Audit Committee

Agenda

Members of the Audit Committee

Mr N C Shaw
(Chairman)

Mr P H Carrick
(Vice Chairman)

Mrs B H Rix
Mr V B Tapp
Mrs K A Vincent

Substitutes
Conservatives
Mr G Everett
Mr I G Graham
Mr I J Mackie

Liberal Democrat
Mr D G Harrison

Date

Thursday 15 March 2018

Time

10.00 am

Place

Trafford Room
Thorpe Lodge
1 Yarmouth Road
Thorpe St Andrew
Norwich

Contact

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If any member wishes to clarify details relating to any matter on the agenda they are requested to contact the relevant Head of Service.

The Openness of Local Government Bodies Regulations 2014

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The Chairman will ask if anyone wishes to film / record this meeting

A G E N D A

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1	**To receive declarations of interest under Procedural Rule no 8**	
2	**Apologies for absence**	
3	**Minutes of the meeting held on 11 January 2018**	**3 – 6**
4	**Matters arising therefrom** (if any)	
5	**Strategic and Annual Internal Audit Plans 2018/19**	**7 – 24**
	To receive a report from the Head of Internal Audit.	
6	**Annual Counter Fraud Report**	**25 – 29**
	To receive a report from the Corporate Fraud Officer.	
7	**External Audit Plan 2017/18**	**30 – 64**
	To receive a report from External Audit.	
8	**Local Government Audit Committee Briefing**	**65 – 76**
	To receive a briefing from External Audit.	
9	**Audit Committee Presentation to Council**	
	For the Committee to agree their 15 May 2018 presentation to Council.	
10	**Work Programme**	**77**
	To consider the Committee's Work Programme.	

P C Kirby
Chief Executive

Minutes of a meeting of the **Audit Committee** held at Thorpe Lodge, 1 Yarmouth Road, Thorpe St Andrew, Norwich on **Thursday 11 January 2018** at **10.00am** when there were present:

Mr N C Shaw – Chairman

Mr P H Carrick Mrs B H Rix Mr V B Tapp Mrs K A Vincent

Also in attendance were the Corporate Finance Manager, Head of Internal Audit and the Committee Officer (JO).

Mark Hodgson and Sappho Powell (Ernst & Young) attended the meeting for its duration.

21 MINUTES

The Minutes of the meeting held on 21 September 2018 were confirmed as a correct record and signed by the Chairman.

22 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

The Committee considered a report that reviewed the work performed by Internal Audit in delivering the Annual Internal Audit Plan for 2017/18 during the period 9 September to 20 December 2017.

The one significant change to the agreed Audit Plan that had occurred during the period was the close down of the apprenticeship service, with all apprentices being moved to another provider or their course completed by 31 July 2017. It had, therefore, been agreed with the Section 151 Officer to audit the GP Referral Service instead. This was a non-statutory service that might provide opportunities for generating income and reducing costs.

In response to a query, Members were advised that all statutory services were reviewed on a regular basis and non-statutory services were reviewed as appropriate following discussions with senior officers.

So far, 108 days of the programmed work had been completed, equating to 75 percent of the Internal Audit Plan for 2017/18.

Three final assurance reports had been issued during the period: in Environmental Health, Remittances Arrangements and M3 Planning Application software. Both Environmental Health and Remittances Arrangements received a very positive ‘substantial’ assurance. The M3 Planning Application software had received ‘limited’ assurance and had generated the following two ‘important’ recommendations:

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(1) To implement periodic reminders for users to change passwords, as the controls within the application were weak.

(2) Create named accounts to conduct system administration activities rather than rely on a shared account to reduce the risk of unauthorised activity.

It was emphasised that the password controls were due to the software supplier, not the team using the software and that industry standards had changed in recent years regarding passwords, which required greater complexity and passwords to be changed on a regular basis. Members were also advised that to access the Planning software staff had to log onto the Council's IT system, which already had the required level of password security.

The audit reviews for quarters one, two and three had been completed and showed that performance was currently at green status with targets having been satisfactorily met so far for 2017/18.

In addition to the quarterly reports, ongoing weekly updates were provided to ensure that delivery of the Audit Plan was on track. A review of the most recent update indicated that completion of the internal audit work for the year was progressing as expected.

RESOLVED

to note the progress in completing the Internal Audit Plan of work and the outcomes of the completed audits to date for the 2017/18 financial year.

23 FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS

The Committee considered a report providing an update on progress made in relation to management's implementation of agreed Internal Audit recommendations falling due by 30 November 2017.

To date in 2017/18, internal audit had raised 23 recommendations, ten of which had been implemented by management, seven of which were outstanding (four important and three needed attention) and the remaining six were not yet due.

Good progress had been made by management in addressing prior financial year recommendations, with only three now outstanding, all of which should be completed by January 2018. Members were advised that this was an excellent position to be in with recommendations that were made before the current financial year.

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In respect of two outstanding recommendations from 2016/17 and one from 2017/18, the Internal Audit Consortium Manager advised Members that she would follow these up and confirm their status after the meeting. She also confirmed that all departments at Broadland cooperated fully with audit reviews.

In response to a query about three outstanding recommendations in respect of Broadland Growth Ltd, it was confirmed that a Board meeting would be held shortly when the relevant rules, procedures, protocols and administrative arrangements for business continuity, disaster recovery, freedom of information and data protection would be adopted. Members were also advised that Board meetings were held as and when development progress could be reported, so were convened on an ad hoc basis.

In response to a query about contracts, it was confirmed that the Council's contracts and procurements were reviewed on a regular basis. However, for more complex contractual issues, legal advice would need to be sought.

RESOLVED

to note the position in relation to the completion of agreed Internal Audit recommendations.

24 ANNUAL AUDIT CERTIFICATION REPORT 2016/17

The Committee considering a report summarising the results of the external audit on Broadland District Council's 2016/17 claims.

The Housing Benefits subsidy claim with a total value of £20,995,243 had been checked and certified, within the submission deadline and a qualification letter had been issued.

Members were advised that very few errors had been identified by the audit and a reduction in the certification fee had been made as a result of the initial testing being undertaken by the Council.

RESOLVED

to note the Audit Certification Report 2016/17.

25 WORK PROGRAMME

The following items were added to the Work Programme for the 28 June 2018 meeting:

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- Year End Progress Report on Internal Audit Activity
- Follow Up on Internal Audit Recommendations
- Annual Report and Opinion 2017/18
- Annual Governance Statement

The meeting closed at 10.35 am

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STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS 2018/19

Portfolio Holder: Finance
Wards Affected: All

1 SUMMARY

1.1 This report provides an overview of the stages followed prior to the formulation of the Strategic Internal Audit Plan for 2018/19 to 2020/21 and the Annual Internal Audit Plan for 2018/19. The Annual Internal Audit Plan will then serve as the Work Programme for the Council's Internal Audit Services contractor; TIAA Ltd. It will also provide the basis for the Annual Audit Opinion on the overall adequacy and effectiveness of Broadland District Council's framework of governance, risk management and control.

2 KEY DECISION

2.1 This is not a key decision.

3 BACKGROUND

3.1 The Accounts and Audit Regulations 2015 require that 'a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector standards or guidance'.

3.2 Those standards are set out in the Public Sector Internal Audit Standards (PSIAS) which came into effect in April 2013.

4 THE ISSUES

4.1 The report attached at Appendix A contains:

- The Internal Audit Strategy, which is a strategic high level statement on how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities;

- The Strategic Internal Audit Plan, which details the plan of work for the next three financial years;

- The Annual Internal Audit Plan, which details the timing and the purpose of each audit agreed for inclusion in 2018/19; and

- Provides the Audit Committee with the performance measures against which the contractor will be monitored.

5 ALTERNATIVE COURSE OF ACTION

5.1 Not applicable to this report.

6 PROPOSED ACTION

6.1 For the Audit Committee to review and approve the planned scope of work for the 2018/19 financial year for Internal Audit Services.

7 RESOURCE IMPLICATIONS

7.1 The Internal Audit Service is provided by way of a Partnership Agreement with South Norfolk Council, whereby South Norfolk Council provides the role of the Head of Internal Audit and Contract Manager to Broadland District Council, and the service provision i.e. delivery of the audits is provided through a contract with TIAA Ltd. The 2018/19 plans have been set within the approved budget.

8 LEGAL IMPLICATIONS

8.1 There are no legal implications arising from this report.

9 RISK IMPLICATIONS

9.1 The Risk Based Internal Audit approach will ensure that the Council's key risks are accurately reviewed and updated and thus the Internal Audit Service is adding value and auditing the key risk areas.

10 EQUALITIES IMPLICATIONS

10.1 There are no equality implications arising from this report.

11 CONCLUSION

11.1 The attached report provides the Council with Internal Audit Plans that will ensure key business risks will be addressed by Internal Audit, thus ensuring that appropriate controls are in place to mitigate such risks and also ensure that the appropriate and proportionate level of action is taken.

12 OPTIONS

12.1 The Audit Committee has the following options:

To note and approve:

(1) the Internal Audit Strategy for 2018/19;

(2) the Strategic Internal Audit Plans 2018/19 to 2020/21; and

(3) the Annual Internal Audit Plan 2018/19.

Emma Hodds
Head of Internal Audit

Background Papers

None

For further information on this report call Emma Hodds on (01508) 533791 or e-mail ehodds@s-norfolk.gov.uk

Appendix A

Eastern Internal Audit Services

BROADLAND DISTRICT COUNCIL

Strategic and Annual Internal Audit Plans 2018/19

Responsible Officer: Head of Internal Audit for Broadland District Council

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1. INTRODUCTION

1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.

1.2 The Public Sector Internal Audit Standards (PSIAS) mandate a periodic preparation of a risk-based plan, which must incorporate or be linked to a strategic high level statement on how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities, this is set out in the Internal Audit Strategy.

