

Audit committee

Date: Tuesday, 14 November 2017

Time: 16:30

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

Committee members:

Councillors:

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

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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



If you would like this agenda in an alternative format, such as a larger or smaller font, audio or Braille, or in a different language, please contact the committee officer above.

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 9 November 2017**

Petitions must be received must be received by the committee officer detailed on the front of the agenda by **10am on 13 November 2017**

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

3 Declarations of interest

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

4 Minutes

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To approve the accuracy of the minutes of the meeting held on 26 September 2017.

5 Annual Audit Letter 2016-17

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Purpose - This report presents the annual audit letter.

6 Risk Management Report

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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, and the council's Risk

Management Policy.

7 Internal audit 2017-18 – September to October update (Quarter 2) 63 - 78

Purpose - To advise members of the work of internal audit, completed between September to October 2017, and the progress against the internal audit plan.

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



Audit committee

16:35 to 18:05

26 September 2017

Present: Councillors Price (chair), Coleshill, Jones (B), Maxwell and Schmierer

Apologies: Councillors Driver (vice chair), Bradford and Lubbock

Also present: Councillor Kendrick (cabinet member for resources)

(The chair welcomed Hannah Simpson, who had been appointed strategic finance business partner (deputy S151 officer) (LGSS).)

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 5 September 2017.

4. Statement of Accounts and Audit Results Report 2016-17

The chief finance officer presented the covering report and referred to the letter of management representation, attached as Appendix 3 of the report.

During her presentation, the chief finance officer answered members' questions on her decision to not correct the one unadjusted audit difference that the external auditors had identified in the financial statements. The error relating to the interest on the decent homes grant would be corrected for next year's Statement of Accounts and steps had been taken to ensure that it was not repeated in future years. In making her decision not to correct the error in the financial statements, she took into consideration that the amount of work involved would be disproportionate; that it was a notional sum and did not impact on the council's useable reserves and that the small financial team needed to close the accounts and move on to other areas of its work. She also explained the closure of accounts project plan for next year would ensure that advertisement and arrangements for the public inspection period of the accounts complied fully with the Account and Audit Regulations 2015.

In conclusion, the chief finance officer said that she was very proud that the finance team at Norwich had been the only one of the LGSS group to close the accounts at

the end of May. The financial statements were one part of the work of a small team which had made major contributions to the success of the council's transformation and investment strategy so that the council could deliver services more efficiently. Next year facts and figures relevant to the committee would be highlighted in the draft statement of accounts.

The external auditor presented the Audit Report, as set out in Appendix 2 of the report. The report, which had been issued on 8 September, could now be signed off as all outstanding actions had been completed.

In reply to a question from the chair, the external auditor said that he concurred with the chief finance officer's decision not to correct the unadjusted audit difference and that it was not material to their audit opinion. The external auditors had identified a number of adjustments and minor disclosure adjustments which had been corrected by management (as set out in Section 4 of the report). He considered that these were a good set of accounts. The external auditors would be issuing an unqualified opinion on the accounts.

Discussion ensued in which the external auditor answered members' questions. He said that the requirement to complete the audit by the end of July would present a challenge but some parts of the audit could be brought forward. The chair, acknowledging this, invited the external auditor to approach him if any problems arose in meeting the new deadline. The external auditor said that the audit would be more streamlined and clearly targeted. A toolkit was being prepared to test working papers. In reply to a member's question, the chief finance officer confirmed that external pressures on the council's budget would not affect the finance team's ability to deliver the accounts by the end of May. The accounts covered all the financial transactions during the financial year which started on 1 April and ended on 31 May. There were actions being undertaken to enable the closure of the accounts earlier. Meeting the earlier deadline would be particularly difficult for district councils. Many larger authorities had dedicated teams to close down the accounts. Members considered that this would create additional pressure on both the finance teams and the external auditors. The chair requested that he would be notified immediately if there were any issues arose in meeting the new deadlines.

The chair commented on the documents which he considered were well laid out and easy to understand.

RESOLVED to:

- (1) approve the statement of accounts presented in Appendix 1 of the report, and delegate to the chief finance officer, in consultation with the chair, the signing of the accounts by 30 September 2017;
- (2) review and note the Audit Results Report, Appendix 2, from the council's external auditor;
- (3) review and approve the draft letter of management representation presented in Appendix 3 of the report, including the chief finance officer's rationale for not correcting an audit difference within the financial statements.

- (4) thank the finance team for its achievement in closing the accounts by 31 May 2017.

CHAIR

Report to Audit committee
 14 November 2017
Report of Chief finance officer
Subject Annual audit letter 2016-17

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 officers

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 2017 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 26 September 2017 in the 2016-17 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 the earlier deadline for production and audit of the financial statements from 2017/18. These changes will provide challenges for both the preparers and the auditors of the financial statements. We will continue to work closely with the auditors to identify ways to ensure the earlier deadlines, for both parties, can be achieved.

Fees Update

4. The audit committee should note the audit fees for the 2016-17 Statement of Accounts, are equivalent to the scale fees set by Public Sector Audit Appointments Ltd. The committee should also note the fee proposed for the certification of claims and returns.

Norwich City Council

Annual Audit Letter for the year ended 31 March 2017

October 2017

Ernst & Young LLP

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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.

A hand with white nail polish is writing on a document with a blue pen. In the background, there is a calculator, a white cup, and a laptop. A yellow rectangular box is overlaid on the left side of the image.

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 2017.

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 2017 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 Statement of 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 Annual 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 £350 million. Therefore, we did not perform any audit procedures on the consolidation pack.

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 31 August 2017.
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 27 September 2017.

In December 2017 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

Executive Director
For and on behalf of Ernst & Young LLP

Purpose

Purpose

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 2016/17 Audit Results Report to the 26 September 2017 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

Responsibilities

Responsibilities of the Appointed Auditor

Our 2016/17 audit work has been undertaken in accordance with the Audit Plan that we issued on 16 March 2017 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 2016/17 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 Council is below the specified audit threshold of £350 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 (AGS). 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.

The background image is a blurred photograph of a workspace. It features a wooden desk with several clear glass tumblers filled with water. In the foreground, there are papers with financial data, including a pie chart and a table with columns of numbers. A laptop is visible in the background, displaying a blue-toned interface. The overall scene suggests a professional environment related to finance or accounting.

