

Finance, Resources, Audit and Governance Committee

Members of the Finance, Resources, Audit and Governance Committee:

Mr P Hardy (Chairman)
Mr S Ridley (Vice Chairman)
Ms V Clifford-Jackson
Mr A Dearnley
Mr B Duffin
Mr D Elmer
Mr T Laidlaw
Dr N Legg
Mr R Savage

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Agenda

Date

Friday 21 June 2019

Time

9.30 am

Place

Colman Room
South Norfolk House
Cygnets Court
Long Stratton
Norwich
NR15 2XE

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**If you have any special requirements in order to attend this meeting,
please let us know in advance**

Large print version can be made available

A G E N D A

1. **To report apologies for absence and identify substitute voting members (if any);**
2. **Any items of business the Chairman decides should be considered as matters of urgency pursuant to Section 100B (4) (b) of the Local Government Act, 1972.**
Urgent business may only be taken if, "by reason of special circumstances" (which will be recorded in the minutes), the Chairman of the meeting is of the opinion that the item should be considered as a matter of urgency;
3. **To Receive Declarations of Interest from Members;**
(Please see guidance form and flow chart attached – page 7)
4. **Minutes of the meeting of the Finance, Resources, Audit and Governance Committee held on 8 March 2019;** (attached – page 9)
5. **Progress Report on Internal Audit Activity;** (attached – page 13)
(Appendix 3 attached (for members only) - page 106)
(Please note – Appendix 3 to this report is NOT FOR PUBLICATION by virtue of Paragraph 7 of Part 1 of Schedule 12A of the Local Government Act 1972)
6. **Follow Up Report on Internal Audit Recommendations;** (attached – page 25)
7. **Annual Report and Opinion 2018/19;** (attached - page 31)
8. **Annual Governance Statement 2018-19;** (attached - page 44)
9. **External Audit Plan 2018/19;** (attached - page 62)
10. **Finance, Resources, Audit & Governance Committee Work Programme;**
(attached – page 105)

Glossary

General Terms

AGS – *Annual Governance Statement* – This is a statement prepared by the Council each year to summarise the governance and assurance framework, and highlight any significant weaknesses in that framework

BAD DEBT PROVISION - To take account of the amount of debt which the Council estimates it will not be able to collect.

Build Insight – The Council's Approved Inspector company, authorised under the Building Act 1984 to carry out building control work in England and Wales.

CIPFA – *the Chartered Institute of Public Finance and Accountancy* – the accountancy body for public services

CoCo - *Code of Connection* – a list of security controls that the Council has to have in place in order to undertake secure transactions with other government bodies

CNC - a joint venture established with Norwich City Council, Broadland Council and Kings Lynn and West Norfolk Borough Council to deliver the Council's building control functions, ensuring buildings and developments comply with building regulations

CNC CS – CNC consultancy services, the private company administered by CNC

CREDITOR - A person or organisation which the Council owes money to for a service or goods.

CSO – *Contract Standing Orders* – outline the Council's rules when entering into contracts and buying large value goods

GIG - Gaining Independence Grant – a small grant to support residents with adaptations to allow them to live independently

GNDP – *Greater Norwich Development Partnership* – a partnership with Norwich City and Broadland Councils that manages delivery of the Government's growth strategies

GNGB – *Greater Norwich Growth Board* – a partnership with Broadland Council, Norwich City Council, Norfolk County Council and New Anglia Local Enterprise Partnership providing strategic direction, monitoring and coordination of both the City Deal and the wider growth programme for the Greater Norwich area

JCS – *Joint Core Strategy* – sets out the general vision and objectives for delivering the local development framework

JOURNAL - The transfer of a transaction to either a different cost centre or a different categorisation within the finance system e.g. transfer of an item of expenditure between HR and Planning or the transfer of expenditure from electricity to water. These are used to correct input errors, share costs/income between cost centres or to record expenditure or income which has not yet been invoiced.

KPI - Key Performance Indicator

LASAAC – *Local Authority (Scotland) Accounts Advisory Committee* – this Committee develops proper accounting practice for Scottish Local Authorities

LDF – *Local Development Framework*- outlines the management of planning in the Council

LEDGER - A module within the finance system e.g. Sales Ledger, Purchase Ledger, General Ledger.

LGA – *Local Government Association* – a lobbying³ organisation for local councils

LGPS – *Local Government Pension Scheme*- Pension Scheme for all public-sector employees

LSVT - *Large Scale Voluntary Transfer* - the transfer of the Council's housing stock to Saffron Housing Trust

Moving Forward Together – The Council's internal programme to improve performance in a number of key areas

NFI – *National Fraud Initiative* – A national exercise to compare data across public sector organisation to aid identifying potential frauds

NHB – New Homes Bonus - grant paid by central government to local councils for increasing the number of homes and their use

NI – *National Indicator* – a measure used to identify how the Council is performing that is determined by central government

NNDR/NDR – (*National*) *Non-Domestic Rates* – commonly known as Business Rates

PI – *Performance Indicator* – measure used to identify how the Council is performing

PSN – *Public Services Network* - provides a secure private internet for organisations across Central Government and the Wider Public Sector and standardised ICT infrastructure

RAD - Rent Assisted Deposit scheme.

RFG – *Rules of Financial Governance* – the Council's rules governing the day-to-day financial activities undertaken

SLA – *Service Level Agreement* – an agreement that sets out the terms of reference for when one organisation provides a service to another

MTP – *Medium Term Plan* – sets out the future forecast financial position of the Council

SOLACE – *Society of Local Authority Chief Executives* – society promoting public sector management and development

SPARSE – *Sparsity Partnership for Authorities Delivering Rural Services* – an organisation that benchmarks and supports local rural councils

SUNDRY DEBTOR - A customer who owes the Council money for a service they have received prior to payment, this excludes Council Tax or NDR. The term can also refer to the system used to record money owed to the council e.g. the Sundry Debtors system which is a module within the financial system.

Audit Terminology

APB – *Auditing Practices Board* – the body that sets the standards for auditing in the UK

COUNT – *Count Once, Use Numerous Times* – a system used for data collection and analysing, which works to avoid duplication by assuming the principle that a piece of data should be recorded once but used several times in different ways

ISA – *International Auditing Standard* – Provides external auditors with a required framework that dictates work to be undertaken before awarding an opinion on the statement of accounts

VFM Conclusion – *Value for Money Conclusion* – the Audit Commission are required to give an annual conclusion on the Council's arrangements for providing value for money in addition to the opinion given on the statement of accounts.