1.3 Risk is defined as 'the possibility of an event occurring that will have an impact on the achievement of objectives’. Risk can be a positive and negative aspect, so as well as managing things that could have an adverse impact (downside risk) it is also important to look at potential benefits (upside risk).

1.4 The development of a risk-based plan takes into account the organisation's risk management framework. The process identifies the assurance (and consulting) assignments for a specific period, by identifying and prioritising all those areas on which objective assurance is required. This is then also applied when carrying out individual risk based assignments to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.

1.5 The following factors are also taken into account when developing the internal audit plan:

- Any declarations of interest so as to avoid conflicts of interest;
- The requirements of the use of specialists e.g. IT auditors;
- Striking the right balance over the range of reviews needing to be delivered, for example systems and risk based reviews, specific key controls testing, value for money and added value reviews;
- The relative risk maturity of the Council;
- Allowing contingency time to undertake ad-hoc reviews or fraud investigations as necessary;
- The time required to carry out the audit planning process effectively as well as regular reporting to and attendance at Audit Committee, the development of the annual report and opinion and the Quality Assurance and Improvement Programme.

1.6 In accordance with best practice the Audit Committee should ‘*review and assess the annual internal audit work plan*’.

2. AUDIT CHARTER

2.1 The Internal Audit Charter (the Charter) was developed as part of the planning process in 2014/15 and incorporated the requirements of the PSIAS, this was updated in 2015/16 to more accurately reflect the working arrangements with the Internal Audit Contractor – TIAA Ltd.

2.2 The Charter was updated in 2017 to also reflect the new Internal Professional Practices Framework (IPPF) and PSIAS – and in particular the mission statement and core principles. The Charter now also more explicitly includes reference to the mandatory nature of the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards.

2.3 There is an obligation under the PSIAS for the Charter to be periodically reviewed and presented. This Charter is therefore reviewed annually by the Head of Internal Audit to confirm its ongoing validity and completeness, and presented to the Section 151 Officer, Senior Management and the Audit Committee every 2 years, or as required for review.

2.4 As part of the 2018 annual review, there have been some minor changes to the wording within the Charter as a result of the updates included in the PSIAS issued in April 2017. The only key changes that have been made is the addition of two further paragraphs:

3.2.4 – Where the Head of Internal Audit has responsibilities that fall outside of internal auditing, safeguards are in place to limit impairments to independence and objectivity.

8.2 – The Head of Internal Audit consults with senior management and the Audit Committee and obtains an understanding of the Council's strategies, key business objectives, associated risks and risk management processes.

2.4 As part of the review of the Audit Charter the Code of Ethics are also reviewed by the Head of Internal Audit, and it is ensured that the Internal Audit Services contractor staff, as well as the Head of Internal Audit adhere to these, specifically with regard to; integrity, objectivity, confidentiality and competency. Formal sign off to acceptance of the Code of Ethics is retained by the Head of Internal Audit.

3. INTERNAL AUDIT STRATEGY

3.1 The purpose of the Internal Audit Strategy (**see Appendix 1**) is to confirm:

- How internal audit services will be delivered;
- How internal audit services will be developed in accordance with the internal audit charter;
- How internal audit services links to organisational objectives and priorities; and
- How the internal audit resource requirements have been assessed.

4. STRATEGIC INTERNAL AUDIT PLAN

4.1 The overarching objective of the Strategic Internal Audit Plan (**see Appendix 2**) is to provide a comprehensive programme of review work over the next three years, with each year providing sufficient audit coverage to give annual opinions, which can be used to inform the organisation's Annual Governance Statement.

4.2 The coverage over the forthcoming three years has been discussed with senior management to ensure that audits are undertaken at the right time and at a time where value can be added. The discussions also went into greater detail in relation to the scope of the audits for the forthcoming year.

5. ANNUAL INTERNAL AUDIT PLAN

5.1 Having developed the Strategic Internal Audit Plan, the Annual Internal Audit Plan is an extract of this for the forthcoming financial year (**see Appendix 3**). This details the areas being reviewed by Internal Audit, the number of days for each review, the quarter during which the audit will take place and a brief summary / purpose of the review.

5.2 The Annual Internal Audit Plan for 2018/19 totals 144 days, encompassing:

- 10 assignments which will conclude in an audit opinion,
- Two of which are IT audits.

5.3 Audit verification work concerning audit recommendations implemented to improve the Council's internal control environment will also be undertaken throughout the financial year.

6. PERFORMANCE MANAGEMENT

6.1 The Internal Audit Services contract includes a suite of key performance indicators (**see Appendix 5**) against which the new contractor will be reviewed on a quarterly basis. There are a total of 11 indicators, over 4 areas.

6.2 There are individual requirements for performance in relation to each indicator; however performance will be assessed on an overall basis as follows (for the first year):

- 9-11 KPIs have met target = Green Status.
- 5-8 KPIs have met target = Amber Status.
- 4 or below have met target = Red Status.

Where performance is amber or red a Performance Improvement Plan will be developed and agreed with the contractor to ensure that appropriate action is taken.

6.3 Performance in relation to these indicators will be reported to the Committee as part of the Progress Reports and the Annual Report and Opinion, ensuring that Members are kept up to date on a regular basis.

APPENDIX 1 – INTERNAL AUDIT STRATEGY

EASTERN INTERNAL AUDIT SERVICES
BROADLAND DISTRICT COUNCIL

INTERNAL AUDIT STRATEGY FOR 2018/19

1. Introduction

1.1 The Internal Audit Strategy is a high-level statement of;

- how the internal audit service will be delivered;
- how internal audit services will be developed in accordance with the internal audit charter;
- how internal audit services links to the organisational objectives and priorities; and
- how the internal audit resource requirements have been assessed.

The provision of such a strategy is set out in the Public Sector Internal Audit Standards (the standards).

1.2 The purpose of the strategy is to provide a clear direction for internal audit services and creates a link between the Charter, the strategic plan and the annual plan.

2. How the internal audit service will be delivered

2.1 The Role of the Head of Internal Audit and contract management is provided by South Norfolk Council to; Breckland, Broadland, North Norfolk, South Holland and South Norfolk District Councils, Great Yarmouth Borough Council and The Broads Authority. All Authorities are bound by a Partnership Agreement.

2.2 The delivery of the internal audit plans for each Authority is provided by an external audit contractor, who reports directly to the Head of Internal Audit. The current contract is with TIAA Ltd, and commenced on 1 April 2015, for an initial period of 5 years.

3. How internal audit services will be developed in accordance with the internal audit charter

3.1 <u>Internal Audit objective and outcomes</u>

3.1.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.

3.1.2 The outcomes of the internal audit service are detailed in the Internal Audit Charter and can be summarised as; delivering a risk based audit plan in a professional, independent manner, to provide the Authority with an opinion on the level of assurance it can place upon the internal control environment, systems of risk management and corporate governance arrangements, and to make recommendations to improve these provisions, where further development would be beneficial.

3.1.3 The reporting of the outcomes from internal audit is through direct reports to senior management in respect of the areas reviewed under their remit, in the form of an audit report. The Audit Committee and the Section 151 Officer also receive:

- The Audit Plans Report, which is risk based and forms the next financial year's plan of work;
- The Progress Reports which provide summaries of the work achieved throughout the year and the individual opinions awarded on conclusion of reviews;
- The Follow Up Reports which detail the level of management action taken in respect of agreed internal audit recommendations; and
- The Annual Report and Opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

3.2 Internal Audit Planning

3.2.1 A risk-based internal audit plan (RBIA) is established in consultation with senior management that identifies where assurance and consultancy is required.

3.2.2 The audit plan establishes a link between the proposed audit areas and the priorities and risks of the Authority taking into account:

- Stakeholder expectations, and feedback from senior and operational managers;
- Objectives set in the strategic plan and business plans;
- Risk maturity in the organisation to provide an indication of the reliability of risk registers;
- Management's identification and response to risk, including risk mitigation strategies and levels of residual risk;
- Legal and regulatory requirements;
- The audit universe – all the audits that could be performed; and
- Previous IA plans and the results of audit engagements.

3.2.3 In order to ensure that the internal audit service adds value to the Authority, assurance should be provided that major business risks are being managed appropriately, along with providing assurance over the system of internal control, risk management and governance processes.

3.2.4 Risk based internal audit planning starts with the Authority's Business Plan, linking through to the priority areas and the related high-level objectives. The focus is then on the risks, and opportunities, that may hinder, or help, the achievement of the objectives. The approach also focuses on the upcoming projects and developments for the Authority.

3.2.5 The approach ensures; better and earlier identification of risks and increased ability to control them; greater coherence with the Authority's priorities; an opportunity to engage with stakeholders; the Committee and Senior Management better understand how the internal audit service helps to accomplish its objectives; and this ensures that best practice is followed.

3.2.6 The key distinction with establishing plans derived from a risk based internal audit approach is that the focus should be to understand and analyse management's assessment of risk and to base audit plans and efforts around that process.

3.2.7 Consultation with the Section 151 Officer and Senior Management takes place through specific meetings during which current and future developments, changes, risks and areas of concern are discussed and the plan amended accordingly to take these into account.

3.2.8 The outcome of this populates a strategic internal audit plan, and the resulting annual internal audit plan, which are discussed with and approved by the Corporate Leadership Team prior to these being brought to the Audit Committee. In addition, External Audit is also provided with early sight of the plans.

3.3 Internal Audit Annual Opinion

3.3.1 The annual opinion provides Senior Management and the Audit Committee with an assessment of the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

3.3.2 The opinion is based upon:

- The summary of the internal audit work carried out;
- The follow up of management action taken to ensure implementation of agreed action as at financial year end;
- Any reliance placed upon third party assurances;
- Any issues that are deemed particularly relevant to the Annual Governance Statement (AGS);
- The Annual Review of the Effectiveness of Internal Audit, which includes;
    - A statement on conformance with the standards and the results of any quality assurance and improvement programme,
    - the outcomes of the performance indicators and
    - the degree of compliance with CIPFA's Statement on the Role of the Head of Internal Audit.