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 27 September 2017.

Our detailed findings were reported to the September 2017 Audit Committee.

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

Significant Risk	Conclusion
Management override of controls A risk present on all audits is that 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. Auditing standards require us to respond to this risk by testing the appropriateness of journals, testing accounting estimates for possible management bias and obtaining an understanding of the business rationale for any significant unusual transactions.	We did not identify any material weaknesses in controls or evidence of material management override. We did not identify 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.

Risk of fraud in revenue recognition

Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.

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.

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.

We have not identified any material weaknesses in the recognition of revenue.

We have not identified any instances of inappropriate judgements or estimates being applied.

Other Key Findings

Conclusion

Presentation of the financial statements

Amendments have been made to the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (the Code) 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, and include the introduction of a 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 Service Reporting Code of Practice. 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.

We proposed some minor disclosure amendments that management agreed to make in the financial statements.

In particular, we noted that the Expenditure & Funding Analysis (EFA), although positioned amongst them, is not a Primary Statement (consistent with the Code Guidance Notes). As such an additional narrative paragraph was added to the EFA to reflect this.

There were no other matters to report.

Other Key Findings (continued)	Conclusion
<p>Property, plant and equipment valuations</p> <p>Property, Plant and Equipment (PPE) represents a material item on the Council's balance sheet. PPE is initially measured at cost and then revalued to fair value (determined by the amount that would be paid for the asset in its existing use) on a 5 year rolling basis.</p> <p>This is carried out by an expert valuer and is based on a number of complex assumptions. Annually assets are assessed to identify whether there is any indication of impairment.</p>	<p>Following full consideration of their work, we placed reliance on the Council's valuer. We did not identify any material issues in relation to the valuations.</p> <p>We note the Council are implementing plans to replace the current fixed asset register.</p> <p>There were no other matters to report.</p>
<p>Assessment of the group boundary</p> <p>The Council set up a new company during 2015/16. The Regeneration Company Limited is an incorporated company wholly owned by Norwich City Council.</p> <p>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 was revisited during 2016/17.</p>	<p>We have reviewed the Council's assessment and agree that although the company does fall within the group boundary, there are no material qualitative or quantitative factors that would require group accounts to be prepared.</p>

Other Key Findings (continued)	Conclusion
<p>Pensions valuations and disclosures</p> <p>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.</p> <p>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.</p> <p>The information disclosed is based on the IAS19 report issued to the Council by the actuaries to the Norfolk Pension Fund.</p> <p>As part of their actuarial review, councils are being asked to make additional payments to the pensions scheme to fund deficits.</p>	<p>Assumptions used by the actuary and adopted by the Council are considered to be generally acceptable.</p> <p>The sensitivities surrounding these assumptions have been correctly disclosed in Note 4 to the financial statements.</p> <p>No issues were identified in completing our work.</p>

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	We determined planning materiality to be £3.42 million (2016: £3.63 million), which is 2% of gross revenue expenditure on services reported in the accounts of £171.258 million. We consider gross revenue expenditure on services to be one of the principal considerations for stakeholders in assessing the financial performance of the Council.
Reporting threshold	We agreed with the Audit Committee that we would report to the Committee all audit differences in excess of £171,259 (2016: £181,784).

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 - reduced materiality level of £5,000 applied in line with bandings disclosed.
- Related party transactions, members' allowances and exit packages - 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.



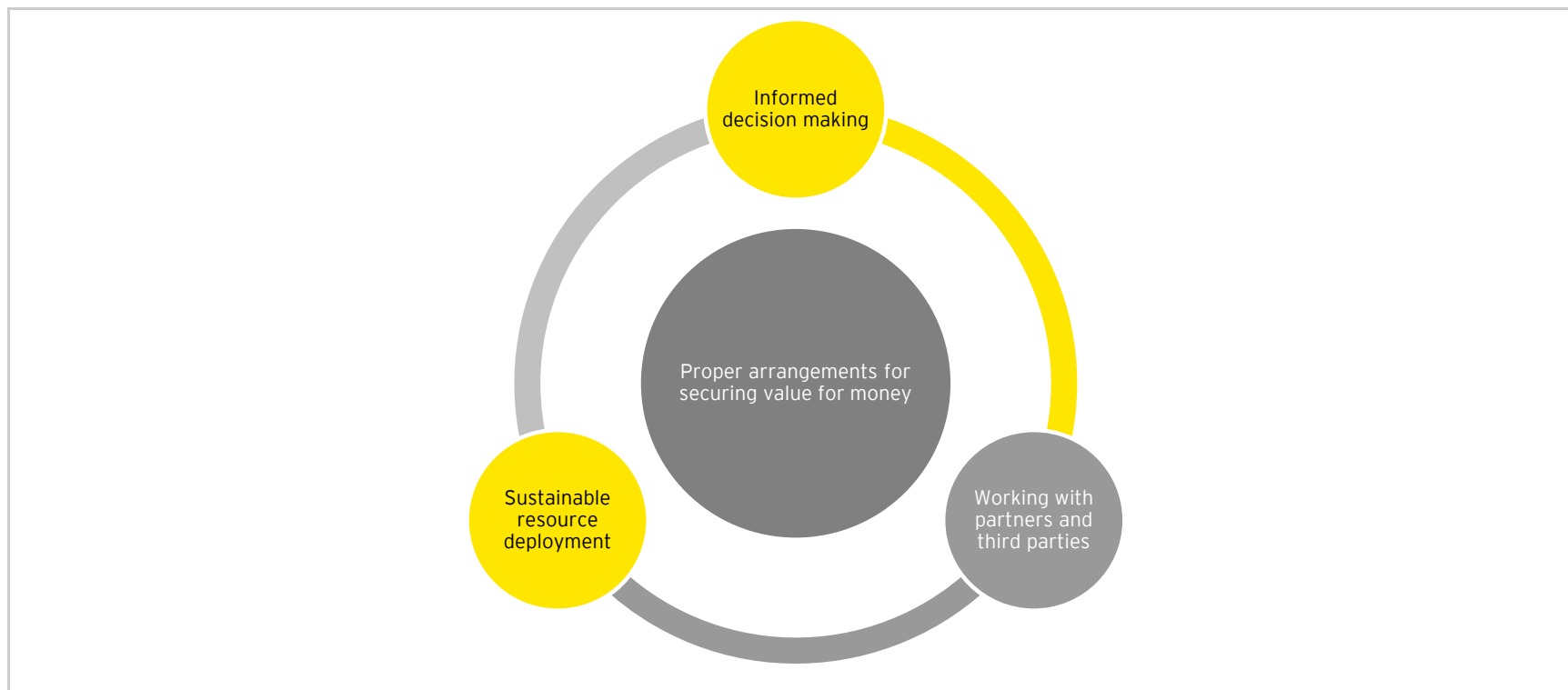
Value for Money

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 risk in relation to these criteria.

