounts is an important tool for the Council to show how it has used public money and how it can demonstrate its financial management and financial health.

Financial Statement Audit (cont'd)

Our application of materiality

When establishing our overall audit strategy, we determined a magnitude of uncorrected misstatements that we judged would be material for the financial statements as a whole.

Item	Thresholds applied
Planning materiality	<p>We determined planning materiality to be £2.6 million (2017: £3.42 million), which is 2% of gross expenditure on provision of services reported in the accounts of £130.04 million adjusted for payments to the housing capital receipts pool, and interest costs on borrowing and pensions.</p> <p>We consider gross expenditure on the provision of services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.</p>
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £130,040 (2017: £171,259)

We also identified the following areas where misstatement at a level lower than our overall materiality level might influence the reader. For these areas we developed an audit strategy specific to these areas. The areas identified and audit strategy applied include:

- ▶ Remuneration disclosures including any severance payments, exit packages and termination benefits: reduced materiality level of £5,000 applied in line with bandings disclosed.
- ▶ Related party transactions and members allowances: reduced materiality level applied equal to the reporting threshold.

We evaluate any uncorrected misstatements against both the quantitative measures of materiality discussed above and in light of other relevant qualitative considerations.

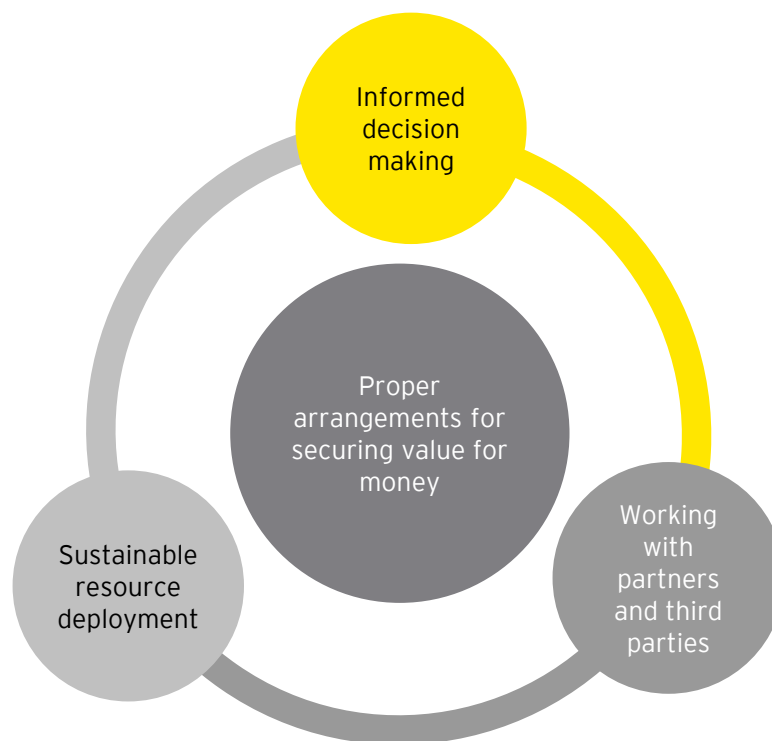


04 Value for Money

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. This is known as our value for money conclusion.

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.



We identified one significant risks in relation to these arrangements. The tables below present the findings of our work in response to the risks identified.

We have performed the procedures outlined in our audit plan. We did not identify any significant weaknesses in the Council's arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people.

We therefore issued an unqualified value for money conclusion on 31 July 2018.