3.3.3 In order to achieve the above internal audit operates within the standards and uses a risk based approach to audit planning and to each audit assignment undertaken. The control environment for each audit area reviewed is assessed for its adequacy and effectiveness of the controls and an assurance rating applied.

4. How internal audit services links to the organisational objectives and priorities

4.1 In addition to the approach taken as outlined in section 3.2 (Internal Audit Planning), which ensures that the service links to the organisations objectives and priorities and thereby through the risk based approach adds value, internal audit also ensure an awareness is maintained of local and national Issues and risks.

4.2 The annual audit planning process ensures that new or emerging risks are identified and considered at a local level. This strategy ensures that the planning process is all encompassing and reviews the records held by the Authority in respect of risks and issue logs and registers, reports that are taken through the Authority Committee meetings, and through extensive discussions with senior management.

4.3 Awareness of national issues is maintained through the contract in place with the external internal audit provider through regular "horizon scanning" updates, and annually a particular focus provided on issues to be considered during the planning process. Membership and subscription to professional bodies such as the Institute of Internal Auditors and the CIPFA on-line query service, liaison with External Audit, and networking with, all help to ensure developments are noted and incorporated where appropriate.

5. How internal audit resource requirements have been assessed

5.1 Through utilising an external audit contractor the risk based internal audit plan can be developed without having to take into account the existing resources, as you would with an

in-house team, thus ensuring that audit coverage for the year is appropriate to the Authority's needs and not tied to a particular resource.

5.2 That said a core team of staff is provided to deliver the audit plan, and these staff bring with them considerable public sector knowledge and experience. These core staff can be supplemented with additional staff should the audit plan require it, and in addition specialists, e.g. computer auditors, contract auditor, fraud specialists, can be drafted in to assist in completing the internal audit plan and focusing on particular areas of specialism.

5.3 All audit professionals are encouraged to continually develop their skills and knowledge through various training routes; formal courses of study, in-house training, seminars and webinars. As part of the contract with TIAA Ltd the contractor needs to ensure that each member of staff completes a day's training per quarter.

APPENDIX 2 – STRATEGIC INTERNAL AUDIT PLAN

Audit Area	Last review & assurance	Associated Risk	2018/19	2019/20	2020/21
Annual Opinion and Governance audits					
Key Controls and Assurance	2016/17 - Reasonable 2017/18 - Review Due	High	10	14	10
Corporate Governance	2016/17 - Position Statement	High	5		8
Performance Management, Business Planning and Risk Management	2016/17 - Substantial	High		10	
Procurement	2016/17 - Position Statement	High	10		
Broadland Growth	2017/18 - Reasonable	High		10	
Fundamental Financial Systems					
Accountancy Services - includes control accounts, banking, bank reconciliation, asset register, budgetary control and treasury management	2015/16 - Reasonable 2017/18 - Review Due	High		16	
Accounts Payable (insurance)	2016/17 - Reasonable	High	12		12
Accounts Receivable	2015/16 - Reasonable 2017/18 - Substantial	High		10	
Income / Remittances	2015/16 Substantial 2017/18 - Substantial	High		7	
Payroll and Human Resources	2016/17 - Reasonable	High	17		17
Council Tax and NNDR	2016/17 - Reasonable	High	20		20
Housing Benefit and Local Council Tax Support	2016/17 - Substantial	High	20		20

Audit Area	Last review & assurance	Associated Risk	2018/19	2019/20	2020/21
Service Area Audits					
Economic Development (BCTS, Business Support and Advice and GP Referral)	2015/16 - Reasonable 2016/17 - Reasonable 2017/18 - Reasonable	Medium		10	
Member Services, Training, Allowances & expenses	2013/14 - Reasonable 2016/17 - Position Statement	Low		8	
Elections and Electoral Registration	2015/16 - Substantial	Medium			8
Environmental Health - includes emergency planning, community safety, food safety, environmental protection, pest control, dog warden, licensing and pollution control	2017/18 - Substantial (licensing, H&S, Food & Safety)	Medium	10		10
Waste Management - includes contract monitoring, income collection & monitoring, refuse collection, street cleansing, recycling, clinical waste, abandoned vehicles and grounds maintenance	2016/17 - Reasonable	Medium		18	
Community Safety including Early Help Hub	New area	High		10	
Housing Strategy, Homelessness, Home Options, Affordable Housing and Private Sector Leasing	2016/17 - Reasonable	Medium		12	
Private Sector Housing - includes DFGs, grants and loans	2016/17 - Substantial	Medium		8	
Planning includes development management, planning applications, planning enforcement, neighbourhood planning, ,conservation, historic buildings, section 106 agreements, Community Infrastructure Levy and land charges	2013/14 - Reasonable 2017/18 - Reasonable	Medium		20	

Audit Area	Last review & assurance	Associated Risk	2018/19	2019/20	2020/21
ICT Audits					
Cyber Crime	New area	High	15		
Exchange and Ancillary Services	2016/17 - Reasonable	High	15		
IT audit reviews to be determined				30	30
Follow Up of audit recommendations					
Follow up of agreed audit recommendations			10	10	10
Total number of days			**144**	**193**	**145**

APPENDIX 3 – ANNUAL INTENAL AUDIT PLAN

Audit Area	No of days	Q1	Q2	Q3	Q4	Notes
Annual Opinion / Governance audits						
Key Controls and Assurance	10				10	This is an annual review of key controls that feed into the Statement of Accounts, for those systems not subject to an audit review within year. This will cover; Accountancy Services, Accounts Receivable, Income and the assurance framework.
Corporate Governance	5		5			The objective of the audit is to review the adequacy, effectiveness and efficiency of the systems and controls put in place for the General Data Protection Regulation (GDPR) coming into force on 25 May 2018. Specific areas of focus will be: appointment of DPO, personal data, privacy statements, security, data subject rights, policies, breaches, training, data sharing agreements, data protection impact assessments.
Procurement	10	10				The audit will review the suggested actions & improvements made as a result of the review in 2016/17 and will link with the work that the Corporate Fraud Officer undertakes in this important area. The audit will also cover recent procurement exercises and awards of contracts, to ensure these have been carried out in line with relevant legislation and the financial procedure rules. As it is also a requirement of the Public Contract Regulations 2015 (Regulations 22 and 53) that local authorities are required to offer e-procurement by April 2017, this will also be focused on.

Audit Area	No of days	Q1	Q2	Q3	Q4	Notes
Fundamental Financial Systems						
Accounts Payable	12			12		The scope of this regular review will cover; raising & authorisation of purchase orders, receipt of goods, segregation of duties, authorisation of invoices, payment of invoices, new suppliers & changes to suppliers and reconciliation with the financial ledger.
Payroll and Human Resources	17			17		This regular review will include particular focus on the arrangements in place with Norfolk County Council, with particular regard to the reconciliations. The scope will also cover; legislative requirements, starters & leavers, changes to payroll records, pension contributions, payroll processing and sickness absence.
Council Tax and NNDR	20			20		The key areas within this service will be risk assessed and appropriate attention given to those areas, along with a review of the key controls. Potential areas include; valuation & billing records, billing, collection of income, suspense accounts, reconciliations, refunds & transfers, discounts, exemptions & reliefs, arrears recovery and write offs.
Housing Benefit & Local Council Tax Support	20		20			The key areas within this service will be risk assessed and appropriate attention given to those areas, along with a review of the key controls. Potential areas include; receipt & assessment of applications, payments, overpayments, arrears, write offs, backdated claims, discretionary payments, appeals and reconciliations.

Audit Area	No of days	Q1	Q2	Q3	Q4	Notes
Service Area Audits						
Environmental Health	10		10			The specific focus within this area will be on Environmental Protection, in particular air quality, contaminated land and private water supplies
ICT Audits						
Cyber Crime	15	15				This area is increasingly under the spotlight and a review is therefore timely. The scope will cover: Information Risk Management Regime, Secure configuration, Network security, Managing user privileges, User education and awareness, Incident management, Malware prevention, Monitoring, Removable media controls and Home & mobile working
Exchange and Ancillary Services	15				15	As a result of the proposed upgrade to the desktop and laptop environment this area will be revisited post the work to ensure that controls remain robust in this key area.
Follow Up						
Follow up of agreed audit recommendations	10	2	3	2	3	
Total	**144**	**27**	**38**	**51**	**28**	

APPENDIX 4 – PERFORMANCE MEASURES

Area / Indicator	Target
Audit Committee / Senior Management	
1. Audit Committee Satisfaction – measured annually	Adequate
2. Chief Finance Officer Satisfaction – measured quarterly	Good
Internal Audit Process	
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	100%
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	100%
5. An audit file supporting each review and showing clear evidence of quality control review shall be completed prior to the issue of the draft report (a sample of these will be subject to quality review by the Contract Manager)	100%
6. Compliance with Public Sector Internal Audit Standards	Full
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.	100%
Clients	
8. Average feedback score received from key clients (auditees)	Adequate
9. Percentage of recommendations accepted by management	90%
Innovations and Capabilities	
10. Percentage of qualified (including experienced) staff working on the contract each quarter	60%
11. Number of training hours per member of staff completed per quarter	1 day

ANNUAL COUNTER FRAUD REPORT

Portfolio Holder: Finance
Wards Affected: All

1 SUMMARY

1.1 The Audit Committee has requested an update on Counter Fraud activity. This report gives details of the work undertaken during 2017/18. It also includes an update on the Council's activities under the Regulation of Investigatory Powers Act 2000 (RIPA).