Key Findings

Deploying resources in a sustainable manner

Risk

The medium term financial strategy (MTFS) sets a net savings requirement for the Council of £2.3 million each year for the next four years, reducing to £1.1 million in 2021/22. This is on top of £3.7 million transformation savings/income generation to be delivered in the 2016/17 budget.

Although the Council has assessed the savings/income generation targets for 2017/18 to 2021/22, detailed savings proposals will be presented to the Council for agreement on an annual basis.

Therefore a risk remains that further savings or increased income will not be identified to close the funding shortfall in 2017/18 to 2021/22.

Findings

The Council has a good record of identifying and making savings, and in meeting its budget.

- ▶ The Council currently has a high level of un-earmarked General Fund reserves. These are £14.344 million at 31 March 2017, which is significantly above the minimum levels range set by the Council's s151 officer of £4.3 million for the General Fund. These provide the Council with the flexibility to manage its financial position over the short-to-medium term, and reduce the risk that an unexpected overspend, or unexpected one-off item of expenditure, would have a detrimental impact on the Council's financial standing.
- ▶ The Council plans to maintain this minimum level of General Fund reserves indefinitely. The Council also have £30.383 million of HRA of un-earmarked General Fund reserves at 31 March 2017, the prudent level for HRA reserves is £5.9 million.
- ▶ The Council has plans to reduce the level of General Fund reserves over the next 4 years. However, the general trend over the last 4 years has been an increase in the level of General Fund reserves in line with budget underspends. Future projected levels of General Fund reserves remain in excess of the minimum recommended levels.
- ▶ The medium term financial strategy (MTFS) sets a net savings requirement for the Council of £2.3 million each year for the next four years, reducing to £1.1 million in 2021/22. This is on top of £3.7 million transformation savings/income generation to be delivered in the 2016/17 budget. The Council has assessed the savings/income generation targets for 2017/18 to 2021/22 and detailed savings proposals will be presented to the Council for agreement on an annual basis.

► The Council has established effective processes for setting its budget. In setting its general fund budget, the Council has been prudent in the assumptions it has made. This reduces the possibility of an unexpected overspend.

Challenges for the next year

Guided by the Council's corporate plan 2015-2020 and its 'changing pace blueprint' (operating model) a range of work has been carried out across the council through the transformation programme, to develop options for savings and additional income in order to meet the target within the MTFS and ensure a balanced budget.

The Council have taken the option to secure greater certainty and confidence in funding levels through the offer of a four year funding settlement for Local Authorities for 2016-17 to 2019-20, by submitting a four year efficiency plan.

The Council have based assumptions on the provisional local government finance settlement for 2017-18 which was presented to Parliament on the 15 December 2016. As part of the provisional settlement the DCLG has issued its estimates of the reduction in core spending power for each local authority. For Norwich City Council the reduction in spending power from 2016/17 to 2017-18 is 9%. The Council are planning for RSG to have ended completely for the council by 2020/21.

There is some reliance within the Council's MTFS on uncertain funding streams, such as New Homes Bonus which has been incorporated within the MTFS.

The latest published MTFS up to 2022/23 was approved by council on the 8 Feb 2017. The MTFS now shows a need to make further net savings of £9.6 million over the next 5 years, which following the "smoothed" approach equates to £1.9 million each year to 2022/23. This is a reduction on the £2.3 million set out in the 2016/17 budget papers as a result of a number of factors including Council tax revenues now being forecast £0.52 million higher than previously estimated for 2017/18 due to a higher than anticipated increase in the number of properties included in the calculations.

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 27 September 2017.



Other Reporting Issues

Other Reporting Issues

Whole of Government Accounts

The Council is below the specified audit threshold of £350 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

We did not receive any objections to the 2016/17 financial statements from member of the public.

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.

Independence

We communicated our assessment of independence in our Audit Results Report to the Audit Committee on 26 September 2017. 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. As we have adopted a fully substantive approach, we 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.

A close-up, shallow depth-of-field photograph of a person's hands holding binoculars. The person's face is visible in the lower half, looking through the eyepieces. The binoculars are dark-colored. A bright yellow rectangular box is overlaid on the left side of the image, containing the text "Focused on your future".

Focused on your
future

Focused on your future

Area	Issue	Impact
<i>Earlier deadline for production and audit of the financial statements from 2017/18</i>	The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the audited accounts by 31 July.	<p>These changes provide challenges for both the preparers and the auditors of the financial statements.</p> <p>To prepare for this change the Council has reviewed and amended the closedown process to achieve draft accounts production by early June for 2016/17.</p> <p>We will work with the Council to engage early, following the completion of the 2016/17 audit, to facilitate early substantive testing for 2017/18 and also to consider steps the Council can take, for example:</p> <ul style="list-style-type: none"> ▶ Streamlining the Statement of Accounts removing all non-material disclosure notes; ▶ Bringing forward the commissioning and production of key externally provided information such as IAS 19 pension information, asset valuations; ▶ Providing training to departmental finance staff regarding the requirements and implications of earlier closedown; ▶ Re-ordering tasks from year-end to monthly/quarterly timing, reducing year-end pressure; ▶ Establishing and agreeing working materiality amounts with the auditors.

Appendix A

Audit Fees

Appendix A Audit Fees

Our fee for 2016/17 is in line with the scale fee set by Public Sector Audit Appointments Ltd (PSAA) and reported in our 26 September 2017 Audit Results Report.