Value for Money (cont'd)

Significant Risk	Findings
<p>Commercialisation</p> <p>The Council has looked to identify new ways to generate income in the current constrained circumstances. It has done this by increasing the Council's investments in commercial property and the Council's own company, Norwich Regeneration Limited, to achieve higher returns.</p> <p>Entering into commercial activity on an increased scale requires the Council to have the appropriate governance and corporate arrangements to plan and deliver these schemes.</p> <p>We have identified a risk due to the increasing activity by the Council in this area.</p>	<p>From the work we have undertaken we have gained sufficient assurance over the Council's business plan, investment strategy and assumptions used. We are aware that the Council may use external funding in the future.</p> <p>Loans have been provided to Norwich Regeneration Limited (NRL) totalling £11.5 million at the end of 2017/18. We have confirmed that there is an appropriate repayment programme in place and the Council have been provided with the necessary loan security by NRL.</p> <p>Management have provided evidence that an appropriate methodology for appraising and analysing the investment opportunities was in place to make a decision to purchase. We are aware from discussions with the Chief Financial Officer that this methodology evolved during the year and will continue to be informed by the experiences gained as the strategy evolves. The investment strategy sets out a number of criteria and key recommendations from the Council's advisors, that the Council should have regard to in purchasing property. The methodology reviewed follows these areas in helping to formulate a decision.</p> <p>NRL has been set up to have combined commercial and community objectives. Surplus land owned by the Council will be regenerated to provide affordable housing, some to passive house standard, affordable renting to decent homes standard, along with properties to be transferred to the Housing Revenue Account. A key priority at Norwich is a healthy city with good housing. NRL activity contributes to the Council meeting this priority.</p> <p>We have reviewed the financial modelling for both NRL and the investment strategy. We have compared the data used in the models to market trends and have comfort over the assumptions included. The Council has a minimal reliance on these sources of income included within their medium term financial strategy as they make up only 3% of revenue budget for 2018/19.</p> <p>We have concluded proper arrangements were in place during 2017/18 for informed decision making.</p>

Challenges for next year

In 2017/18 both commercialisation projects were funded internally. From the work we have undertaken we have gained sufficient assurance over the business plan, investment strategy and assumptions used. We are aware that the Council may use external funding in the future. This needs to have:

- received appropriate Member approval in line with the Council's constitution;
- take the borrowings out in line with Council's borrowing limits, investment guidance and capital strategy;
- take out borrowings in line with the Prudential Code requirements (not borrow in advance of need); and
- adhere to any loan covenants' and restrictions.



05 Other Reporting Issues



Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £500 million. Therefore, we did not perform any audit procedures on the consolidation pack.

Annual Governance Statement

We are required to consider the completeness of disclosures in the Council's annual governance statement, identify any inconsistencies with the other information of which we are aware from our work, and consider whether it is misleading.

We completed this work and did not identify any areas of concern.

Report in the Public Interest

We have a duty under the Local Audit and Accountability Act 2014 to consider whether, in the public interest, to report on any matter that comes to our attention in the course of the audit in order for it to be considered by the Council or brought to the attention of the public.

We did not identify any issues which required us to issue a report in the public interest.

Written Recommendations

We have a duty under the Local Audit and Accountability Act 2014 to designate any audit recommendation as one that requires the Council to consider it at a public meeting and to decide what action to take in response.

We did not identify any issues which required us to issue a written recommendation.

Objections Received

Other Powers and Duties

We identified no issues during our audit that required us to use our additional powers under the Local Audit and Accountability Act 2014.



Other Reporting Issues (cont'd)

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 24 July 2018. In our professional judgement the firm is independent and the objectivity of the audit engagement partner and audit staff has not been compromised within the meaning regulatory and professional requirements.

Control Themes and Observations

As part of our work, we obtained an understanding of internal control sufficient to plan our audit and determine the nature, timing and extent of testing performed. Although our audit was not designed to express an opinion on the effectiveness of internal control, we are required to communicate to you significant deficiencies in internal control identified during our audit.

We have adopted a fully substantive approach and have therefore not tested the operation of controls.

Our audit did not identify any controls issues to bring to the attention of the Audit Committee.



06

Data Analytics



Use of Data Analytics in the Audit

Analytics Driven Audit

Data analytics

We used our data analysers to enable us to capture entire populations of your financial data. These analysers:

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

In 2017/18, our use of these analysers in the authority's audit included testing journal entries to identify and focus our testing on those entries we deem to have the highest inherent risk to the audit.

We capture the data through our formal data requests and the data transfer takes place on a secured EY website. These are in line with our EY data protection policies which are designed to protect the confidentiality, integrity and availability of business and personal information.