2 KEY DECISION

2.1 This is not a key decision and has not been published in the Forward Plan.

3 INTRODUCTION

3.1 The Corporate Fraud Service has been in operation since May 2014. The service is led by the Head of Finance and Revenue Services and continues to be staffed by a part time officer (22.5 hours per week).

4 THE ISSUES

4.1 This year the work has continued to focus on the prevention of fraud and raising the profile of the service internally and externally. As the post is a corporate resource there continues to be new work areas to explore and advice sought from the post holder. In the main this has been acknowledged widely across the Council, however there are still areas of the business that need to actively seek at any early stage guidance and advice from the Corporate Fraud Officer and to act upon that accordingly.

5 DISCUSSION

5.1 The Corporate Fraud Officer has embarked on a self-starting project to identify previously unknown holiday accommodation and public use swimming pools in the District; this has been an additional source of referrals for several internal departments; Business Rates, Council Tax, Planning and Planning Enforcement, Environmental Health's Licencing and Waste Teams using the intelligence gathered. These departments have embraced a collaborative approach to whole case working, sharing of intelligence gathered, joint visits to sites, income generation as a one off for more than one of these departments and also continuing annual income streams for others.

5.2 The National Fraud Initiative (NFI) matches continue to be reviewed, to date no major irregularities have been identified. A small amount of mismatches have arisen due to day-to-day errors in data entry, this can be improved by staff training. It is clear that some matches cannot be avoided as all of the contributors to the data matching service continue to run different computer systems, which all have their anomalies. The NFI has recently contacted us to advise that they are about to launch a pilot scheme to match Business Rates data too, this is aimed at the early identification of unregistered businesses and those that are fraudulently claiming Small Business Rate Relief. We have indicated that we wish to be included in this pilot, as have our neighbouring authorities.

5.3 The Corporate Fraud Officer has engaged with the newly appointed investigative auditor at Norfolk County Council. They have been discussing the types of information that is held within their organisations to explore ways that intelligence can be shared to minimise areas of risk for both the District as well as the County Council. As both are experiencing financially restrictive times to ensure that both statutory and voluntary obligations are allocated to genuine applications rather than fraudulent ones. This is also being built upon with the County Council proposing the inception of a Fraud Hub to share information across the whole of Norfolk at District, Borough and County levels to minimise and detect early fraud attempts.

5.4 The Council's website now includes some additional pages added to enable members of the public to report any fraud concerns within the Council's business areas. The referrals received are sporadic using this method and some people still prefer to make direct contact and talk to either the departments directly or using the fraud hotline. It is intended that over the coming months the profile of this reporting method will be highlighted to residents via our own publications and Twitter.

5.5 The Corporate Fraud Officer continues to have operational responsibility for the Council's arrangements under the Regulation of Investigatory Powers Act, 2000 (RIPA). Our arrangements for using these powers are set out in our RIPA Policy (available on the website).

5.6 We are still required to produce an annual return to the Office of Surveillance Commissioners (OSC), which in 2016/17 confirmed that no authorisations had been sought from the Courts using the RIPA arrangement (which has been the case for the last nine years). We are still waiting for our return to be received for this year, however again no authorisations have been requested.

5.7 In the autumn of 2017 nplaw held some refresher training for 29 Council staff who visit premises and people in their own homes. We also invited staff from South Norfolk Council to attend one of the sessions that we ran and this was greatly appreciated by the attendees.

5.8 The service has established a good working relationship with Norfolk County Trading Standards which is benefiting many areas of the Council and this is continuing to go from strength to strength. They are often able to provide early indicators that companies may be altering their financial make up to avoid making statutory payments to the Council and paying preferential debtors instead to allow them to continue to trade.

5.9 The Council Tax Team has undertaken a review of the recipients of the 25 percent single person's discount again this year with assistance from Northgate Public Services rather than Datatank. This has identified cases where the discount may have been fraudulently been claimed and these will require further investigation and appropriate action taken.

5.10 The Department of Work and Pensions' Single Fraud Investigation Service is suggesting that the Corporate Fraud Officer will be able to attend interviews under caution again in 2018 as we were able to prior to the inception of the Single Fraud Investigation Service. This will mean that the Council will be able to greater protect its ability to recover Housing Benefit overpayments as with the inclusion of any Council Tax Reduction Offence the total overpayments will be higher and therefore may require prosecution action rather than a financial sanction, which the local authority then have the burden of collecting. If these types of cases proceed to Court then both the Crown Prosecution Service (CPS) and the Court itself have the ability to request where appropriate that a confiscation order under Proceeds of Crime Act 2002 (POCA) is considered, thus speeding up the recovery of the debt.

6 PROPOSED ACTION

6.1 The service will continue to promote its experience and skill set internally and externally.

6.2 The service is continuing to consolidate its work with other organisations.

6.3 The Counter Fraud Plan (Appendix 1) agreed for this year has been updated to review what other areas the service needs to explore.

7 RESOURCE IMPLICATIONS

7.1 The Council has a budget for staffing costs and some other service costs. This budget will be reviewed each year to ensure it is appropriate for the service. Any additional budget will first be considered within the corporate efficiencies available before requesting growth.

7.2 Any direct income will be credited to the service. This will include fees for work undertaken on behalf of other authorities.

7.3 It should be recognised that any efficiencies or prevention may also be recognised outside the service and the savings identified elsewhere.

8 LEGAL IMPLICATIONS

8.1 Any investigations are conducted following the relevant legislation and regulations.

8.2 Advice and support is given by both the Head of Internal Audit and nplaw.

9 RISK IMPLICATIONS

9.1 In order to continue to function in an ever changing landscape the Council will need to assess the risks to its finances and appraise the resources required to tackle the risks.

10 EQUALITIES IMPLICATIONS

10.1 Prevention of fraud will protect the Council's funds for all tax payers.

11 CONCLUSION

11.1 The service has embedded itself within the Council and is gaining recognition for the work that it has undertaken as well as the support that it has given to others.

12 RECOMMENDATIONS

12.1 The Audit Committee is requested to note the report.

Kerrie Wilton
Corporate Fraud Officer

Background Papers

None

For further information on this report call Kerrie Wilton on 01603 430406 or e-mail corporate.fraud@broadland.gov.uk

Appendix 1

Fraud Plan 2018/19

Areas to be covered:

(1) Rolling review of Members' Interests.

(2) Re-launch the availability of fraud reporting to residents via our own website.

(3) Re-commence joint working investigations and interviews under caution with The Department for Work and Pensions to include Council Tax Reduction fraud.

(4) To provide support to the Council Tax Department to resolve outcomes of single person discount review and consider the application of sanctions. This will feed into internal audit testing in 2018/19.

(5) Continue with the identification of unknown businesses within the District.

(6) Review of procurement in conjunction with Internal Audit during 2018/19.

(7) Work in the area of Disabled Facilities Grant to update on recent changes to support the signing by the Head of Internal Audit.

(8) To play an active role in the inception of the proposed Fraud Hub being launched by Norfolk County Council.

(9) Work on temporary accommodation and the Housing Register procedures and consideration to support tenancy audits. This will be passed onto internal audit for them to consider for their work plans in 2018/19 and 2019/20.

(10) To continue to provide ad hoc support to local housing associations to assist with prevention of Social Housing fraud.

(11) To liaise with town and parish councils and offer support.

(12) Continue to work with colleagues to progress fraud investigations when potential fraud is highlighted at a local and at County level.

(13) Support the Government data matching service to identify fraud.

Broadland District Council

Audit planning report

Year ended 31 March 2018

February 2018

Building a better working world

Audit Committee
Broadland District Council
Thorpe Lodge
1 Yarmouth Road
Thorpe St Andrew
Norwich
NR7 0DU

8 February 2018

Dear Committee Members

Audit planning report

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Audit Committee with a basis to review our proposed audit approach and scope for the 2017/18 audit in accordance with the requirements of the Local Audit and Accountability Act 2014, the National Audit Office's 2015 Code of Audit Practice, the Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA) Ltd, auditing standards and other professional requirements. It is also to ensure that our audit is aligned with the Committee's service expectations.

This plan summarises our initial assessment of the key risks driving the development of an effective audit for the Council, and outlines our planned audit strategy in response to those risks.

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

We welcome the opportunity to discuss this report with you on 15 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Mark Hodgson

Mark Hodgson

For and on behalf of Ernst & Young LLP

Enc

Contents

01 Overview of our 2017/18 audit strategy

02 Audit risks

03 Value for Money Risks

04 Audit materiality

05 Scope of our audit

06 Audit team

07 Audit timeline

08 Independence

09 Appendices

In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from 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 February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature.
This report is made solely to the Performance and Audit Scrutiny Committee and management of Forest Heath District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the Performance and Audit Scrutiny Committee and management of Forest Heath District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the Performance and Audit Scrutiny Committee and management of Forest Heath District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.

01 Overview of our 2017/18 audit strategy

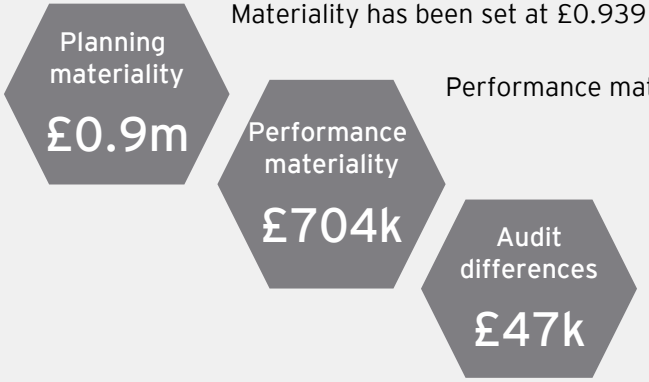
Overview of our 2017/18 audit strategy

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

Risk / area of focus	Risk identified	Change from PY	Details
Risk of management override	Fraud risk	No change in risk or focus	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.
Property, Plant and Equipment Valuation	Other financial statement risk	No change in risk or focus	Property, Plant and Equipment represents a material balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet. This is carried out by an expert valuer and is based on a number of complex assumptions. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.
Pensions Liability – IAS19	Other financial statement risk	No change in risk or focus	The Local Authority Accounting Code of Practice (the code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.