Description	Final Fee 2016/17 £'s	Planned Fee 2016/17 £'s	Scale Fee 2016/17 £'s	Final Fee 2015/16 £'s
Total Audit Fee - Code work	79,914	79,914	79,914	79,914
Total Audit Fee - Certification of claims and returns	TBC - Note 1	29,819	29,819	35,780

Note 1- Our planned fee for the certification of claims and returns is based on the indicative scale fee set by the PSAA. The final fee will be reported to you in our annual certification report, upon completion of this work.

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

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ED None

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Report to Audit Committee
 14 November 2017
Report of Chief Internal Auditor, LGSS
Subject Risk Management Report

Item

6

Purpose

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

Recommendation

To endorse proposed amendments to the corporate risk register and risk management policy 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 Kendrick – Resources

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 in 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 20 June 2017 and cabinet on 18 January 2017.

Review of corporate risks

4. As required by the Risk Management Strategy, on 3 November 2017, the Corporate Risk Register was circulated to the corporate leadership team (CLT) to carry out its regular review of the key risks to achieving the council's priorities.

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 the corporate leadership team's (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 21 February 2017.
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 council on 21 February 2017.
10. Changes to the risk register, and relevant updates, include:

Risk	Description
<p>A4</p> <p>Safeguarding children, vulnerable adults and equalities duties</p>	<p>CLT committed to revise the safeguarding policy and procedures; deliver refresher workshops to front line staff; and provide guidance for monitoring performance of key contractors. This existing action has been split into specific activities, for clarity, and the action plan has been updated.</p> <p>An annual review of safeguarding performance will be undertaken in Autumn Winter 2017 to inform a review of guidance required for contract managers. This action will be completed in April 2018.</p> <p>The council has completed refresher workshops on safeguarding, and this will continue to be delivered as the need is identified.</p> <p>The council has completed a review of safeguarding policy and procedures, plus a new mandatory e-learning module has been distributed to all employees.</p> <p>There are no changes to the risk scores.</p>
<p>B4</p> <p>Capital developments</p>	<p>The inherent risk recognises that interest rate on debt may rise beyond projections, which consequently may put pressure on budgets for capital developments.</p> <p>The Bank of England is tasked with using interest rates to keep inflation at 2%, and at this time it is currently at 2.9%. Recent low unemployment figures and stronger inflation made a rise in rates more likely. On the 2 November the Bank of England raised interest rates from 0.25% to 0.5%. The Bank of England governor indicated it is likely to rise twice more over the next three years.</p> <p>The inherent likelihood is already set at the maximum score of 5, and there are already key controls in place including the Medium Term Financial Strategy, plus capital and revenue financial reporting. There are no further changes to the risk scores.</p>

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.

Risk management policy

13. The Risk Management Strategy requires cabinet to review the Risk Management Policy on an annual basis.
14. It continues to provide the council with an effective approach to risk management and does not therefore require any updates. Any further updates will be communicated to the committee for awareness.
15. The latest version of the policy is included at **appendix 3** for information.

Conclusion

16. 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.
17. 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.
18. The Risk Management Strategy requires managers to keep all risks under review, and the Corporate Risk Register is updated accordingly.

Corporate Risk Register

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
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	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	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	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) 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

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. 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	<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					
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	<p>1. Safeguarding policy & procedures, 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 part of 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	<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. Audit of safeguarding performance of contractors not available to complete this action for 2017. The annual audit is being undertaken autumn-winter 2017 to inform a review of guidance required for contract managers</p> <p>Refresher workshops on safeguarding completed for all front line staff. Completed – on going now as required</p> <p>Safeguarding policy & procedures being revised. Completed with new mandatory e-learning model distributed to all employees</p>	D-N	Apr - 18		G

Risk No.	Inherent Risk								Residual Risk				Actions				
	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	<p>Delivery of Joint Core Strategy (JCS).</p> <p>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</p>	<p>Delivery of the JCS may be jeopardised by:</p> <ol style="list-style-type: none"> 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. 	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 1. Ensuring that strategies being prepared with Greater Norwich Growth Board 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					
A8	<p>Housing Investment Strategy</p> <p>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 the council has adopted a new standard for investment in 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.</p>	<ol style="list-style-type: none"> 1. Reduction in rental income arising from: <ul style="list-style-type: none"> • 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 5. Changes to housing finance within the Housing and Planning Bill 	<ol style="list-style-type: none"> 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	<ol style="list-style-type: none"> 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					

Risk No.	Inherent Risk								Residual Risk				Actions				
	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
	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; 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	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. Weekly review by CLT of government announcements to assess implications and response required. 4. Keep service design under review 5. Continual review of financial position by the council and major partners	5	4	20					
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 5. Low economic growth or recession 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 outside edge of the city 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. Government 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	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					

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
B3	<p>Level of reserves</p> <p>The council has a legal duty to ensure it has a prudent level of reserves to conduct its business</p>	<p>1. Government policy.</p> <p>2. Economic climate</p> <p>3. Reserves fall below acceptable levels</p>	<p>1. Inadequate levels of reserves publicly reported by external auditors</p> <p>2. Government intervention</p> <p>3. Impact on reputation of the council</p>	CFO	All	3	4	12	<p>1. Medium term financial strategy (MTFS).</p> <p>2. Development of the 5-year corporate plan and transformation programme in conjunction with the MTFS.</p> <p>3. HRA Business Plan.</p> <p>4. Planning and delivery of transformation (savings and income generation) programme.</p> <p>5. Contract and business relationship management to identify and respond to business delivery risks.</p> <p>6. Budget development, in-year monitoring and control</p>	2	3	6					
B4	<p>Capital developments</p>	<p>1. Housing / other developments may take longer to proceed than planned.</p> <p>2. Housing / other developments may cost more than planned.</p> <p>3. Interest rates on debt may rise beyond projections.</p> <p>4. Developments may not generate planned levels of income.</p> <p>5. Asset sales may not be sufficient to fund major repairs</p>	<p>1. Delay in income streams may put pressure on revenue budgets.</p> <p>2. Reduced net revenue contribution from developments.</p> <p>3. May put pressure on revenue budgets / reserves to service debts</p> <p>4. Pressure on capital budgets</p>	CFO	All	5	4	20	<p>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.</p> <p>2. HRA business plan.</p> <p>3. Capital Management Group set up and reporting quarterly to CLT</p> <p>4. Business cases for individual investments and continual review of investments</p> <p>5. Balanced risk profile</p> <p>6. Business plan for new housing development company approved by cabinet.</p> <p>7. Housing company's own risk register</p> <p>8. Continuing policy to only commit spend once resources are available.</p>	3	4	12					