Accounting Terminology

BRRS – *Business Rates Retention Scheme* - provides a direct link between business rates growth and the amount of money councils have to spend on local people and local services (the Council retains a proportion of the income collected as well as growth generated in the area)

CFR – *Capital Financing Requirement* – a calculated figure that establishes the amount of money the Council needs to borrow

Collection Fund – a separate account statement that records the transactions relating to the collection and redistribution of council tax and business rates

GAAP – *Generally Accepted Accounting Practice* – this provides the overall framework for accounting principles prior to IFRS adoption in local government (also "UK GAAP" – specific to the United Kingdom)

IAS – *International Accounting Standards* – these were the precursors for international financial reporting standards (see below).

IFRS – *International Financial Reporting Standards* – the underlying standards for the Council's accounting policies and treatment of balances

IPSAS – *International Public-Sector Accounting Standards* – these set out the accounting standards for public sector bodies and are based on the international financial reporting standards.

MRP – *Minimum Revenue Provision* – the amount of money the Council needs to set aside each year to fund activities from revenue balances

Non-current assets – assets from which benefit can be derived by the Council for more than one year (formerly known as Fixed Assets)

RSG – *Revenue Support Grant* - one source of Council funding from Central Government

SeRCOP – *Service Reporting Code of Practice* – outlines how Council should classify income and expenditure across different services

SSAP – *Statement of Standard Accounting Practice* – preceded the financial reporting standards in the UK

The Code – *Code of Practice on Local Authority Accounting in the UK* – main guidance on accounting treatment required for the statement of accounts

Virement – The process of transferring a sum of money from one part of the Council's budget to another, subject to appropriate approval.

WGA – *Whole of Government Accounts* – an exercise undertaken to consolidate all the accounting records of government bodies

International Accounting and Financial Reporting Standards Reference Numbers

IAS1 – *Presentation of Financial Statements* – sets out the prescribed format for statements of accounts

IAS19 – *Employee Benefits* – essentially provides the basis for accounting for the pension fund

IAS20 – *Accounting for Government Grants* – establishes the accounting treatment for receiving government grants

IAS40 – *Investment Property* – how organisations should account for properties held as an investment

IPSAS16 – *Investment Property* – how public-sector organisations should account for properties held as an investment

IPSAS23 – *Revenue from non-exchange transactions (taxes and transfers)* – this determines how monies from taxes should be treated in the accounts

Council Systems

ALBACS CS – The Council's system to make payments to other organisations

AXIS - Income receiving system which interacts directly with Integra

Clubrunner – System used to manage bookings and activities at the leisure centres

eXpress – the electoral registration system

FAM – the system used by the accountancy team to record the Council's assets and associated transactions

IBS – the Revenues system, maintains all Council Tax, Business Rates and Benefits records

IDOX Uniform – IT platform covering Planning, Building Control, Environmental Services, Land Charges, Licensing, Estates, Street Naming and Numbering and Address Gazetteer.

Integra – general ledger used to record all accounting transactions, including purchases made by the Council and income received by the Council

LALPAC – system used to record licensing details



DECLARATIONS OF INTEREST AT MEETINGS

When declaring an interest at a meeting Members are asked to indicate whether their interest in the matter is pecuniary, or if the matter relates to, or affects a pecuniary interest they have, or if it is another type of interest. Members are required to identify the nature of the interest and the agenda item to which it relates. In the case of other interests, the member may speak and vote. If it is a pecuniary interest, the member must withdraw from the meeting when it is discussed. If it affects or relates to a pecuniary interest the member has, they have the right to make representations to the meeting as a member of the public but must then withdraw from the meeting. Members are also requested when appropriate to make any declarations under the Code of Practice on Planning and Judicial matters.

Have you declared the interest in the register of interests as a pecuniary interest? If Yes, you will need to withdraw from the room when it is discussed.

Does the interest directly:

1. affect yours, or your spouse / partner's financial position?
2. relate to the determining of any approval, consent, licence, permission or registration in relation to you or your spouse / partner?
3. Relate to a contract you, or your spouse / partner have with the Council
4. Affect land you or your spouse / partner own
5. Affect a company that you or your partner own, or have a shareholding in

If the answer is "yes" to any of the above, it is likely to be pecuniary.

Please refer to the guidance given on declaring pecuniary interests in the register of interest forms. If you have a pecuniary interest, you will need to inform the meeting and then withdraw from the room when it is discussed. If it has not been previously declared, you will also need to notify the Monitoring Officer within 28 days.

Does the interest indirectly affect or relate any pecuniary interest you have already declared, or an interest you have identified at 1-5 above?

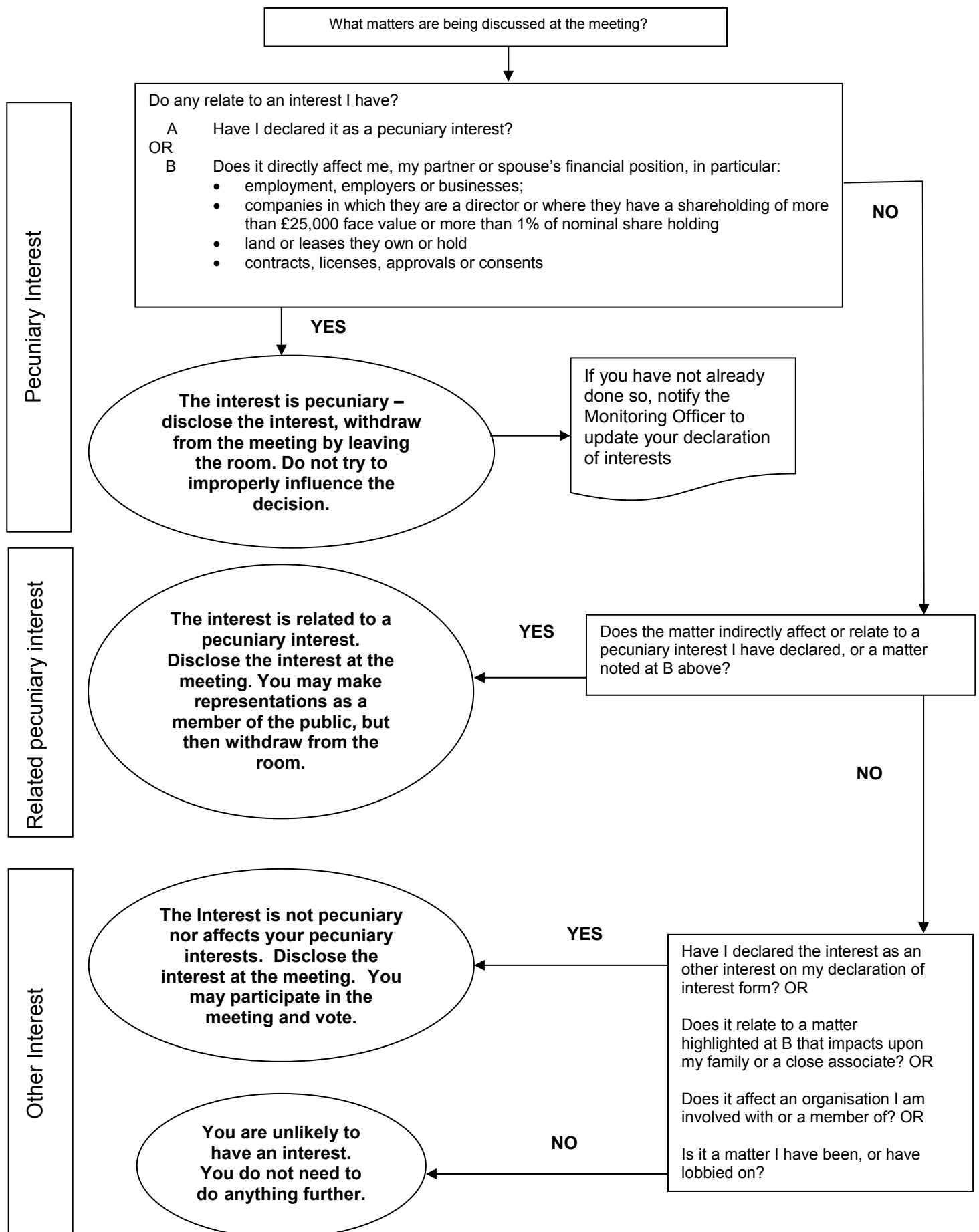
If yes, you need to inform the meeting. When it is discussed, you will have the right to make representations to the meeting as a member of the public but must then withdraw from the meeting.