Overview of our 2017/18 audit strategy

Materiality



Materiality has been set at £0.939 million, which represents 2% of the prior years gross expenditure on net cost of services.

Performance materiality has been set at £0.704 million, which represents 75% of materiality.

We will report all uncorrected misstatements relating to the primary statements (comprehensive income and expenditure statement, balance sheet, movement in reserves statement, cash flow statement and collection fund) greater than £47,000. Other misstatements identified will be communicated to the extent that they merit the attention of the Committee.

Audit scope

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

- Our audit opinion on whether the financial statements of Broadland District Council (the Council) give a true and fair view of the financial position as at 31 March 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness.

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

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

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

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

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

02 Audit risks

Our response to significant risks

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

	What is the risk?	What will we do?
Management override	As identified in ISA 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that would otherwise appear to be operating effectively. We identify and respond to this fraud risk on every audit engagement.	Our approach will focus on: ▸ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements; ▸ Reviewing accounting estimates for evidence of management bias. ▸ Evaluating the business rationale for significant unusual transactions; and

Other areas of audit focus

We have identified other areas of the audit, that have not been classified as significant risks, but are still important when considering the risks of material misstatement to the financial statements and disclosures and therefore may be key audit matters we will include in our audit report.

What is the risk/area of focus?	What will we do?
Property, Plant and Equipment Valuation Property, Plant and Equipment represents a material balance in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges. Material judgemental inputs and estimation techniques are required to calculate the year-end fixed assets balances held in the balance sheet. This is carried out by an expert valuer and is based on a number of complex assumptions. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Our approach will focus on: ▸ Reliance on management's valuation experts. This will include comparison to industry valuation trends and reliance on our own valuation experts where significant unexplained variations are identified; ▸ Testing the accounting treatment of valuations made in the year, including the assessment and treatment of impairments.
Pensions Liability – IAS19 The Local Authority Accounting Code of Practice (the code) and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body. The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body. Accounting for this scheme involves significant estimation and judgement. ISAs (UK and Ireland) 500 and 540 require us to undertake procedures on the use of management experts and the assumptions underlying fair value estimates.	Our approach will focus on: ▸ Liaising with the auditors of the administering authority (Norfolk County Council), to obtain assurances over the information supplied to the actuary in relation to Broadland District Council; ▸ Assessing the conclusions drawn on the work of the actuary by the Consulting Actuary, PwC; and ▸ Reviewing and testing the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

03 Value for Money Risks

Value for Money

Background

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

For 2017/18 this is based on the overall evaluation criterion:

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

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

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

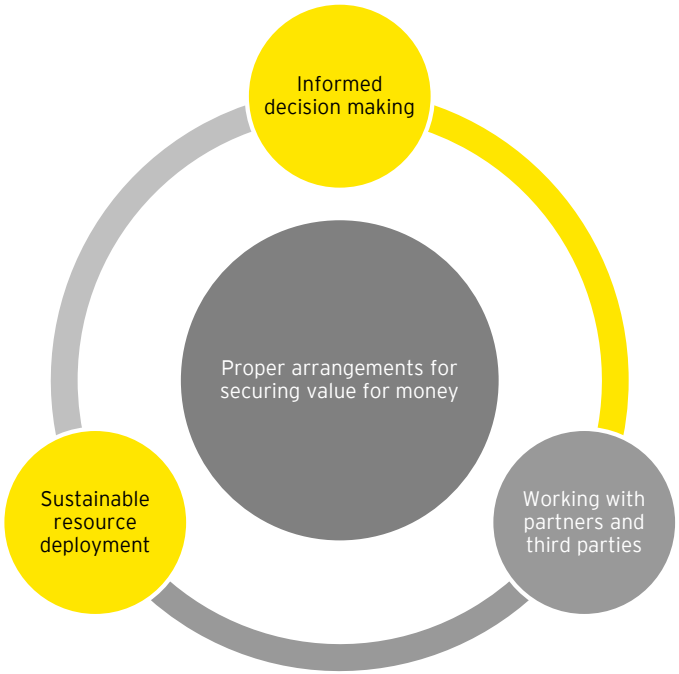
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has resulted in the identification of no significant risks which we view as relevant to our value for money conclusion at this stage.

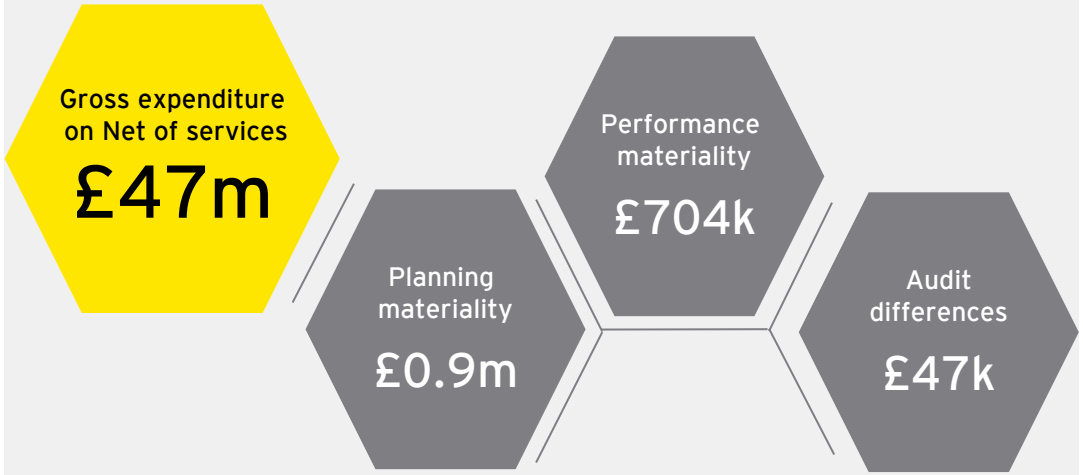


04 Audit materiality

Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £0.939 million. This represents 2% of the Council's prior year gross expenditure on net Cost of Services. It will be reassessed throughout the audit process. We have provided supplemental information about audit materiality in Appendix D.



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

Key definitions

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

Performance materiality – the amount we use to determine the extent of our audit procedures. We have set performance materiality at £0.704 million which represents 75% of planning materiality.

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

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

Specific materiality – We have set a materiality of £5,000 for remuneration disclosures and exit packages, and £47,000 for related party transactions, and members' allowances which reflects our understanding that an amount less than our materiality would influence the economic decisions of users of the financial statements in relation to this.

05 Scope of our audit

Our Audit Process and Strategy

Objective and Scope of our Audit scoping

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

We issue an audit report that covers:

1. Financial statement audit

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

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

Procedures required by standards

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

Procedures required by the Code

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

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

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

Our Audit Process and Strategy (continued)

Audit Process Overview

Our audit involves:

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

For 2017/18 we plan to follow a substantive approach to the audit as we have concluded this is the most efficient way to obtain the level of audit assurance required to conclude that the financial statements are not materially misstated.

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

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

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

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

Our Audit Process and Strategy (continued)

Earlier deadline for production of the financial statements

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 accounts by 31 July 2018.

These changes provide risks for both the preparers and the auditors of the financial statements:

- The Council now has less time to prepare the financial statements and supporting working papers and has the added complexity of preparing Group financial accounts.
- As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- good quality draft financial statements and supporting working papers by the agreed deadline;
- appropriate Council staff to be available throughout the agreed audit period; and
- complete and prompt responses to audit questions.

If you are unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere. Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

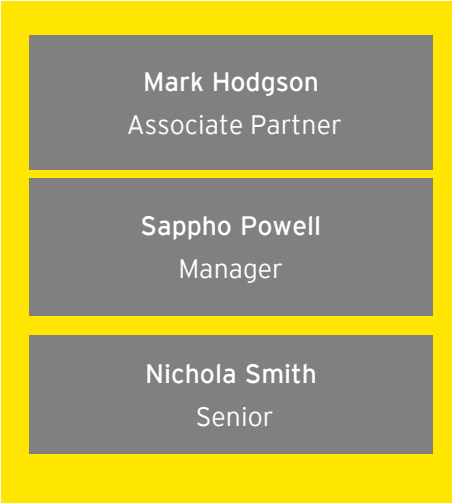
To support the Council we will:

- Work with the Council to engage early to facilitate early substantive testing where appropriate.
- Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- Put in place portal to streamline communication and sharing of audit evidence.
- Agree the team and timing of each element of our work with you.
- Agree the supporting working papers that we require to complete our audit.

06 Audit team

Audit team

Audit team structure:



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

Use of specialists

- Our approach to the involvement of specialists, and the use of their work.