Risk No.	Inherent Risk								Residual Risk				Actions				
	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
	PROCESSES AND SYSTEMS																
C1	<p>Emergency planning and business continuity</p> <p>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.</p>	<p>Occurrence of a significant event:</p> <ul style="list-style-type: none"> • 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 <p>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.</p>	<p>1. Service disruption and inability to deliver services</p> <p>2. Disruption of the delivery of goods and services to the council</p> <p>3. Increased requests for council resources and services</p> <p>4. Health and safety impact on staff and vulnerable residents</p> <p>5. Damage to council property and impact on tenants</p> <p>6. Reputation damage</p> <p>7. Years to recover</p>	D-BS	All	4	4	16	<p>1. The council is a member of the Norfolk Resilience Forum, which has produced a Norfolk Community Risk Register</p> <p>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 use of Blackberries for communications.</p> <p>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.</p> <p>4. Flu pandemic plan.</p> <p>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.</p> <p>6. A new business continuity management policy and framework was approved by cabinet 25 June 2014.</p> <p>7. A business impact analysis for each service is signed off by the head of service and executive head of service.</p> <p>8. Business continuity steering group chaired by the D-BS.</p> <p>9. Overall business continuity plan reviewed by CLT.</p> <p>10. Periodic business continuity exercises, and lessons learnt communicated through BMG.</p>	4	3	12					
C2	<p>ICT strategy.</p> <p>The Council has transferred its ICT service to LGSS. The ICT Programme Board works alongside LGSS to keep the ICT strategy up to date.</p>	<p>ICT strategy fails to support the organisation moving forward and the blueprint for a new council</p>	<p>1. Incoherent approach to ICT systems</p> <p>2. Systems not customer friendly</p> <p>3. Systems are not integrated with one another</p> <p>4. Drain on resources as staff work around the systems</p> <p>5. Lack of accuracy in key data</p> <p>6. Data are unreliable</p> <p>7. Key information not trusted</p> <p>8. Hinders management and service improvements</p> <p>9. Failure to deliver council priorities</p>	D-BS	All	3	4	12	<p>1. NCC has developed an ICT strategic direction document detailing the key areas where ICT is required to support business objectives and change.</p> <p>2. Management of the LGSS relationship will seek to ensure that NCC requirements are delivered.</p> <p>3. The council has an ICT Programme Board, attended by LGSS IT.</p>	2	4	8					

Risk No.	Inherent Risk								Residual Risk				Actions				
	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
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	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 laptops 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	Systems Support is attending training sessions, and will report back to CLT on developments from the GDPR.	D-BS	Mar-18		G
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	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					

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
C5	Fraud and corruption	1. Poor internal controls 2. Lack of guidance or policies 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. Negative public reputation 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	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					

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
	LEARNING AND GROWTH																
D1	Industrial action	1. Changes to pension regulations and pay restraint and changes to terms and conditions 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	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					

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)

Norwich City Council

Summary of Residual Scores for Corporate Risks

November 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

Risk Management Policy

1. Introduction by Chief Executive

Norwich City Council seeks to ensure that services, delivered either directly or through others, are of a high quality, provide value for money and meet evidenced need.

We are a complex organisation that works with a wide variety of other organisations in different and varying ways. As a result we need to ensure that the way we act, plan and deliver is carefully thought through both on an individual and a corporate basis.

The council defines what it seeks to achieve in the form of corporate priorities and details how it expects to deliver them through the corporate plan, as well as service and team plans.

There are many factors which might prevent the council achieving its plans, therefore we seek to use a risk management approach in all of our key business processes with the aim of identifying, assessing and managing any key risks we might face. This approach is a fundamental element of the council's code of governance.

This risk management policy is fully supported by members, the chief executive and the corporate leadership team who are accountable for the effective management of risk within the council. On a daily basis all officers of the council have a responsibility to recognise and manage risk in accordance with this policy and the associated risk management strategy. **Risk management is everyone's business.**

The Accounts and Audit Regulations 2015 state:

A relevant authority must ensure that it has a sound system of internal control which

- (a) facilitates the effective exercise of its functions and the achievement of its aims and objectives;*
- (b) ensures that the financial and operational management of the authority is effective; and*
- (c) includes effective arrangements for the management of risk.*

In Norwich City Council risk management is about improving our ability to deliver our strategic objectives by managing our threats, enhancing our opportunities and creating an environment that adds value to ongoing operational activities.

I am committed to the effective management of risk at all levels of this council. This policy, together with the risk management strategy, is an important part of ensuring that effective risk management takes place.

Laura McGillivray

Chief Executive

2. What is risk?

The council's definition of risk is:

“Factors, events or circumstances that may prevent or detract from the achievement of the council's corporate priorities and service plan objectives.”

3. Risk management objective

Risk management is the process by which risks are identified, evaluated and controlled. It is a key element of the council's governance framework.

The council will operate an effective system of risk management which will seek to ensure that risks which might prevent the council achieving its plans are identified and managed on a timely basis in a proportionate manner. In practice this means that the council has taken steps to ensure that risks do not prevent the council achieving its corporate priorities or service plan objectives.

4. Risk management principles

The risk management process should be consistent across the council, clear and straightforward and result in timely information that helps informed decision making

Risk management should operate within a culture of transparency and openness where risk identification is encouraged and risks are escalated where necessary to the level of management best placed to manage them effectively

Risk management arrangements should be dynamic, flexible and responsive to changes in the risk environment

The response to risk should be mindful of risk level and the relationship between the cost of risk reduction and the benefit accruing, i.e. the concept of proportionality

Risk management should be embedded in everyday business processes

Officers of the council should be aware of and operate the council's risk management approach where appropriate

Members should be aware of the council's risk management approach and of the need for the decision making process to be informed by robust risk assessment, with cabinet members being involved in the identification of risk on an annual basis.