Is the interest not related to any of the above? If so, it is likely to be an other interest. You will need to declare the interest but may participate in discussion and voting on the item.

Have you made any statements or undertaken any actions that would indicate that you have a closed mind on a matter under discussion? If so, you may be predetermined on the issue; you will need to inform the meeting, and when it is discussed, you will have the right to make representations to the meeting as a member of the public but must then withdraw from the meeting.

**FOR GUIDANCE REFER TO THE FLOWCHART OVERLEAF.
PLEASE REFER ANY QUERIES TO THE MONITORING OFFICER IN THE FIRST
INSTANCE**

DECLARING INTERESTS FLOWCHART – QUESTIONS TO ASK YOURSELF





FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE

Minutes of a meeting of the Finance, Resources, Audit and Governance Committee of South Norfolk Council held at South Norfolk House, Long Stratton, on Friday, 8 March 2019 at 9.30 am.

Committee Members Present: Councillors: P Hardy (Chairman), L Dale, T Lewis, T Palmer and G Wheatley

Apologies: Councillor: W Kemp

Officers in Attendance: The Director of Growth and Business Development (D Lorimer), the Head of Governance (E Hodds), the Head of Internal Audit (S Storm), the Internal Audit Manager (F Haywood) and the Group Accountant (J Brown)

Also in Attendance: Tony Poynton - Ernst & Young (EY)

193 MINUTES

The minutes of the meeting held on 23 November 2018 were confirmed as a correct record and signed by the Chairman.

194 CERTIFICATION OF CLAIMS & RETURNS ANNUAL REPORT 17/18

Tony Poynton from Ernst & Young (EY) presented his report, which detailed the certification work for the Housing Benefit subsidy claim for the financial year 2017/18. Members were pleased to note that although the certification work had covered £25.4m, only one error had been identified from the extended testing, resulting in an extrapolated impact of £3.

In response to a member's question regarding how South Norfolk Council fared in comparison with other councils, Mr Poynton confirmed that the Council was in a good position compared to others.

Mr Poynton advised that the procedure for certification would be changing for the next year, but EY had not yet finalised an agreement on the new process.

It was:

RESOLVED: To note the report.

195 VERBAL UPDATE ON EXTERNAL AUDIT PLAN 18/19

Tony Poynton informed members that various unavoidable events had resulted in the external audit plan not being ready for circulation. He explained that the overall scope would be similar to last year, where Ernst & Young (EY) would be required to provide an opinion and check that the Council had adequate arrangements to secure value for money in the use of its resources.

Mr Poynton informed members that there would be particular focus on the risk of management override, linked to inappropriate capitalisation of revenue expenditure. He also listed the valuation of land and buildings; and the valuation of the Council's pension liability as higher inherent risks. New areas for review would be the Finance Team capacity, Brexit and the Broadland collaboration.

Officers assured the Committee that the delay by EY in producing the Plan would not have any adverse impact on the Council, as the arrangements remained the same.

The Chairman thanked Mr Poynton, who then left the meeting.

196 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

The Internal Audit Manager presented the Committee with a report to advise the progress in relation to delivery of the Annual Internal Audit Plan for 2018/19, and summarised the five completed audits undertaken during this period.

Officers highlighted one change to the Audit Plan where Risk Management had been deferred until 2019/20. Differences in approach to Risk Management between Broadland and South Norfolk Councils had been identified and a risk maturity assessment had therefore been scheduled to take place at both Councils.

Members were pleased to note that 87% of programmed work had been completed.

Responding to a member's question regarding how the collaboration with Broadland District Council would change the way Internal Audit worked, officers advised members that the 2019/20 Audit Plan would cover the intended approach to auditing both Councils.

In response to a member's question on whether daily snapshots were taken for reconciliation purposes in order to rectify problems arising in the future, officers confirmed that this was controlled monthly.^[FH1]

In response to a query regarding asset management, the Group Accountant explained that the Council had intended to switch its fixed asset management from a spreadsheet to a management system, but that officers had identified errors in the software. The issue had been reported to the external supplier, but had not yet been resolved, resulting in the need for officers to run both processes simultaneously.

Officers explained the risk regarding authorising transfers and the measures put in place to mitigate the risk. The Internal Audit Manager confirmed that the recommendation would be retained for awareness purposes, but management's acceptance of the risk was accepted.

It was:

RESOLVED: To note the outcomes of the five completed audits in the period covered by this report, and the position of the Internal Audit Plan for 2018/19

197 STRATEGIC AND ANNUAL INTERNAL AUDIT PLANS 2019/20

The Head of Internal Audit presented her report, which provided members with the Internal Audit Plans for 2019/20, which would ensure that assurance was provided by Internal Audit on the management of key business risks.

Responding to a member's question regarding the collaboration with Broadland District Council (BDC), officers informed members that following detailed discussions with management, five areas had been identified within the 2019/20 internal audit plan where joint reviews could be undertaken. This would enable Internal Audit to identify areas where similarities existed and provide assurance over service delivery whilst promoting efficient internal audit working practices. Internal Audit would also use their experience of managing internal audit at other councils that were already sharing services.

In response to a concern raised regarding the way in which Big Sky Developments (BSD) was operated, the Internal Audit Manager confirmed that an evaluation of governance arrangements from the Council's perspective would be included within the scope of the Big Sky internal audit.