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

Area	Specialists
Property, Plant and Equipment, and Investment Properties	Management expert – valuation specialists (Valuation Office)
Pension valuations and disclosures	Management expert – actuarial specialists to the Suffolk Pension Fund (Hymans Robertson) EY Pensions Advisory, PwC (Consulting Actuary to the National Audit Office)
National Domestic Rates Provision valuation	Management expert – valuation of the NDR provision (Inform CPI limited)

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

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

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

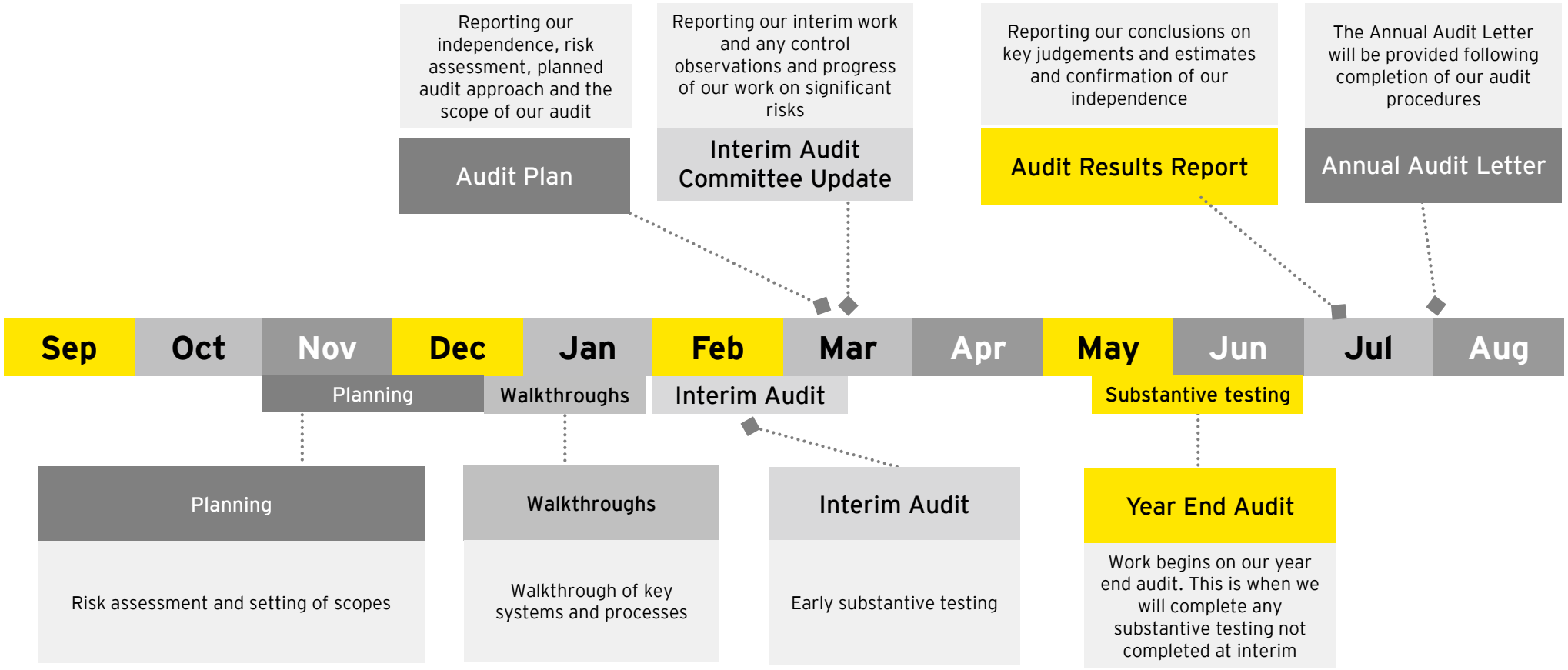
07 Audit timeline

Timetable of communication and deliverables

Timeline

Below is a timetable showing the key stages of the audit and the deliverables we have agreed to provide to you through the audit cycle in 2017/18.

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



08 Independence

Introduction

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

Required communications	
Planning stage	**Final stage**
▸ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between you, your affiliates and directors and us; ▸ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▸ The overall assessment of threats and safeguards; ▸ Information about the general policies and process within EY to maintain objectivity and independence.	▸ A written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▸ Details of non-audit services provided and the fees charged in relation thereto; ▸ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▸ Written confirmation that all covered persons are independent; ▸ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▸ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▸ An opportunity to discuss auditor independence issues.

In addition, during the course of the audit, we are required to communicate with you whenever any significant judgements are made about threats to objectivity and independence and the appropriateness of safeguards put in place, for example, when accepting an engagement to provide non-audit services.

We also provide information on any contingent fee arrangements , the amounts of any future services that have been contracted, and details of any written proposal to provide non-audit services that has been submitted;

We ensure that the total amount of fees that EY and our network firms have charged to you and your affiliates for the provision of services during the reporting period, analysed in appropriate categories, are disclosed.

Relationships, services and related threats and safeguards

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

Overall Assessment

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

Self interest threats

A self interest threat arises when EY has financial or other interests in the Council. Examples include where we receive significant fees in respect of non-audit services; where we need to recover long outstanding fees; or where we enter into a business relationship with the Council. At the time of writing, there are no long outstanding fees.

We believe that it is appropriate for us to undertake permissible non-audit services and we will comply with the policies that you have approved.

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

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

Self review threats

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

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

Management threats

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

There are no management threats at the date of this report

Other threats

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

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

Other communications

EY Transparency Report 2017

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

Details of the key policies and processes in place within EY for maintaining objectivity and independence can be found in our annual Transparency Report which the firm is required to publish by law. The most recent version of this Report is for the year ended 1 July 2017 and can be found here:

http://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2017

09 Appendices

Appendix A

Fees

The duty to prescribe fees is a statutory function delegated to Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

PSAA has published a scale fee for all relevant bodies. This is defined as the fee required by auditors to meet statutory responsibilities under the Local Audit and Accountability Act 2014 in accordance with the NAO Code.

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£'s	£'s	£'s
Total Fee – Code work	41,587	41,587	41,587
Total audit	41,587	41,587	41,587
Other non-audit services not covered above (Housing Benefits)	11,022	11,022	14,495
Total other non-audit services	11,022	11,022	14,495
Total fees	52,609	52,609	56,082

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

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

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

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

Appendix B

Regulatory update

In previous reports to the Audit Committee, we highlighted the issue of regulatory developments. The following table summarises progress on implementation:

Earlier deadline for production and audit of the financial statements from 2017/18	
Proposed effective date	**Effective for annual periods beginning on or after 1 April 2017.**
Details	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.
Impact on Broadland District Council	These changes provide challenges for both the preparers and the auditors of the financial statements. We held a faster close workshop for clients in November 2017 to facilitate early discussion and sharing of ideas and good practice. We are now working with the Council on ideas coming from the workshop, for example: • 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 C

Required communications with the Audit Committee

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

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Terms of engagement	Confirmation by the Audit Committee of acceptance of terms of engagement as written in the engagement letter signed by both parties.	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Our responsibilities	Reminder of our responsibilities as set out in the engagement letter	The statement of responsibilities serves as the formal terms of engagement between the PSAA's appointed auditors and audited bodies.
Planning and audit approach	Communication of the planned scope and timing of the audit, any limitations and the significant risks identified. When communicating key audit matters this includes the most significant risks of material misstatement (whether or not due to fraud) including those that have the greatest effect on the overall audit strategy, the allocation of resources in the audit and directing the efforts of the engagement team	Audit planning report – 15 March 2018
Significant findings from the audit	▸ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures ▸ Significant difficulties, if any, encountered during the audit ▸ Significant matters, if any, arising from the audit that were discussed with management ▸ Written representations that we are seeking ▸ Expected modifications to the audit report ▸ Other matters if any, significant to the oversight of the financial reporting process	Audit Results Report

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Going concern	Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including: ▸ Whether the events or conditions constitute a material uncertainty ▸ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements ▸ The adequacy of related disclosures in the financial statements	Audit Results Report
Misstatements	▸ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation ▸ The effect of uncorrected misstatements related to prior periods ▸ A request that any uncorrected misstatement be corrected ▸ Corrected misstatements that are significant ▸ Material misstatements corrected by management	Audit Results Report
Fraud	▸ Enquiries of the Audit Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity ▸ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist ▸ A discussion of any other matters related to fraud	Audit Results Report
Related parties	▸ Significant matters arising during the audit in connection with the entity's related parties including, when applicable: ▸ Non-disclosure by management ▸ Inappropriate authorisation and approval of transactions ▸ Disagreement over disclosures ▸ Non-compliance with laws and regulations ▸ Difficulty in identifying the party that ultimately controls the entity	Audit Results Report

Required communications with the Audit Committee (continued)

Required communications	What is reported?	Our Reporting to you When and where
Independence	Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as: ▸ The principal threats ▸ Safeguards adopted and their effectiveness ▸ An overall assessment of threats and safeguards ▸ Information about the general policies and process within the firm to maintain objectivity and independence	Audit Planning Report and Audit Results Report
External confirmations	▸ Management's refusal for us to request confirmations ▸ Inability to obtain relevant and reliable audit evidence from other procedures	Audit Results Report
Consideration of laws and regulations	▸ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▸ Enquiry of the Audit Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Audit Committee may be aware of.	Audit Results Report
Internal controls	▸ Significant deficiencies in internal controls identified during the audit	Annual Audit Letter/Audit Results Report

Required communications with the Audit Committee (continued)

		Our Reporting to you
Required communications	**What is reported?**	**When and where**
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report
Auditors report	▸ Key audit matters that we will include in our auditor's report ▸ Any circumstances identified that affect the form and content of our auditor's report	Audit Results Report
Fee Reporting	▸ Breakdown of fee information when the audit plan is agreed ▸ Breakdown of fee information at the completion of the audit ▸ Any non-audit work	Audit Planning Report Audit Results Report
Certification work	Summary of certification work undertaken	Certification report

Additional audit information

Other required procedures during the course of the audit	
In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.	
Our responsibilities required by auditing standards	▸ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. ▸ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control. ▸ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management. ▸ Concluding on the appropriateness of management's use of the going concern basis of accounting. ▸ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation. ▸ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, ▸ The Audit Committee reporting appropriately addresses matters communicated by us to the Audit Committee and reporting whether it is materially inconsistent with our understanding and the financial statements; and ▸ Maintaining auditor independence.