5. Appetite for risk

As an organisation with limited resources it is inappropriate for the council to seek to mitigate all of the risk it faces. The council therefore aims to manage risk in a manner which is proportionate to the risk faced, based on the experience and expertise of its senior managers.

However, cabinet has defined the maximum level of residual risk which it is prepared to accept as a maximum risk score of 15 in line with the scoring matrix attached at **appendix 1** (for corporate priority and service plan objective risks).

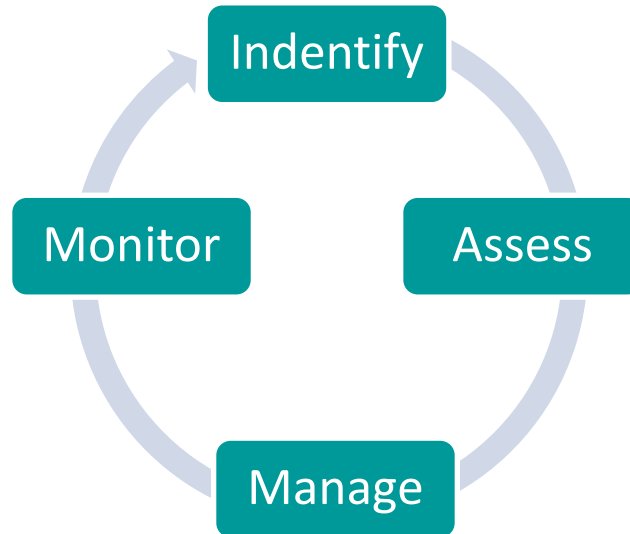
Other areas of risk, such as small projects or health and safety, may have a different risk appetite depending on the circumstances, but only if they do not impact on corporate priorities or service plan objectives.

6. Benefits of risk management

- Alerts members and officers to the key risks which might prevent the achievement of the council's plans, in order that timely mitigation can be developed to either prevent the risks occurring or to manage them effectively if they do occur.
- Risk management at the point of decision making should ensure that members and officers are fully aware of any key risk issues associated with proposals being considered.
- Leads to greater risk awareness and an improved and cost effective control environment, which should mean fewer incidents and other control failures and better service outcomes.
- Provides assurance to members and officers on the adequacy of arrangements for the conduct of business. It demonstrates openness and accountability to various regulatory bodies and stakeholders more widely.
- Allows the council to take informed decisions about exploiting opportunities and innovation, ensuring that we get the right balance between rewards and risks.

7. Risk management approach

The risk management approach adopted by the council is based on identifying, assessing, managing and monitoring risks at all levels across the council:



The detailed stages of the council's risk management approach are recorded in the risk management strategy, which is reviewed by corporate leadership team (CLT) on an annual basis. The strategy provides managers with detailed guidance on the application of the risk management process.

The strategy can be located on citynet [\[here\]](#).

Additionally individual business processes, such as decision making, project management will provide guidance on the management of risk within those processes.

8. Awareness and development

The council recognises that the effectiveness of its risk management approach will be dependent upon the degree of knowledge of the approach and its application by officers and members.

The council is committed to ensuring that all members, officers, and partners where appropriate, have sufficient knowledge of the council's risk management approach to fulfil their responsibilities for managing risk. This will be delivered through formal training programmes, risk workshops, briefings, and internal communication channels.

9. Conclusion

The council will face risks to the achievement of its plans. The risk management approach detailed in this policy should ensure that the key risks faced are recognised, and effective measures are taken to manage them in accordance with the defined risk appetite.

Scoring matrix

Impact	Very High	5	5	10	15	20	25
	High	4	4	8	12	16	20
	Medium	3	3	6	9	12	15
	Low	2	2	4	6	8	10
	Negligible	1	1	2	3	4	5
			1	2	3	4	5
			Very rare	Unlikely	Possible	Likely	Very Likely
			Likelihood				

Red: In excess of the council's risk appetite (risk score 16 to 25) - action needed to redress, quarterly monitoring

Amber: Likely to cause the council some difficulties (risk score 5 to 15) - quarterly monitoring

Green: Monitor as necessary (risk score 1 to 4)

Report to	Audit Committee 14 November 2017	Item
Report of	Chief Internal Auditor, LGSS	7
Subject	Internal audit 2017-18 – September to October update (Quarter 2)	

Purpose

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

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

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

Recommendations

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

Corporate and service priorities

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

Financial implications

None

Ward/s: All wards

Cabinet member: Councillor Kendrick – Resources

Contact officers:

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Neil Hunter, Head of Internal Audit, LGSS 01223 715317

Jonathan Tully, Principal Audit Manager, LGSS 01603 212575

Background documents

None

LGSS Internal Audit & Risk Management

Norwich City Council

Quarterly update report

Q2

As at 27 October 2017

Resources

As outlined to the 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 October 2017, 200 productive days are projected to have been delivered against the plan. This generally reflects the original profiling with the majority of testing completed in quarter's two to four. Some days have been re-profiled to take into account the implementation of a new Finance and HR system.

There are some suggested amendments to the plan which are detailed below. The team has made good progress in delivering the Plan and is on course for delivery by the end of the financial year.

Progress against the plan

Finalised Assignments

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

Directorate	Assignment	Control Assurance	Compliance Assurance	Organisational impact
Cross cutting	Housing Rent and Arrears	Good	Good	Minor
Cross cutting	Invoices over £500	Good	Good	Minor
Cross cutting	Annual Governance Statement	Unqualified by the external auditors		
Cross cutting	Risk Management Policy	NA – positive assurance.		

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 2017/18 plan and key points include:

Housing Rent and arrears

There are currently 14,987 (year-end 2016-17) housing rented properties, with rental income budget (net of adjustments for void properties) of £57.9m for 2017-18, with the rents service responsible for collection of £65.5m p.a., including service charges and water rates. The review of the system concluded that the control environment was good and the compliance assurance was also good.

There is currently no procedure to review existing payment arrangements for recovery of debts, providing the agreed payment arrangement is maintained. Consequently there is a low impact risk that recovery of the debt is protracted over a longer period than is necessary, should customers' financial circumstances improve. Periodic six monthly reviews have now been included in the draft revised procedures for former tenancy arrears.