It was:

RESOLVED: To approve:

- a) The Internal Audit Charter;
- b) The Strategic Internal Audit Plans 2019/20 to 2021/22; and
- c) The Annual Internal Audit Plan 2019/20.

198 FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE SELF-ASSESSMENT

The Internal Audit Manager introduced the report, which detailed the self-assessment undertaken by the Finance, Resources, Audit & Governance Committee, advising the Committee that, in consultation with the Chairman prior to the meeting, no changes had been made to the scoring. Additional commentary had been added to appendix 1 of the report to reflect FRAG activity throughout the year.

A score of three has been given again in relation to supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risk. The Head of Governance reported that, in conjunction with the collaboration work, FRAG terms of reference would be reviewed next year.

It was:

RESOLVED: To note the checklist at appendix 1 to the report and confirm that full compliance had been recognised in relation to each of the areas subject to scrutiny.

199 ANNUAL REPORT OF THE FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE

The Internal Audit Manager presented the report, which outlined the work of the Finance, Resources, Audit and Governance Committee for 2018, highlighting the high member and officer attendance.

As there were no questions, it was:

RESOLVED: To recommend that Council approves the Annual Report of the Finance, Resources, Audit and Governance Committee.

200 WORK PROGRAMME

Members referred to the Finance, Resources, Audit & Governance Committee's Work Programme.

The Chairman thanked members and officers for their efforts over the last year.

The meeting concluded at 10.25 am.

Chairman

Eastern Internal Audit Services



South Norfolk Council

Progress Report on Internal Audit Activity

Period Covered: 14 November 2018 to 16 April 2019

Responsible Officer: Faye Haywood – Internal Audit Manager for South Norfolk Council

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1. INTRODUCTION

- 1.1 This report is issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.
- 1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to report to the Audit Committee on the performance of internal audit relative to its plan, including any significant risk exposures and control issues. The frequency of reporting and the specific content are for the Authority to determine.
- 1.3 To comply with the above this report includes:
 - Any significant changes to the approved Audit Plan;
 - Progress made in delivering the agreed audits for the year;
 - Any significant outcomes arising from those audits; and
 - Performance Indicator outcomes to date.

2. SIGNIFICANT CHANGES TO THE APPROVED INTERNAL AUDIT PLAN

- 2.1 At the meeting on 9 March 2018, the Annual Internal Audit Plan for the year was approved, identifying the specific audits to be delivered. Since the progress report presented to the Committee in November 2018, there have been no significant changes to that plan.

3. PROGRESS MADE IN DELIVERING THE AGREED AUDIT WORK

- 3.1 The current position in completing audits to date within the financial year is shown in **Appendix 1** and progress to date is in line with expectations.
- 3.2 In summary 165 days of programmed work has been completed, equating to 100% of the (revised) Audit Plan for 2019/20.

4. THE OUTCOMES ARISING FROM OUR WORK

- 4.1 On completion of each individual audit an assurance level is awarded using the following definitions:

Substantial Assurance: Based upon the issues identified there is a robust series of suitably designed internal controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our review were being consistently applied.

Reasonable Assurance: Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisation's management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.

Limited Assurance: Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.

No Assurance: Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.

- 4.2 Recommendations made on completion of audit work are prioritised using the following definitions:

Urgent (priority one): Fundamental control issue on which action to implement should be taken within 1 month.

Important (priority two): Control issue on which action to implement should be taken within 3 months.

Needs attention (priority three): Control issue on which action to implement should be taken within 6 months.

- 4.3 In addition, on completion of audit work “Operational Effectiveness Matters” are proposed, these set out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services. These are for management to consider and are not part of the follow up process.
- 4.4 During the period covered by the report Internal Audit Services have issued three final reports:

Audit	Assurance	P1	P2	P3
Building Control	Reasonable	0	2	4
Payroll and HR	Substantial	0	0	2
Cyber Crime	Limited	0	8	10

The Executive Summary of these reports are attached at **Appendix 2 & Appendix 3**, full copies of these reports can be requested by Members.

- 4.5 As can be seen in the table above as a result of these audits 26 recommendations have been raised and agreed by management.

In addition, 15 Operational Effectiveness Matters have been proposed to management for consideration.

- 4.6 It is pleasing to note that two audits concluded in a positive opinion being awarded, indicating a strong and stable control environment in those areas. A limited assurance report was however raised in the area of Cyber Crime where a total of eight priority two recommendations were raised. Details of recommendations can be found at Appendix 3 of this report. A deadline of 30 August 2019 has been given for all recommendations mentioned above.

5. PERFORMANCE MEASURES

- 5.1 The Internal Audit Services contract includes a suite of key performance measures against which the new contractor will be reviewed on a quarterly basis. There is a total of 11 indicators, over 4 areas, the performance measures can be seen at **Appendix 3**.
- 5.2 There are individual requirements for performance in relation to each measure; however performance will be assessed on an overall basis as follows:
- 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 by the contractor and agreed with the Internal Audit Consortium Manager to ensure that appropriate action is taken.

- 5.3 The fourth quarters work has been completed and a report on the performance measures provided to the Head of Internal Audit, performance is currently at green status with targets having been satisfactorily met for this quarter.
- 5.4 In addition to these quarterly reports from the Contractors Audit Director, ongoing weekly updates are provided to ensure that delivery of the audit plan for the current financial year is on track. A review of the most recent update confirms that the 2018/19 Internal Audit Plan has been delivered in line with expectations.

6 PROPOSAL

- 6.1 The Finance, Resources, Audit and Governance Committee are requested to receive and note the Progress Report. In doing so the Committee is ensuring that the Internal Audit Service remains compliant with professional auditing standards.

7. RECOMMENDATIONS

- 7.1 That members note the outcomes of the three completed audits in the period covered by this report, and the position of the internal audit pan for 2018/19.

APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee
							Urgent	Important	Needs Attention	Op	
Quarter 1											
Car Parks	SNC1904	10	10	10	Final Report issued 8 August 2018.	Reasonable	0	2	2	4	November 2018
Elections Part 1	SNC1902	10	6	6	Final Report issued 6 August 2018.	Reasonable	0	3	0	0	November 2018
TOTAL		20	16	16							
Quarter 2											
Corporate Governance - GDPR	SNC1903	5	5	5	Final report issued 3 September 2018	Reasonable	0	1	1	0	November 2018
Procurement	SNC1905	12	12	12	Final report issued 19 October 2018	Reasonable	0	5	2	0	November 2018
TOTAL		17	17	17							
Quarter 3											
Elections Part 2	SNC1902	0	6	6	Final report issued 18 December 2018	Substantial	0	0	0	0	March 2019
Key Controls and Assurance	SNC1907	10	10	10	Final report issued 26 February 2019	Reasonable	0	5	2	0	March 2019
Build Insight	SNC1908	10	0	0	Deferred to 2020/21						
Council Tax and NNDR	SNC1909	20	20	20	Final report 11 December 2018	Reasonable	0	2	6	1	March 2019
Housing Benefits	SNC1910	20	20	20	Final report issued 1 February 2019	Reasonable	0	0	3	0	March 2019
Accounts Payable	SNC1911	12	12	12	Final report issued 10 December 2018	Reasonable	0	2	2	2	March 2019
TOTAL		72	68	68							
Quarter 4											
Risk Management	SNC1901	10	0	0	Audit deferred 2019/20						
Payroll and Human Resources	SNC1912	15	15	15	Final report issued 01 April 2019	Substantial	0	0	2	2	June 2019
Building Control	SNC1913	12	12	12	Final report issued 21 March 2019	Reasonable	0	2	4	0	June 2019
TOTAL		37	27	27							
IT Audits											
Remote Access	SNC1906	10	10	10	Final report issued 13 August 2018	Reasonable	0	3	1	0	November 2018
Cyber Crime	SNC1914	15	15	15	Final report issued 16 April 2019	Limited	0	8	10	13	June 2019
TOTAL		25	25	25							
Follow Up											
Follow Up	NA	12	12	12							
TOTAL		12	12	12							
TOTAL		183	165	165			0	33	35	22	
Percentage of plan completed				100%							

APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

Assurance Review of CNC Building Control Arrangements

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Procedures and processing of applications	0	0	2	0
Plan checks and decisions	0	0	0	0
Inspections and completion certificates	0	0	0	0
Fees and income, including debt recovery processes	0	2	0	0
Performance management	0	0	2	0
Total	0	2	4	0

SCOPE

The audit reviewed the adequacy, effectiveness and efficiency of the systems and controls in place over CNC Building Control covering the areas of procedures and processing of applications; plan checks and decisions; inspections and completion certificates; fees and income, including debt recovery processes; and performance management

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' and four 'needs attention' recommendations being raised upon the conclusion of our work.
- The previous audit report for CNC Building Control (SNC/17/01) was issued in June 2016. It concluded in a 'reasonable' assurance opinion with three 'important' recommendations being raised. This indicates that there is an unchanging direction of travel for the area of Building Control.

POSITIVE FINDINGS

We found that the Council has demonstrated the following points of good practice as identified in this review and we will be sharing details of these operational provisions with other member authorities in the Consortium:

Performance Management

- The Council's Business Improvement Team undertook a non-technical review of the CNC Building Control Team in June 2018. The purpose of this was to establish a flexible and responsive administrative support team, able to: provide effective support services to the partnership surveyors, anticipate business needs and managing customer demand and expectation; and drive workflow efficiencies within the business support teams, thereby ensuring the correct establishment, structure and training are in place to meet the type and frequency of demand they will encounter in 2018-19 and beyond. A number of recommendations were produced to take forward which the Team are currently working through. These relate to improvements and efficiencies in the areas of structure; general processes; culture; communications and marketing and IT.

It is also acknowledged there are areas where sound controls are in place and operating consistently:

Plan checks and decisions

- All sampled plans had been checked against building regulations prior to decisions being made with evidence retained thereof. It was also confirmed that inspections occurred prior to the issuing of completion certificates; and correct fees were received prior to applications being processed. This ensures effective decisions are made; completion certificates are issued correctly; and the council receives income in a timely manner and before work is undertaken by the team.

Fees and Income

- The recently updated fees (w/e/f January 2019) are available on the CNC website allowing for correct fees to be applied in a timely manner.

Performance Management

- The building control service is ISO 9001 2015 compliant which involves maintaining a Quality Policy Manual. As part of the compliance procedure, all of the various aspects of the operation of the business are reviewed via a context analysis tool that considers the areas of;
 - Customer
 - Supplier
 - Staff
 - Technology
 - Regulatory & legislative framework.
- Sample testing of Key Performance Indicators (KPIs) confirmed these are supported by data which agreed to the actual outturn figures. This provides assurance that KPIs are genuine and performance is not misrepresented.

ISSUES TO BE ADDRESSED

The audit has highlighted the following areas where two 'important' recommendation has been made.

Fees and Income

- Reconciliations between the building control system and the general ledger are to be brought up to date, kept up to date and independently reviewed. This mitigates the risk that income cannot be correctly accounted for within the Council's accounts and income cannot be accurately compared to budget estimates.
- Aged debt reports are requested from the Financial Services team on a monthly basis for a regular review of all types of debts. Procedures are formalised for how the CNC Building Control Team deal with debts once they are passed to the Financial Services team for invoicing and collection. This assists in reducing the risk that processes are applied incorrectly and inconsistently, and debts remain outstanding.

The audit has also highlighted the following areas where four 'needs attention' recommendations have been made.

Procedures and processing applications

- The Quality Management System Quality Policy Manual is updated to reflect that a full plan second check is performed in incidences of commercial properties or when the first check is undertaken by a trainee surveyor. Up to date procedures helps mitigate the risk that processes are applied incorrectly and inconsistently.

- Continuous Improvement Action (CIA) requests are raised with the members of staff responsible for the issues raised within the audit, i.e. building notice acknowledgement letter not saved on the Document Management System (DMS); incorrect completion certificate issued; and sufficient explanatory notes being added to accounts. In addition, issues are raised at the team meeting. This helps mitigate the risk that continuous improvement and quality process objectives are not achieved in line with ISO 9001:2015.

Performance Management

- Market share percentage is calculated and reported on consistently using the value of applications, and the level of detail included in the bi annual reporting is consistent. This helps reduce the risk that market share is misrepresented leading to misinformed decisions and business planning.
- Progress in relation to the management of risks identified in the CNC business plan, be reported to the CNC board on at least a bi annual basis. The CNC Board are also requested to consider agreeing on a risk appetite and including this within the risk management processes to strengthen governance arrangements and the management of risk to increase the likelihood that strategic objectives will be achieved.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which none remain outstanding. However, testing ascertained that one recommendation relating to reconciliations taking place between the building control system and the general ledger has since lapsed and is therefore being raised again.

Assurance Review of Payroll and HR

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Changes to payroll	0	0	1	0
Reconciliations	0	0	1	0
Payroll Processing	0	0	0	2
Total	0	0	2	2

No recommendations have been made in the areas of; Legislative requirements, starters and leavers, pension contribution enrolment, maternity pay, sickness monitoring, and officers' expenses.