Journal Entry Analysis

We obtain downloads of all financial ledger transactions posted in the year. We perform completeness analysis over the data, reconciling the sum of transactions to the movement in the trial balances and financial statements to ensure we have captured all data. Our analysers then review and sort transactions, allowing us to more effectively identify and test journals that we consider to be higher risk, as identified in our Audit Plan.



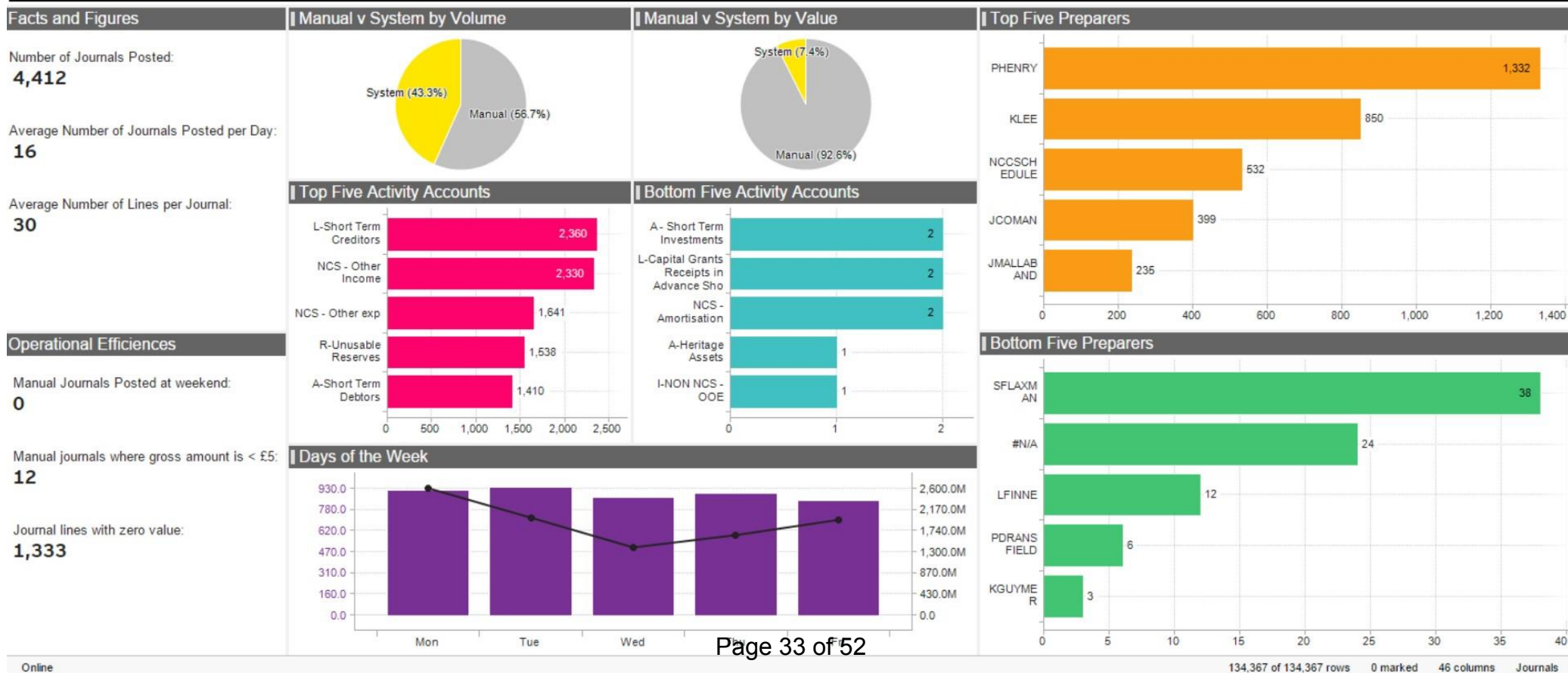
Data Analytics

Journal Entry Data Insights

The graphic outlined below summarises the Council's journal population for 2017/18. We review journals by certain risk based criteria to focus on higher risk transactions, such as journals posted manually by management, those posted around the year-end, those with unusual debit and credit relationships, and those posted by individuals we would not expect to be entering transactions.