Currently, where debts are not recovered internally, the only option is to attempt recovery is via debt collection agencies. There are plans to commence a trial of referring cases to the small claims court. The possibility of court action can be an incentive for the recovery of debt and the team has agreed to progress debts to the small claims court when internal recovery attempts have failed.

A previous audit review recommended that authorisation of low value debt write-offs could be delegated to the team leader. The current authorisation limits are due to be updated as part of a review of the financial procedures, and has the potential to free up resources for senior managers.

Invoices over £500

The review of the system concluded that the control environment was good and the compliance assurance was also good.

The contract procedure rules were followed for all of the items in our sample. There was adequate segregation of duties between raising and authorisation of requisitions, receipting of purchase orders and setting up payment of invoices. Quotations / tenders were completed in line with contract procedures, providing value for money.

The invoices were paid promptly by BACS, and invoices over £500 were published on the council website as required by the Transparency Code 2015.

Annual Governance Statement and Risk Management

Two significant pieces of work were concluded in the quarter, which have been detailed further in the report below under other audit activity.

Draft / Interim reports / Work in progress

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

Directorate	Assignment
Cross cutting	Council Tax
Cross cutting	NNDR
Cross cutting	Housing Benefits
Cross cutting	Treasury Management
Cross cutting	Information Governance Policies
Cross cutting	Purchase to Pay
Cross cutting	Accounts Receivable
Cross cutting	Treasury Management
Cross cutting	Business continuity
Cross cutting	Use of GPC

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

Key financial systems

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

However planned testing of Payroll, Accounts Receivable, Accounts Payable and Debt recovery has been impacted by the start-up phase of the new HR / Finance project, resulting in re-profiling of the planned days. The current review of the project plan should hopefully enable testing to commence in November.

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, the project risk register, and review of appropriate internal controls. This will help to mitigate potential control weaknesses prior to system go-live. We are also reviewing Privacy Impact Assessments which have been completed as good information governance practice.

Plan changes

As highlighted above, 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. Based on the actual plan delivery at this point we have proposed the following changes, which have been discussed with CLT and will enable us to provide adequate coverage across the Council.

System	Original profile	New profile	Change	Comment
Disabled Facility Grant	5	12	7	<p>The team commenced a review, at the beginning of the year, to provide assurance to the grant providers. However only some of the data was prepared in time for our review.</p> <p>Consequently this lead to additional queries, which needed extra time to complete the review. This also prompted revisions to the return, requiring additional checking. We recommended changes to the process for recording data on the system.</p>
Invoices over £500	5	11	6	<p>The team reviewed invoices paid to suppliers, to provide assurance that procurement and transparency rules were being followed. We looked at 5 different service areas to get a good quality sample which provided assurance across the Council.</p> <p>Completing our analytical procedures was more complicated than anticipated, and some of the transactions reviewed had complex supporting information to substantiate. However this provided good quality assurance as the sampling focussed on higher risk areas.</p>

System	Original profile	New profile	Change	Comment
Housing rents and arrears	20	35	15	<p>This is a key financial system, which is reviewed annually, and we focus on different aspects of the system each year. The current review included rent debits, former tenancy arrears and recharges arrears, and a detailed review of write-offs.</p> <p>The review included detailed sampling of data, which took longer than budgeted. However this has also helped us to identify better ways of extracting and analysing the data in future.</p> <p>During the review we also considered the treatment of suspense accounts between Icon and Academy, in response to a query with the team. This provided additional assurance that transactions were being processed accurately.</p>
Committee Reporting	8	12	4	<p>We have completed a couple of pieces of work, which were not included in the original plan. Consequently we need to reflect this increase in days in the revised internal audit plan.</p> <p>We prepared reports in respect of the appointment of external auditors, the related governance processes, plus the consultation on the PSAA proposal that Ernst & Young continue to be our auditors. Both the appointment process, and subsequently the consultation, was reported to and approved by Audit Committee, Cabinet and Full Council.</p> <p>As part of the Annual Governance Statement review, we have prepared a new Local Code of Governance, which also reflected the latest professional guidance from CIPFA and SOLACE. As this document is part of the constitution it was agreed that it should also be formally approved, following the Audit Committee review. Consequently this is being reported to the Constitution Working Group, Cabinet and Full Council.</p>
Management Reporting	8	12	4	
Transformation projects	30	14	(16)	<p>Recognising that the Council is committed to undertaking a programme of transformation, it was agreed to include an estimated number of days in the plan for transformation projects, with specific pieces of work being agreed throughout the year.</p> <p>We have been assisting with the implementation of the new Finance and HR system, and have been facilitating the project risk register. Further time will be spent on information governance and internal controls advice as the project develops.</p> <p>There is now a whole Council approach to Transformation, which is currently being implemented. There have been no other specific requests for Transformation work at this stage of the year, and it is reasonable that some of these days can be reallocated to other assurance work.</p>

System	Original profile	New profile	Change	Comment
NPS Contract Management	20	0	(20)	It is proposed that this review is postponed. Some follow-up work is also planned this year, on a previous review in this area, which will enable sufficient coverage to provide an audit opinion at the end of the year.
Fees and charges	5	5	0	At the previous Audit Committee meeting the potential risks around recharges were discussed, and members expressed an interest in receiving assurance in this specific area. While this does not have an impact on resources, it is a clearer direction on the scope of the review.
Overall change to the plan			0	

Fraud and corruption update

Data matching

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

The Council has carried out the current exercise to the deadlines set by the Cabinet Office. From a total of 3346 matches there are a total of 715 matches that meet the NFI's recommended filter as being of higher importance based on previous NFI exercises. Work has commenced on reviewing these matches and will continue throughout the year. Any significant matters arising in terms of fraud and error identified will be reported. There are no matters arising at this time.

Process improvement

Financial systems are prone to fraud and error risk. Internal audit work and anti-fraud work can help to identify fraud risks. A potential control weakness was identified within the Business Rates system, and this prompted a review of controls. The risk was immediately mitigated by changing the process, to ensure that this could not be exploited.

Policy and framework review

The Council is committed to preventing fraud and corruption. We have reviewed the supporting anti-fraud and corruption policies with the Corporate Governance Group. There have been revisions to the Whistleblowing Policy, which has been endorsed by the Chief Executive, Union and Chair of the Audit Committee. The changes are not significant, but should help to provide clarity to existing process for readers. The revised policy has been posted to the Council

website. In addition we are preparing some internal communications to help remind employees about the importance of managing fraud risks, and promoting the whistleblowing policy.