SCOPE

The objective of the audit was to review the systems and controls in place within Payroll and HR, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Substantial Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised two 'operational effectiveness matters', which sets out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services.
- The previous audit report for Payroll and HR (SNC/17/15) was issued in March 2017. It concluded in a 'substantial' assurance opinion with three 'needs attention' recommendations being raised. This indicates that there is a positive direction of travel for the area of Payroll and HR.

POSITIVE FINDINGS

It is acknowledged there are areas where sound controls are in place and operating consistently:

Legislative Requirements

- Local Procedures have been updated to reflect the outsourcing of some payroll functions to Suffolk County Council. This help to ensure staff are aware of their responsibilities in relation to processing the payroll.

Starters and leavers

- Testing of samples of starters, leavers, amendments to pay, and deductions to salary concluded satisfactorily, providing assurance that controls are in place to ensure the payroll is correct.
- DBS checks are completed for appropriate staff on a 3-year rolling basis and monitored by HR. New starters are DBS checked where this is necessary for their role. This helps to provide assurance that the Council are safeguarding their customers.

Payroll Processing

- Access levels to iTrent (the Payroll system) have been reviewed as part of this audit, and changes made by the Council, and therefore assurance can be provided that only necessary access is available to necessary staff which helps to ensure that only authorised amendments to the payroll can be made.
- Testing of the pay file transmission, both before and after the outsourcing to Suffolk County Council, concluded satisfactorily providing assurance that there are adequate controls over the submission and checking of the pay file.

Sickness absence monitoring

- Processes are in place to ensure sickness absence is monitored, acted upon and reported correctly. Testing completed confirmed processes are working effectively. This helps to provide assurance that staff are treated equally and in accordance with policy.

ISSUES TO BE ADDRESSED

The audit has highlighted the following areas where two 'needs attention' recommendations have been made.

Changes to Payroll

- A report is not currently being provided by Suffolk County Council detailing the amendments that have been made to the payroll within the month. Reviewing this report on a monthly basis enables the Payroll Manager and HR department to easily ensure that no changes that have not been processed by the Council have been made. There are compensating control in place through reviewing pay budgets however receiving a full amendments report monthly would allow for checking to be undertaken prior to the payroll being paid.

Reconciliations

- The control account reconciliations spreadsheet needs to be signed and dated by both the preparer and reviewer of each reconciliation to ensure that any discrepancies have been identified and resolved.

Operational Effectiveness Matters

- There are two operational effectiveness matters for management to consider, one relating to a review of the payroll function with the forthcoming retirement of the current Payroll Manager, this being an opportunity for budget holders to become more involved in the process to provide assurance that the pay records continue to be accurate. The other relates to introducing controls to ensuring Suffolk County Council (SCC) system users are regularly checked for current employment within SCC.

Previous audit recommendations

The previous audit on Payroll and HR (SNC/17/15) was undertaken in 2016/17, with a 'substantial' assurance report issued in March 2017. The audit raised three 'needs attention' recommendations, all of which have been confirmed as implemented as part of our cyclical follow up process.

Eastern Internal Audit Services



SOUTH NORFOLK COUNCIL

Follow Up Report on Internal Audit Recommendations

Period Covered: 14 November 2018 to 31 March 2019

Responsible Officer: Head of Internal Audit for South Norfolk Council

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1. INTRODUCTION

- 1.1 This report is being issued to assist the Authority in discharging its responsibilities in relation to the internal audit activity.
- 1.2 The Public Sector Internal Audit Standards also require the Chief Audit Executive to establish a process to monitor and follow up management actions to ensure that they have been effectively implemented or that senior management have accepted the risk of not taking action. The frequency of reporting and the specific content are for the Authority to determine.
- 1.3 To comply with the above this report includes the status of agreed actions.

2. STATUS OF AGREED ACTIONS

- 2.1 As a result of audit recommendations, management agree action to ensure implementation within a specific timeframe and by a responsible officer. The management action subsequently taken is monitored by the Internal Audit Contractor on a regular basis and reported through to this Committee. Verification work is also undertaken for those recommendations that are reported as closed.
- 2.2 **Appendix 1** to this report shows the details of the progress made to date in relation to the implementation of the agreed recommendations. This appendix also reflects the year in which the audit was undertaken and identifies between outstanding recommendations that have previously been reported to this Committee and then those which have become outstanding this time round.
- 2.3 In 2017/18 internal audit raised 59 recommendations; 47 of which have been implemented, 12 of which are outstanding (two important and ten needs attention). The management responses in relation to the two outstanding important recommendations can be seen at **Appendix 2** to the report.

Number raised to date	59	
Complete	47	80%
Outstanding	12	20%

- 2.6 A total of 68 recommendations have been raised in 2018/19, 25 of which have been implemented. Five recommendations (three important and two needs attention) are outstanding and 36 are not yet due as of 31 March 2019. Two recommendations (one important and one needs attention) have been rejected by management and relate to Key Controls and Assurance, details of these recommendations can be found below;
 - At present fixed asset additions and disposals are recorded and uploaded to the general ledger manually following the identification of a system error. A recommendation was raised for a decision to be made promptly on whether to continue to use the software as there is a risk that errors could be made on entering the data. Management considers the risks of mistakes being made in posting to be minimal and is therefore willing to accept this risk.

- In relation to Treasury Management, a recommendation was raised for investment reconciliations to be reviewed by a staff member that is not able to authorise transfers from investment accounts. Management are willing to tolerate this risk due to this being difficult to implement given limited number of senior/qualified staff members.

Management responses in relation to the outstanding important recommendations can be seen at **Appendix 3** of the report.

Number raised to date	68	
Complete	25	37%
Outstanding	5	7%
Rejected	2	3%
Not yet due	36	53%

- 2.9 The number of recommendations that remain outstanding 31 March 2019 from 2017-18 remains high however it is encouraging to note that only two of these are of important priority. This demonstrates that management are focusing their efforts on completing those recommendations that represent the most significant risks.

3. PROPOSAL

- 3.1 The Finance, Resources, Audit and Governance Committee are asked to receive and note the year end position in relation to the completion of agreed audit recommendations.

4. RECOMMENDATION

- 4.1 That members note the position in relation to the completion of agreed internal audit recommendations as at 31 March 2019.