The purpose of this approach is to provide a more effective, risk focused approach to auditing journal entries, minimising the burden of compliance on management by minimising randomly selected samples.

EY Helix - GLASS: Journal Entry Data Insights - 18 Norwich City-GL Analyser-P1-P12 - 31/03/2018



Data Analytics (cont'd)

Journal Entry Testing

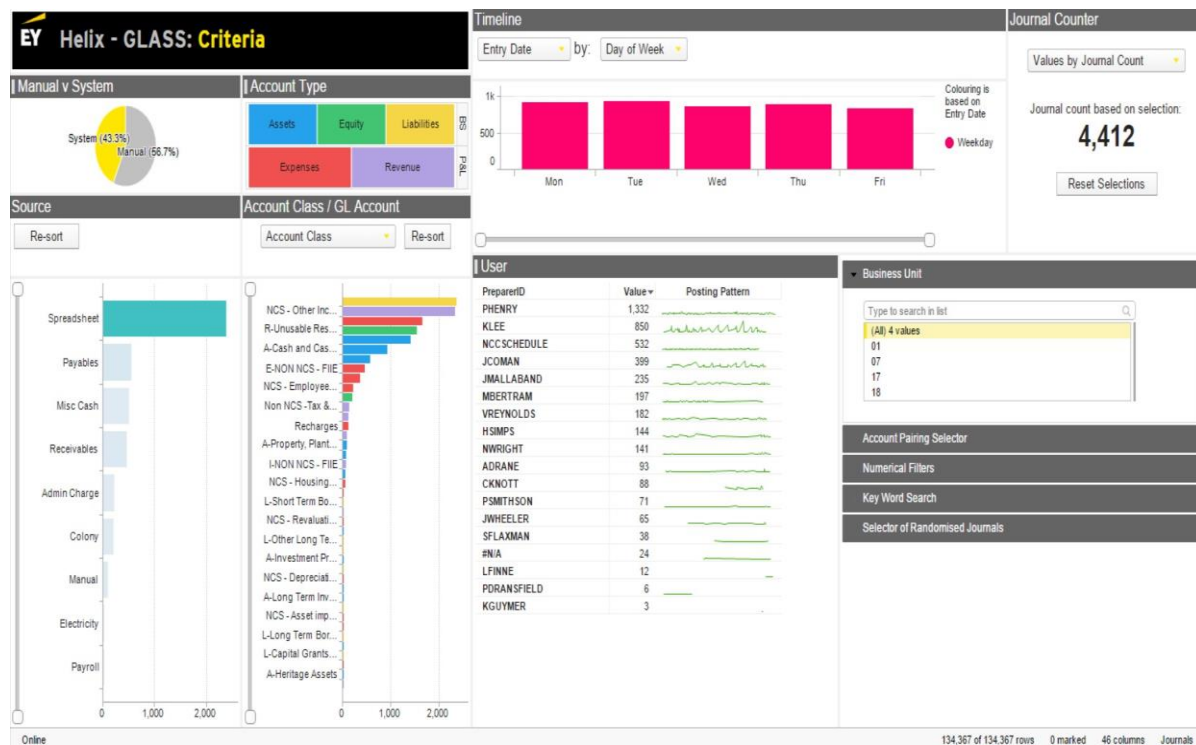
What is the risk?

In line with ISA 240 we are required to test the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements.

What judgements are we focused on?

Using our analysers we are able to take a risk based approach to identify journals with a higher risk of management override, as outlined in our audit planning report.

Journal entry data criteria – Norwich City Council - 31 March 2018



What did we do?

We obtained general ledger journal data for the period and have used our analysers to identify characteristics typically associated with inappropriate journal entries or adjustments, and journals entries that are subject to a higher risk of management override.

We then performed tests on the journals identified to determine if they were appropriate and reasonable.

What are our conclusions?

We isolated a sub set of journals for further investigation and obtained supporting evidence to verify the posting of these transactions and concluded that they were appropriately stated.