Additional audit information (continued)

Purpose and evaluation of materiality

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

Materiality determines:

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

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

Local Government Audit Committee Briefing

EY
Building a better working world

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This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Local Government sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Local Government sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further, please contact your local audit team.

Government and economic news

Will the UK economy hold up as Brexit nears?

The latest forecast from the EY Item Club highlights that UK GDP growth in 2017 was 1.8%, which was better than expected. However, it does compare unfavourably with 2017 GDP growth of 2.5% for the Eurozone, 2.3% for the US and an estimated 3.0% globally.

The momentum from 2017, an improving outlook for consumer spending, and the increased likelihood of a near-term Brexit transition arrangements are expected to support UK growth this year. With this, we have nudged up our UK GDP forecast for 2018 to 1.7%, up from the 1.4% we predicted in our Autumn forecast in October last year.

However, further out, the UK's limited productivity performance and ongoing Brexit and political uncertainties will see the UK achieve only mid-range growth. With this, we have slightly reduced our GDP growth projections for 2019 to 1.7% (down from 1.8%), 1.9% for 2020 (down from 2.0%), and 2.0% for 2021 (down from 2.2%). Although we have modestly downgraded our expectation of the UK's productivity performance, it remains more optimistic than the Office for Budget Responsibility's latest forecast. Specifically, we forecast output per hour to rise 0.9% in 2018 and then 1.3% annually during 2019–2021.

Much depends on how the Brexit negotiations develop. The expectation is that the UK and EU will make sufficient progress to agree a transition arrangement lasting at least two years, from late March 2019. Since this will have to be ratified across the EU, agreement essentially needs to be reached by October 2018. Progress towards a transition deal in late 2018 should support business confidence and a gradual pick-up in investment, helping GDP growth accelerate.

Provisional 2018–19 Local Government Finance Settlement

On 19th December 2017 the Government set out the provisional funding plan for the 2018–19 financial year, which will be the third year of the four year multi-year settlement that was accepted by 97% of local authorities. The main themes of the provisional settlement were:

Council tax referendum principles – as a result of the financial settlement consultation process the government has decided to set the core referendum principle at 3% in 2018–19 and 2019–20, to match the higher than expected inflation. This change will give local authorities more flexibility in deciding how money will be raised to offset the increasing financial pressures and demand on services. Shire district councils will be allowed an increase of 3% or £5 whichever is higher.

Continuation of the adult social care precept principle of a 2% increase, with the additional flexibility in 2018–19 to increase the precept by an additional 1%, from 2% to 3%, provided that the total increase across the three years 2017–18 to 2019–20 does not exceed 6%.

Analysis by the Local Government Association has estimated that the impact of increased flexibility in council tax precepts could be worth up to £540mn to local authorities by 2019–20. However local services are facing a total funding gap of £5.8bn in 2019–20. Therefore, the increased powers to raise council tax are not sufficient to meet the future funding gap.

Business rate retention – the Government's continued intention to reform local government financing in the future by allowing authorities to retain a greater percentage of business rates instead of receiving certain grants (including RSG, public health grant) direct from central government. By 2020–21 it is estimated that the business rate retention across the local government system would be 75%, compared to the current level of 50% retention. It was also announced that the 100% business rates retention pilot schemes were going to be expanded to include a further 10 local authorities.

New homes bonus – since inception the new home bonus has allocated £7bn to local authorities to encourage the building of over 1.2 million new homes. The Government has decided to continue to set the national baseline (below which no bonus will be paid) at 0.4% for 2018/19. The national baseline represents the annual growth of Band D properties within a local authority above which the new homes bonus will be awarded. Government retained the option to adjust the baseline in future years based on housing statistics as reported through council tax base figures. This stability will provide some security for district authorities who have based their growth strategy on the New Homes Bonus.

Carillion liquidation

Major public sector building and support services contractor Carillion plc went into compulsory liquidation on 15 January 2018. Carillion's sudden collapse is being felt across the country as a range of public services, from road building to school meals, have been unexpectedly terminated in a number of local authorities.

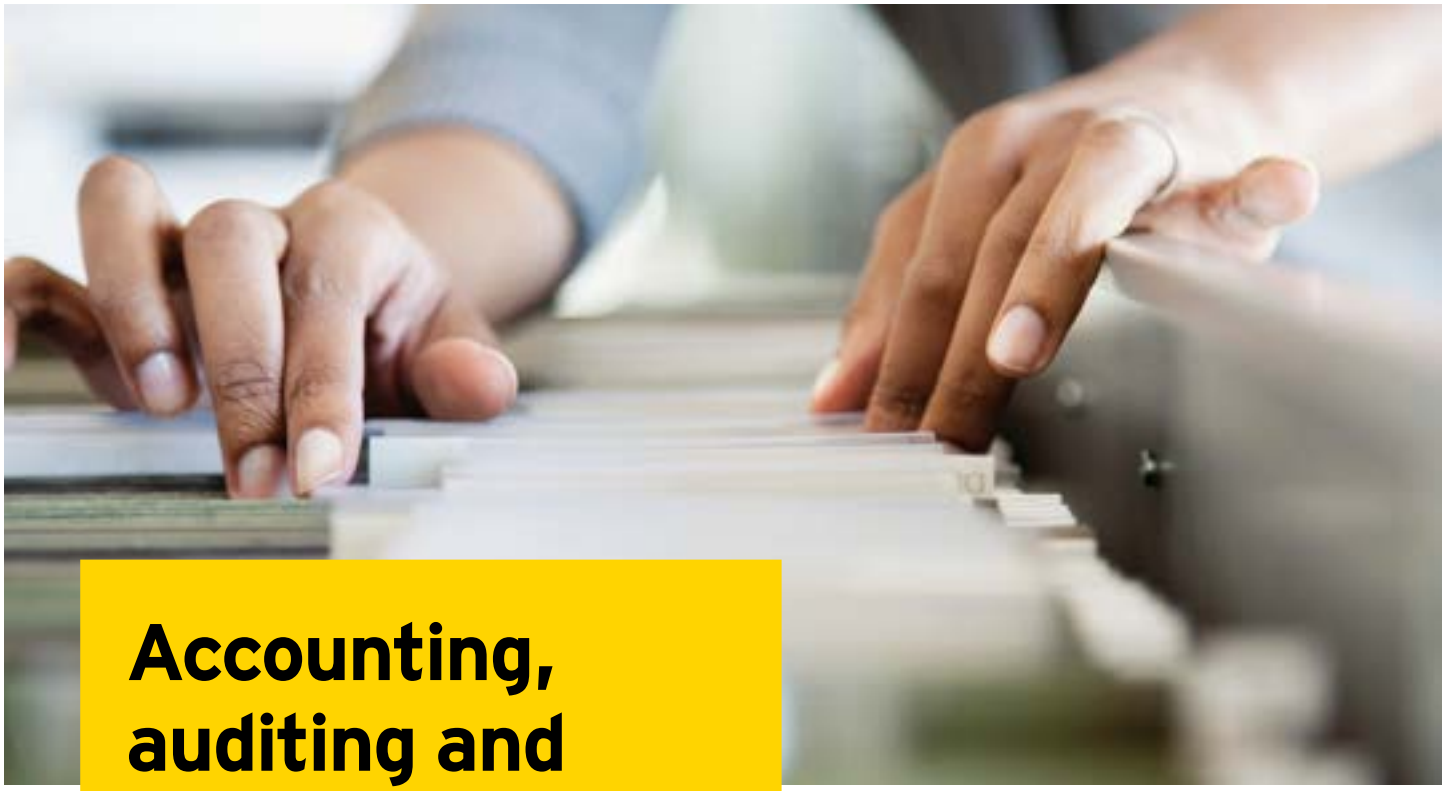
The full extent of the affected services is yet to be determined as local authorities discuss existing contracts with the Official Receiver. Local authorities are implementing contingency plans where possible, including either finding alternative contractors or taking services back in house. For example the response from Oxfordshire County Council in relation to the provision of school meals at 90 schools supplied by Carillion was to guarantee Carillion staff who worked in schools that the county council would ensure that they were paid.

Although the Government has pledged that public services 'will be protected' after Carillion's collapse, it is unclear how or when funding from central Government will be made available to the affected local authorities.

Public sector pay

Since 2013, the Government has implement a policy of a 1% annual pay increase cap for public sector workers; which was estimated to have saved approximately £5bn by 2019–20. In the Autumn Budget 2017 the Government confirmed the end of the 1% pay increase policy. Therefore from 2018–19, pay review bodies will be able award pay increases of greater than 1% as they determine to be appropriate. After the long freeze in real terms of public sector pay future increases above 1% have been welcomed; and it is thought that this has been needed to retain talent with in the public domain. However, this will be an additional cost pressure for local authorities that will require financing.

The national employers, who negotiate pay on behalf of 350 local authorities, suggested that most employees with salaries over £19,430 should receive a 2% increase for 2018–19 and a further 2% for 2019–20. Lower salaried workers will received higher increases based on hourly pay; from £7.78 to £9.00 in April 2019 and increase equivalent to 15.65%. National employers have said this would add another 5.6% to the national pay bill over the two years to 2020.



Accounting, auditing and governance

IFRS 15 – revenue from contracts with customers

The new revenue standard, IFRS 15, creates a single source of revenue requirements for all entities in all industries and is a significant departure from legacy IFRS. The new standard applies to revenue from contracts with customers and replaces all of the legacy revenue standards and interpretations in IFRS, including IAS 11 Construction Contracts and IAS 18 Revenue.

IFRS 15 is principles-based but provides more application guidance and increased judgement. IFRS 15 also specifies the accounting treatment for certain items not typically thought of as revenue, such as certain costs associated with obtaining and fulfilling a contract and the sale of certain non-financial assets. The new standard will have little effect on some entities, but will require significant changes for others.