APPENDIX 1 – STATUS OF AGREED INTERNAL AUDIT RECOMMENDATIONS

			Completed bt 14/11/2018 and 31/03/2019			Previously reported to Committee as outstanding			(New) Outstanding			Total Outstanding	Not Yet Due for implementation		
Audit Ref	Audit Area	Assurance Level	Priority 1	Priority 2	Priority 3	Priority 1	Priority 2	Priority 3	Priority 1	Priority 2	Priority 3		Priority 1	Priority 2	Priority 3
2017/18 Internal Audit Reviews															
SNC1808	Accountancy Services	Reasonable			1						1	1			
SNC1811	Housing Standards	Reasonable						1				1			
SNC1812	Business Continuity and Disaster Recovery	Reasonable					1	1				2			
SNC1816	Service Desk	Limited					1	7				8			
2018/19 Internal Audit Reviews															
SNC1904	Car Parks	Reasonable						1				1			
SNC1903	Corporate Governance GDPR	Reasonable										0		1	1
SNC1905	Procurement	Reasonable		4	2							0			
SNC1906	Remote Access	Reasonable		1			1	1				2			
SNC1907	Key Controls and Assurance	Reasonable		2	2					2		2		1	
SNC1909	Council Tax and NNDR	Reasonable		1	3							0		1	3
SNC1910	Housing Benefits	Reasonable										0			3
SNC1911	Accounts Payable	Reasonable		2	2							0			
SNC1912	Payroll and HR	Substantial										0			2
SNC1913	Building Control	Reasonable										0		2	4
SNC1914	Cyber Crime	Reasonable										0		8	10
TOTALS			0	10	10	0	3	11	0	2	1	17	0	13	23

APPENDIX 2 – OUTSTANDING IMPORTANT INTERNAL AUDIT RECOMMENDATIONS FROM 2017/18 AUDIT REVIEWS

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Status	Previous Response
SNC1812 Business Continuity and Disaster Recovery	Recommendation 1. The Council to develop, agree and implement an ongoing Disaster Recovery test plan once the Wymondham site has gone live.	2	Agreed.	ICT Manager	28/02/2018	31/08/2019	Outstanding	The Wymondham site has not as yet gone live, a joint project is being developed with Broadland Council to develop network solutions that will reduce the cost. The delivery of the site to site connectivity at the Wymondham site will be August 2019.
SNC1816 Service Desk	Recommendation 7. The Council to design and implement an appropriate formal Change Management framework. The following elements to be considered as part of this work: The scope of Change Management activity is established within the Council. Agree and assign formal Change Management roles and responsibilities. A schedule of approved changes is routinely issued. Change slippages to be reported; and Change is effectively monitored and reported, including the number of changes.	2	Agreed	ICT Manager	31/10/2018	31/08/2019	Outstanding	We are aiming to implement this as part of the replacement Service Desk platform.

APPENDIX 3 – OUTSTANDING INTERNAL AUDIT RECOMMENDATIONS FROM 2018/19 AUDIT REVIEWS

Audit Title	Recommendation	Priority	Management Response	Responsible Officer	Due Date	Revised Due Date	Status	Previous Response
SNC1906 Remote Access	Recommendation 2. The Council to formulate an appropriate Disaster Recovery testing plan that periodically tests the ability of the remote access service to support an increased number of users requiring access to internally-hosted applications and file shares.	2	Agreed.	ICT Manager	28/09/2018	30/09/2019	Outstanding	This was due to be undertaken in December 2018, the Wymondham site is in development for completion in September 2019.
SNC1907 Key Controls and Assurance	Recommendation 5 – The authorisation of virements to budgets process be reviewed, to ensure appropriate authorisation is obtained.	2	Agreed. The number of virements should significantly reduce moving forwards but there should be an independent check to ensure that these are appropriately authorised. It is proposed that the Financial Services Team add this to their existing journals check.	Group Accountant	31/03/2019	30/06/2019	Outstanding	No virements have yet been presented for approval.
SNC1907 Key Controls and Assurance	Recommendation 3 – Journal processing be reviewed, to ensure authorisation is undertaken in accordance with the £10,000 per line process.	2	Agreed.	Group Accountant	26/02/2019	30/06/2019	Outstanding	Monthly reports showing journals are now produced which will allow the team to catch up on authorisation.

Eastern Internal Audit Services



SOUTH NORFOLK COUNCIL

Annual Report and Opinion 2018/19

Responsible Officer: Head of Internal Audit for South Norfolk 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 Those standards – the Public Sector Internal Audit Standards - require the Chief Audit Executive (known in this context as the Head of Internal Audit) to provide a written report to those charged with governance (known in this context as the Finance, Resources, Audit and Governance Committee) to support the Annual Governance Statement (AGS). This report must set out:
- The opinion on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control during 2018/19, together with reasons if the opinion is unfavourable;
 - A summary of the internal audit work carried out from which the opinion is derived, the follow up of management action taken to ensure implementation of agreed actions as at financial year end and any reliance placed upon third party assurances;
 - Any issues that are deemed particularly relevant to the AGS;
 - The Annual Review of the Effectiveness of Internal Audit, which includes; the level of compliance with the Public Sector Internal Audit Standards (PSIAS) 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.
- 1.3 When considering this report, the statements made therein should be viewed as key items which need to be used to inform the organisation’s AGS, but there are also a number of other important sources to which the Finance, Resources, Audit and Governance Committee and statutory officers of the Council should be looking to gain assurance from. Moreover, in the course of developing overarching audit opinions for the authority, it should be noted that the assurances provided here, can never be absolute and therefore, only reasonable assurance can be provided that there are no major weaknesses in the processes subject to internal audit review. The annual opinion is thus subject to inherent limitations (covering both the control environment and the assurance over controls) and these are examined more fully at **Appendix 3**.

2. ANNUAL OPINION OF THE HEAD OF INTERNAL AUDIT

2.1 Roles and responsibilities

- The Council is responsible for establishing and maintaining appropriate risk management processes, control systems, accounting records and governance arrangements.
- The AGS is an annual statement by the Leader of the Council and the Chief Executive that records and publishes the Council’s governance arrangements.
- An annual opinion is required on the overall adequacy and effectiveness of the Council’s framework of governance, risk management and control, based upon and limited to the audit work performed during the year.

The annual opinion is achieved through the delivery of the risk based Annual Internal Audit Plan discussed and approved with the Senior Leadership Team and key stakeholders and then approved by the Finance, Resources, Audit and Governance Committee at its meeting on 9 March 2018. Any justifiable amendments that are requested during the year are discussed and agreed with senior management, and reported through to the above

Committee. This opinion does not imply that internal audit has reviewed all risks and assurances, but it is one component to be taken into account during the preparation of the AGS.

The Finance, Resources, Audit and Governance Committee should consider this opinion, together with any assurances from management, its own knowledge of the Council and any assurances received throughout the year from other review bodies such as the external auditor.

2.2 The opinion itself

The overall opinion in relation to the framework of governance, risk management and control at South Norfolk Council is **reasonable**.

It is encouraging to note that of the 13 assurance audits completed within the year a total of 12 resulted in a positive assurance grading being given. Two of these reports Elections and Payroll/HR received a substantial assurance grading.

One report relating to Cyber Crime received a limited assurance grading. A total of eight important and 10 needs attention recommendations were raised during the review. All recommendations are due to be completed by August 2019.