07

Focused on your future



Focused on your future

The Code of Practice on Local Authority Accounting in the United Kingdom introduces the application of new accounting standards in future years. The impact on the Council is summarised in the table below.

Standard	Issue	Impact
IFRS 9 Financial Instruments	<p>Applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard and the 2018/19 Accounting Code of Practice for Local Authorities has now been issued, providing guidance on the application of IFRS 9. In advance of the Guidance Notes being issued, CIPFA have issued some provisional information providing detail on the impact on local authority accounting of IFRS 9, however the key outstanding issue is whether any accounting statutory overrides will be introduced to mitigate any impact.</p>	<p>Although the Code has now been issued, providing guidance on the application of the standard, along with other provisional information issued by CIPFA on the approach to adopting IFRS 9, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty. However, what is clear is that the Council will have to:</p> <ul style="list-style-type: none"> ▶ Reclassify existing financial instrument assets ▶ Re-measure and recalculate potential impairments of those assets; and ▶ Prepare additional disclosure notes for material items.
IFRS 15 Revenue from Contracts with Customers	<p>Applicable for local authority accounts from the 2018/19 financial year. This new standard deals with accounting for all contracts with customers except:</p> <ul style="list-style-type: none"> ▶ Leases; ▶ Financial instruments; ▶ Insurance contracts; and ▶ For local authorities; Council Tax and NDR income. <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>Now that the 2018/19 Accounting Code of Practice for Local Authorities has been issued it is becoming clear what the impact on local authority accounting will be. As the vast majority of revenue streams of Local Authorities fall outside the scope of IFRS 15, the impact of this standard is likely to be limited.</p>	<p>As with IFRS 9, some provisional information on the approach to adopting IFRS 15 has been issued by CIPFA in advance of the Guidance Notes. Now that the Code has been issued, initial views have been confirmed; that due to the revenue streams of Local Authorities the impact of this standard is likely to be limited.</p> <p>The standard is far more likely to impact on Local Authority Trading Companies who will have material revenue streams arising from contracts with customers. The Council will need to consider the impact of this on their own group accounts when the trading company is consolidated.</p>



Focused on your future (cont'd)

Standard	Issue	Impact
IFRS 16 Leases	<p>It is currently proposed that IFRS 16 will be applicable for local authority accounts from the 2019/20 financial year.</p> <p>Whilst the definition of a lease remains similar to the current leasing standard; IAS 17, for local authorities who lease a large number of assets the new standard will have a significant impact, with nearly all current leases being included on the balance sheet.</p> <p>There are transitional arrangements within the standard and although the 2019/20 Accounting Code of Practice for Local Authorities has yet to be issued, CIPFA have issued some limited provisional information which begins to clarify what the impact on local authority accounting will be. Whether any accounting statutory overrides will be introduced to mitigate any impact remains an outstanding issue.</p>	<p>Until the 2019/20 Accounting Code is issued and any statutory overrides are confirmed there remains some uncertainty in this area.</p> <p>However, what is clear is that the Council will need to undertake a detailed exercise to identify all of its leases and capture the relevant information for them. The Council must therefore ensure that all lease arrangements are fully documented.</p>



08

Audit Fees

Audit Fees

Our fee for 2017/18 is higher than the scale fee set by the PSAA and reported in our 17 July 2018 Annual Results Report.

Description	Final Fee 2017/18 £'s	Planned Fee 2017/18 £'s	Scale Fee 2017/18 £'s	Final Fee 2016/17 £'s
Total Audit Fee - Code work	TBC - See Note 1	79,914	79,914	79,914
Total Audit Fee - Certification of claims and returns	TBC - See Note 2	35,780	35,780	32,819

Note 1 - The planned fee for the audit work was caveated on the need to includes a scale fee variation for the planned additional work required on the minimum revenue provision and Group consolidation which were outside the scope of the scale fee. In addition, further work was required on the significant risk identified in regards to the Value for Money conclusion. An additional fee has been discussed and agreed with management but is still subject to approval by the Public Sector Audit Appointments. We will formally report the final fee once the approval process is complete.