Implementation of management actions

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

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

Summaries of completed audits with limited or no assurance

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

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

Other audit activity

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

Corporate Risk Register

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

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

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

The next review of the register is currently being completed, and a draft revision has been prepared. In addition, the annual review of the Risk Management Policy has been completed, to ensure that it continues to provide the Council with an effective approach to risk management. An update will be reported to Cabinet in January, following the Audit Committee meeting.

Advice and assurance

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

Web pay refunds

The Council may be required to refund customers when they have overpaid the Council. An example could be where their liability for National Non Domestic Rates changes because they are vacating their premises. We have worked with teams at the Council to review the process, as there were potential inefficiencies. We reviewed the workflow and the system requirements to identify an alternative process which should hopefully reduce staff time and also help customers receive their refund more promptly. The new process is being trialled and, if successful, will be adopted.

Appointing External Auditors

The Local Audit and Accountability Act 2014 brings changes to the appointment process for external auditors. We drafted a report to consult on continued use of Ernst & Young, which was approved by Audit Committee, Cabinet and Full Council.

Information Risk Register

The team attends a Corporate Information Assurance Group as part of the internal audit plan. The Council has an Information Security Policy, and it is good practice that it is periodically reviewed. We led the compilation of an information risk register, which will be included in the next revision. This is timely as the General Data Protection Regulations come into force in May 2018.

Annual Governance Statement

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

The draft version of the Annual Governance Statement was reported to the Audit Committee, and approved, at the June meeting. The final version was signed by the Leader and the Chief Executive, and approved by the committee, at the September meeting. This was a positive achievement as the revised timetable for the Statement of Accounts requires these to be delivered earlier to previous years.

In addition we reviewed and updated the Council's Code of Corporate Governance, reflecting the latest professional guidance from CIPFA and SOLACE. The Committee approved the code, and this was further reviewed by the Constitution Working Party. This will now be reported to Cabinet and Full Council.

Audit Committee feedback

The Committee highlighted, at the previous meeting, that there could be a benefit in reviewing the presentation of the internal audit plan (Appendix A). It would be useful to see how many days have been allocated to audits previously. While it was agreed that it may not always take the same amount of time to complete an audit, as different aspects may be reviewed, it would be useful to illustrate this for comparison. Appendix 1 has been updated to show this.

Appendix A – Internal audit plan

Norwich 2017/18

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days	Historic days	Commentary
Operational plan grand total				450.0		
Making Every Penny Count Total				35.0		
Invoices over £500	Closed	Q2	Q2	5.0	5.0	
Transformation projects	Open	All Year	NA	30.0	0	New review
Anti-Fraud and Corruption Total				25.0		
National Fraud Initiative	Open	All Year	NA	20.0	5.0	Full biennial review in 17/18
Fraud Investigations	Open	All Year	NA	5.0	5.0	
Key Financial Systems Total				160.0		
Accounts Receivable	Open	Q3	NA	15.0	15.0	
Purchase to Pay	Open	Q3	NA	20.0	20.0	
Payroll	Not started	Q2	NA	15.0	15.0	
Housing Rents & Arrears	Closed	Q2	Q2	20.0	20.0	
Housing Benefits	Open	Q2	NA	20.0	20.0	
Council Tax	Open	Q1	NA	15.0	15.0	
NNDR	Open	Q1	NA	15.0	15.0	
Treasury Management	Open	Q2	NA	15.0	15.0	
Procurement Governance	Open	Q2	NA	15.0	15.0	
Debt Recovery	Not started	Q3	NA	10.0	10.0	
Commissioning & Contracts Total				45.0		
Contract Management	Not started	Q4		15.0	0	New review

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days	Historic days	Commentary
NPS Contract monitoring	Not started	Q2		20.0	0	New review
Regeneration company	Not started	Q2		5.0	0	New review
Commissioning	Not started	Q3		5.0	0	New review
Risk-Based Audits Total				5.0		
Safe Recruitment	Not started	Q3		5.0	0	New review
Policies & Procedures Total				15.0		
Financial Regulations (Norwich) 2018	Open	Q4		5.0	5.0	
Business Continuity Policy	Open	Q2		5.0	5.0	
Information Governance Policies	Open	Q2		5.0	0	New review
Compliance Total				20.0		
Fees and Charges	Not started	Q3		5.0	5.0	
Grants to Voluntary Organisations	Not started	Q3		5.0	5.0	
Use of GPC	Open	Q2		5.0	5.0	
Contract Extensions	Not started	Q2		5.0	0	New review
ICT and Information Governance Total				25.0		
Information Security	Open	Q3		10.0	10.0	
Financial Systems IT & General Computer Controls	Open	Q3		15.0	10.0	Increased coverage
Governance Total				25.0		
Attend Information Governance Group	Open	All Year	NA	5.0	5.0	
Attend Data Breach Response	Open	All Year	NA	5.0	0.0	New specific allocation
Attend Corporate Governance Group	Open	All Year	NA	5.0	5.0	
Annual Governance Statement	Open	Q1	Q2	10.0	10.0	
Risk Management Total				16.0		
Risk Management	Open	All Year	NA	12.0	15.0	

Audit title	Status	Qtr opened / planned	Qtr closed	Profiled days	Historic days	Commentary
Risk Management Policy	Open	Q3		4.0	0	New review
Grant assurance Total				10.0		
Disabled Facility Grant	Closed	Q1	Q2	5.0	5.0	
Cycle highways grant	Open	Q4		5.0	0	New review
Advice & Guidance Total				45.0		
Advice & Guidance	Open	All Year	NA	25.0	20.0	
Follow-Ups of Agreed Actions	Open	All Year	NA	20.0	20.0	
Reporting Total				24.0		
Committee Reporting	Open	All Year	NA	8.0	8.0	
Management Reporting	Open	All Year	NA	8.0	8.0	
Audit Plan	Open	All Year	NA	8.0	8.0	

Appendix B – Audit Definitions

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

Control Environment / System Assurance

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

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

Compliance Assurance

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

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

Organisational Impact

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

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

Findings prioritisation key

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

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

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