The standard describes the principles an entity must apply to measure and recognise revenue. The core principle is that an entity will recognise revenue at an amount that reflects the consideration to which the entity expects to be entitled in exchange for transferring goods or services.

The principles in IFRS 15 are applied using the following five steps:

1. Identify the contract(s) with a customer
2. Identify the performance obligations in the contract
3. Determine the transaction price
4. Allocate the transaction price to the performance obligations in the contract
5. Recognise revenue when (or as) the entity satisfies a performance

Entities will need to exercise judgement when considering the terms of the contract(s) and all of the facts and circumstances, including implied contract terms. Entities will also have to apply the requirements of the standard consistently to contracts with similar characteristics and in similar circumstances.

The 2018/19 Code of practice on Local Authority Accounting in the United Kingdom (the Code) will determine how IFRS 15 revenue from customers with contracts will be adopted by local government bodies. The 2018/19 Code will apply to accounting periods starting on or after 1 April 2018 but has not yet been published. The CIPFA/LASAAC Local Authority Accounting Code

Board met on 6 June 2017 and discussed the implication of IFRS 15 on Local Government entities. The minutes of this meeting corroborate our view that for most entities income streams from contracts with customers are likely to be immaterial. The vast majority of income streams are taxation or grant based which do not fall within the scope of IFRS 15 as they are not contractually based revenue from customers.

However, this may not always be the case for some smaller English authorities or authorities where there is a high public interest in commercial activities. The following income streams are within the scope of IFRS 15 and will need special consideration if they are material to the users of the financial statements:

- Fees and charges for services under statutory requirements
- Sale of goods provided by the authority
- Charges for services provided by a local authority

EY – CIPFA Accounts Closedown Workshop 2017–18

EY and CIPFA Financial Advisory Network (FAN) are continuing to work in partnership to deliver a programme of accounts closedown workshops to support local government finance professionals across the country with separate events for police bodies and English, Welsh and Scottish local authorities. The workshop programme covers the key changes impacting on the production of the 2017/18 financial statements and the outcomes of the 'telling the story' changes to the Code of Practice on Local Authority Accounting in 2016/17. Looking forward there are significant changes to IFRS that will come through in the 2018/19 Code and later, so the workshops are also focused on the key risks in relation to the new Financial Instruments standard IFRS 9 and other future expected changes in the Code with potential to impact on the General Fund and the HRA. These workshops also aim to prepare local authority finance staff for a 'faster, smarter and more accurate' accounts closedown for 2017–18.

By the end of this May, your local authority will need to publish its unaudited statement of accounts and publish audited accounts by the end of July. These changes provide risks for both the preparers and the auditors of the financial statements. Local Authorities will now have less time to prepare the financial statements and supporting working papers. As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Failure to meet a deadline at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

- Good quality draft financial statements and supporting working papers by the agreed deadline
- Appropriate staff to be available throughout the agreed audit period
- Complete and prompt responses to audit questions

If your authority is unable to meet key dates within our agreed timetable, we will notify you of the impact on the timing of your audit, which may be that we postpone your audit until later in the summer and redeploy the team to other work to meet deadlines elsewhere.

Of the 150 authorities we audit, we currently consider that around a quarter have left themselves a significant amount of work to do to get there and are running a real risk of missing the deadline because they will not have quality draft accounts and supporting evidence ready for their auditors by the end of May.

In addition to our workshops with CIPFA, we have held events in each of our local offices and gathered insights from over 100 practitioners and their local audit teams on the importance of what finance teams and auditors each need to do, and collaboratively, to achieve a successful faster closure. We have put together a comprehensive list of actions to streamline processes, work more collaboratively with their auditors and draw on EY's analytics and innovative audit approach to achieve faster close. We include a summary below.

Summary of faster close activities

Finance teams are:

- Critically appraising the content of their accounts, removing unnecessary disclosures
- Closing the ledger earlier and encouraging greater discipline across the authority to comply with deadlines for accruals
- Preparing discrete sections of the accounts (e.g., narrative report and remuneration notes) and associated working papers earlier to facilitate early audit work
- Focusing on judgements and significant estimates earlier including engagement with auditors
- Reviewing the de-minimis level for accruals, including discussion with auditors
- Conducting a hard close for monthly reconciliations e.g., bank reconciliations, feeder systems, etc., with a zero-tolerance to reconciling items over a month old
- Undertaking weekly cut-off testing in April to ensure that the accounts are complete, retaining the evidence in case that item is selected for audit testing

Auditors are:

- Meeting regularly with finance staff, sharing details of the audit approach, agreeing a planned timetable of tasks, communicating changes and providing clarity on what is expected and when
- Bringing forward testing to reduce the amount needed to do in the summer. In particular, valuation of land and building and other high risk areas
- Increasing the use of analytics to interrogate ledger and payroll transaction data
- Using the online EY client portal to streamline communications with finance teams
- Attending workshops with finance teams on accounting issues and effective working papers
- Selecting items for sample testing earlier

Together finance teams and auditors are:

- Holding regular meetings throughout the year to share progress and discuss issues
- Planning respective activities to ensure sufficient capacity on both sides
- Revisiting audit issues from the prior year, agreeing how similar issues can be avoided
- Ensuring the client assistance schedule is appropriately tailored

We have produced a faster close briefing checklist that you can use to ensure that you are doing all you can, alongside working with us, to achieve the accelerated timetable. For more information please contact your local engagement lead.

Regulation news

EU General Data Protection Regulation: are you ready?

On 17 December 2015, after more than three years of negotiations and several draft versions of the General Data Protection Regulation (GDPR), an informal agreement was reached between the European Parliament and Council of the European Union. The GDPR is a significant change for organisations. It introduces more stringent and prescriptive data protection compliance challenges, backed by fines of up to 4% of global annual revenue. The regulation replaces Directive 95/46/EC, which has been the basis of European data protection law since it was introduced in 1995.

The Regulation has a significant impact on organisations in all sectors, bringing with it both positive and negative changes in terms of cost and effort.

Key changes proposed by the EU GDPR include:

- Regulators can impose fines of up to 4% of total annual worldwide turnover or €20,000,000
- Data Protection Officers (DPOs) – DPOs must be appointed if an organisation conducts large scale systematic monitoring or processes large amounts of sensitive personal data
- Accountability – organisations must prove they are accountable by establishing a culture of monitoring data processing procedures, minimising data retention and building safeguards, and documenting data processing procedures
- Organisations must undertake Privacy Impact Assessments when conducting risky or large scale processing of personal data
- Consent to process data must be freely given, explicit and individuals must be informed of their right to withdraw their consent
- Organisations must notify supervisory authorities of data breaches 'without undue delay' or within 72 hours, unless the breach is unlikely to be a risk to individuals
- Introduction of new rights – right to be forgotten, right to data portability and right to object to profiling
- Organisations should design data protection into the development of business processes and new systems and privacy setting should be set a high level by default
- Data processors become an officially regulated entity

Whilst organisations may welcome the harmonisation of laws across the 28 EU member states which will make the complex data protection landscape easier to navigate, the introductions of new rights for individuals are likely to increase the regulatory burden for organisations.

Organisations need to review their current data protection compliance programmes to determine next steps and decide on the level of investment they need to make before 2018 to address the changes.

Organisations need to act now to ensure that they are ready to comply with the new Regulation when it comes into force on 25 May 2018.

Key questions for the Audit Committee

Has your local Authority considered the changes to council tax flexibilities into the 2018-19 budget And the impact of changes to business rate retention into your Medium Term Financial Strategy?

Has your local authority been affected by the collapse of Carillion plc? How have contingency plans been implemented to maintain public services? What (if any) is the local authority's financial exposure to this event?

Has your local authority included in its budget any likely increases of employee wages above 1%?

Has your Authority considered how IFRS 15 might impact your revenue streams?

How has the local authority prepared for the accelerated accounts closedown timetable for 2017-18?

Has the Authority considered the implications of the new GDPR, and is the Authority confident that it comply with its requirements when it comes into force?

Find out more

EY ITEM Club Forecast

http://www.ey.com/uk/en/issues/business-environment/financial-markets-and-economy/item---forecast-headlines-and-projections

2018-19 Local Government Finance Settlement

https://www.gov.uk/government/collections/provisional-local-government-finance-settlement-england-2018-to-2019

https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/669538/LGFS_consultation_2018-19.pdf

https://www.local.gov.uk/parliament/briefings-and-responses/provisional-local-government-finance-settlement-201819-day

http://www.cipfa.org/about-cipfa/press-office/archived-press-releases/2017-press-releases/cipfa-responds-to-the-provisional-local-government-finance-settlement?crdm=0

Carillion collapse

http://www.publicfinance.co.uk/news/2018/01/public-sector-looks-ways-plug-gap-left-carillion

http://www.publicfinance.co.uk/news/2018/01/public-services-will-be-protected-after-carillion-collapse

Public sector pay

http://researchbriefings.files.parliament.uk/documents/CBP-8037/CBP-8037.pdf

http://www.publicfinance.co.uk/news/2017/12/local-employers-issue-2-pay-offer-each-next-two-years

IFRS 15 – revenue from contracts with customers

http://www.ey.com/Publication/vwLUAssets/ey-applying-revenue-october-2017/$FILE/ey-applying-revenue-october-2017.pdf

EY – CIPFA Accounts Closedown Workshop 2017-18

For Faster Close Activities Checklist: please contact your local engagement lead

For a full list of locations and dates available search for 'Accounts Closedown Workshop' at http://www.cipfa.org/training

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WORK PROGRAMME

28 June 2018	• Year End Progress Report on Internal Audit Activity • Follow Up on Internal Audit Recommendations • Annual Report and Opinion 2017/18 • Annual Governance Statement • Heads of Service to attend to discuss Service Risks
27 July 2018	• 2017/18 Audit Results Report
20 September 2018	
10 January 2019	
14 March 2019	