Note 2 - The final fee for the certification of claims and returns will be confirmed upon completion of the work on housing benefits by the 30 November deadline and completion of work on the pooling of capital housing receipts return. We will report the final fee in our annual certification report.

We confirm we have not undertaken any non-audit work outside of the PSAA's requirements.

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ED None

EY-000070901-01 (UK) 07/18. CSG London.



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Report to	Audit Committee 16 October 2018	Item
Report of	Chief Internal Auditor, LGSS	6
Subject	Internal audit 2018-19 – July to September update (Quarter 2)	

Purpose

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

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

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

Recommendations

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

Corporate and service priorities

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

Financial implications

None

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officers:

Duncan Wilkinson, Chief Internal Auditor, LGSS 01908 252089

Neil Hunter, Head of Internal Audit, LGSS 01223 715317

Magen Powell, Principal Auditor, LGSS 01603 212575

Background documents

None

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q2

As at 5th October 2018

Resources

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

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

The original plan, approved by CLT, was agreed as 450 days. At the end of September 2018, 230 productive days are projected to have been delivered against the plan. This reflects the original profiling with the majority of testing completed in quarter's two to four.

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

Plan changes

System	Original profile	New profile	Change	Comment
Disabled Facility Grant	5	12	7	An additional grant of £103k received directly from Ministry of Housing Communities and Local Government (formerly DCLG) required a separate certification.
Discretionary and Non-Statutory Service Provision & Expenditure	10	0	-10	Agreed at August meeting IA/AB
Commercial Rents	10	15	5	Additional work required
KPI's	5	10	5	Additional work required
Fraud Investigations	5	25	20	Whistleblowing referral
Fees and Charges Compliance with Policy	5	0	-5	Remove
Regeneration Company	10	15	5	Increased scope of review
Transformation	15	1	-14	Remove although one day already spent
Contract Management	20	35	15	To accommodate the OBR requested by CLT on 26.09.18.
Audit Committee	12	17	5	Increase time required to attend Chairs brief, training sessions, and additional committee meeting.
Contract Procedure Rules	2	0	-2	Remove
Scheme of Delegation	5	0	-5	Remove

System	Original profile	New profile	Change	Comment
Grant Awareness	5	0	-5	Remove
Overall change to the plan			+21	

Progress against the plan

Finalised Assignments

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

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	KPIs	Satisfactory	Good	Minor
Cross cutting	Disabled Facility Grant (main grant)	NA – Unqualified grant certification		

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

The team has finalised work from the 2018/19 plan and key points include:

KPIs

The audit identified that there is no written performance management framework in place, although this is referred to in the council's constitution. Although the strategy team, who co-ordinate the collation of the performance results, will challenge services on any results that appear to be inaccurate, there are no checks carried out to confirm the accuracy of the calculations and commentary provided.

Not all results have been reported each quarter to senior management and members.

The audit identified that for Q2 of 2017-18 no data was included in the report for any of the four indicators for the 'fair city' corporate priority. However for one of these (FAC4 timely processing of benefits) this was detailed in the headlines of the report to Cabinet, confirming that the measure was back on target. The 'fair city' results had been reported in Q1 and Q3, and the results then were one coded amber and three coded green.

Disabled Facility Grant (main grant)

The auditor confirmed that the grant had been accounted for; the declaration was subsequently signed by the Chief Executive and the Chief Internal Auditor and sent to Norfolk County Council.

Draft / Interim reports / Work in progress

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

Directorate	Assignment
Cross cutting	Fees and Charges Policy
Cross cutting	Council Tax
Cross cutting	NNDR
Cross cutting	Governance Arrangements - Regeneration Company
Cross cutting	Commercial Rents
Cross Cutting	Project Management
Cross Cutting	Housing Rents and Arrears

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

There are a number of works that are in progress, enabling us to review the control environment.

Fraud and corruption update

Data matching

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

The Council will participate in the full data matching exercise in October 2018 where data sets from various services will be provided to the Cabinet Office for matching, results will become available from 31st January 2019.

Implementation of management actions

Throughout the year we have sought assurances from teams that their actions from previous audits have been implemented to schedule. Follow up reviews have been completed in the following areas:

- Housing rents and arrears
- Information security

- Debt recovery

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

Summaries of completed audits with limited or no assurance

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

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

Other audit activity

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

Advice and assurance

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

Joint Ventures

The Director of business services has requested that CLT have a monthly update from himself on the JV insourcing and asked Internal Audit to attend for this item. Following the first briefing in August The Head of Audit was of the view that this is an essential piece of work and further, some degree of actual cost & performance review should be done on the existing contracts given the perceptions. To date, there have been no further requests for internal audit assurance/work on the proposal to bring the services back in house following the CLT meeting.

Risk Management

Internal audit has previously brought risk management updates to this Committee for information and challenge. There is a recognition that the corporate risk register and supporting suite of directorate/project risk registers are in urgent need of refresh. Internal Audit is represented on the councils Corporate Governance Group and has an agenda item on 11th October 2018 to discuss risk management and agree an action plan and time line to both update the suite of risk registers at Norwich City Council and a strategy for embedding proportionate and effective risk management within the culture of the organisation.

Transformation - Implementation of new IT System

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

Appendix A – Internal audit plan

Norwich 2018/19

Audit	Status	Qtr opened / planned	Qtr closed	Profiled days
National Fraud Initiative	Ongoing	All year	N/a	20
Fraud Investigations	Ongoing	All year	N/a	25
Total Anti-Fraud and Corruption:				45
Accounts Receivable	Not started	Q3		15
Purchase to Pay	Not started	Q3		15
Payroll	Not started	Q4		15
Housing Rents/Arrears	Not started	Q3		20
Housing Benefits	Not started	Q4		20
Council Tax	In progress	Q2		15
NNDR	In progress	Q2		15
Treasury Management	Not started	Q3		15
Debt Recovery	Not started	Q3		10
Total Key Financial Systems:				140
Strategic Risk Management	Not started	Q3		15
Risk Management	Not started	Ongoing	N/a	5
Total Risk Management:				20
Contract Management	Not started	Q3/4		35
Total Contracts:				35
Fees and Charges Policy	In progress	Q1		10
Commercial Rents	In progress	Q1		15
Attend HR & Finance Project Meetings	Ongoing	All year		15
Project Management	In progress	Q2		10
Norwich Regeneration Limited	In progress	Q1		15
Total Risk-Based Audits:				65
Annual Key Policies & Procedures Review	Not started	Q3		6
Financial Regulations	Not started	Q3		2
Total Policies & Procedures:				8
Fees and Charges	In progress	Q1		1
Key Performance Indicators	Complete	Q1	Q1	10
Procurement Compliance	Not started	Q3		20
Contract Extensions	Complete	Q1	Q1	5
Total Compliance:				36
Information Security & GDPR	Not started	Q3/4		15

Financial Systems IT & General Computer Controls	Not started	Q3/4		10
Total ICT and Information Governance:				25
Attend Information Governance Group	Ongoing	All year	N/a	5
Attend Data Breach Response	Ongoing	All year	N/a	5
Attend/facilitate Corporate Governance and RM Group	Ongoing	All year	N/a	5
Annual Governance Statement	Complete	Q1	Q1	10
Total Governance:				25
Disabled Facility Grant	Complete	Q1	Q2	12
Cycle highways grant	Not Started	Q4		5
Total Grant assurance:				17
Advice & Guidance	Ongoing	All year	N/a	10
Follow-Ups of Agreed Actions	Ongoing	All year	N/a	10
Total Advice & Guidance:				20
Committee Reporting	Ongoing	All year	N/a	17
Management Reporting	Ongoing	All year	N/a	10
Audit Plan	Ongoing	All year	N/a	8
Total Reporting:				35
Operational Plan Total - 2018/19				471

Appendix B – Audit Definitions

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

Control Environment / System Assurance

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

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

Compliance Assurance

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

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

Organisational Impact

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

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

Findings prioritisation key

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

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

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