The Committee's attention should also be drawn to comments made at paragraph 3.5 of this report in relation to outstanding recommendations and these will require consideration for inclusion in the Annual Governance Statement.

Whilst we recommend that the points contained within paragraph 3.5 are considerations for the Annual Governance Statement, these risks reflect a small proportion of the control environment as a whole. This has been demonstrated by the number of reports receiving a positive assurance grading this year. We are therefore satisfied that the governance, risk and control framework is reasonable.

In providing the opinion the Council's risk management framework and supporting processes, the relative materiality of the issues arising from the internal audit work during the year and management's progress in addressing any control weaknesses identified therefrom have been taken into account.

The opinion has been discussed with the Section 151 Officer and the Corporate Management and Leadership Team prior to publication.

3. **AUDIT WORK UNDERTAKEN DURING THE YEAR**

3.1 **Appendix 1** records the internal audit work delivered during the year on which the opinion is based. In addition, **Appendix 2** is attached which shows the assurances provided over previous financial years to provide an overall picture of the control environment.

3.2 Internal audit work is divided into 4 broad categories;

- Annual opinion audits;
- Fundamental financial systems that underpin the Council's financial processing and reporting;
- Service area audits identified as worthy of review by the risk assessment processes within internal audit;
- Significant computer systems which provide the capability to administer and control the Council's main activities.

3.3 Summary of the internal audit work

The work undertaken by internal audit services in 2018/19 has covered a wide range of services and has resulted in the assurance opinion reports being given as described below:

Internal Audit has issued 13 assurance reports, with 10 of these assurances being given a Reasonable grading and two a Substantial grading. One report in the area of Cyber Crime has been given a limited assurance grading.

The Executive Summary of all reports have been presented to the Finance, Resources, Audit and Governance Committee, ensuring open and transparent reporting and enabling the Committee to review key service area controls and the conclusions reached.

A total of 165 days has been delivered against the 183 days originally planned. The changes to the internal audit plan for 2018/19 are included below:

Audit description	Nature of the change
Risk Management	A risk maturity assessment at Broadland and South Norfolk Council is being undertaken by the Internal Audit Manager, therefore this 10-day audit review was been deferred to 2019/20 whilst this work is finalised.
Build Insight	This 10-day audit review has been deferred until 2020/21 due to external independent assurance having been provided in which will conclude in June 2019.
Elections and Boundary Review	This review was split into two parts, with two extra days allocated. The first review covered elections and the initial position as a result of the Boundary Review. The second half followed up the progress of the boundary review.

All rationale and reasoning for changes to the 2018/19 Audit Plan have been presented to the Committee through Internal Audit Progress Reporting throughout the year. The 2018/19 plan has been reduced by 18 days overall to take account of the needs of the business and to ensure the Internal Audit Service was able to add value where required.

3.4 Follow Up of management action

In relation to the follow up of management actions to ensure that they have been effectively implemented the position at year end is that of the 68 audit recommendations raised by TIAA Ltd in 2018/19; 25 have been completed by management, and 36 are not yet due. A total of five recommendations remain overdue at year end (three important and two needs attention). Two recommendations have been rejected by management this year and relate to the Key Controls and Assurance report. These recommendations were discussed at the November 2018 Committee and details have again been provided in the year end follow up report earlier in the agenda.

Twelve recommendations relating to 2017/18 remain outstanding; two are rated important (priority two) and 10 are needs attention (priority three). The first important recommendation

relates to testing Disaster Recovery plans, the second relates to implementing a formal change management framework, both recommendations are due for end of August 2019.

Management have provided progress updates and new deadline dates have been suggested for all outstanding recommendations.

3.5 Issues for inclusion in the Annual Governance Statement

We recommend that the following points are considered for inclusion in the Annual Governance Statement.

One limited assurance report has been raised relating to Cyber Crime. Eight important and 10 needs attention recommendations have been raised which are due to be completed by August 2019. The eight important recommendations raised relate to the formalisation of key policies and the documentation of key risks.

Three important recommendations from other reviews remain outstanding at year end. The first relates to Remote Access and the testing of this within a Disaster Recovery Plan. This has a revised due date of September 2019 due to the Wymondham site still being in development. The second and third relate to Key Controls and Assurance, reviewing the authorisation of virements and authorisation of journals in accordance with the agreed process. Both recommendations have been extended to June 2019.

A further two important recommendations remain outstanding from the 2017/18 financial year; the first relates to testing Disaster Recovery plans at the Wymondham site once the facilities are up and running, the second relates to the design and implementation of a Change Management framework. Both actions are due for completion by end of August 2019.

The governance, risk and control framework has been assessed as reasonable for 2018/19. Whilst risks do remain unresolved at year end, we are satisfied that management have committed to address the risks raised within the limited assurance Cyber Crime report.

4. THIRD PARTY ASSURANCES

- 4.1 In arriving at the overall opinion reliance has not been placed on any third-party assurances.

5. ANNUAL REVIEW OF THE EFFECTIVENESS OF INTERNAL AUDIT

5.1 Quality Assurance and Improvement Programme (QAIP)

5.1.1 Internal Assessment

The checklist which forms our QAIP for conformance with the Public Sector Internal Standards (PSIAS) and the Local Government Application Note has been completed for 2018/19. This covers; the Definition of Internal Auditing, the Code of Ethics and the Standards themselves.

The Attribute Standards address the characteristics of organisations and parties performing Internal Audit activities, in particular; Purpose, Authority and Responsibility, Independence and Objectivity, Proficiency and Due Professional Care, and Quality Assurance and Improvement Programme.

The Performance Standards describe the nature of Internal Audit activities and provide quality criteria against which the performance of these services can be evaluated, in particular; Managing the Internal Audit Activity, Nature of Work, Engagement Planning, Performing the Engagement, Communicating Results, Monitoring Progress and Communicating the Acceptance of Risks.

On conclusion of completion of the checklist, conformance has been ascertained in relation to the Definition of Internal Auditing, the Code of Ethics and the Performance Standards.

The QAIP internal assessment checklist has been forwarded to the Section 151 Officer for independent scrutiny and verification.

5.1.2 External Assessment

In relation to the Attribute Standards it is recognised that to achieve full conformance an external assessment is needed. This is required to be completed every five years, with the first review having been completed in January 2017.

The external assessment was undertaken by the Institute of Internal Auditors and it has concluded that ***“the internal audit service conforms to the professional standards and the work has been performed in accordance with the Internal Professional Practices Framework”***. Thus, confirming conformance to the required standards.

The external assessment report has previously been provided to the Section 151 Officer and the Committee.

Two improvement points were raised in relation to the assessment. The first related to updating and documenting current risks relating to the delivery of the TIAA contract. The second related to the Internal Audit Manager carrying out yearly deep dive assurance exercises on a sample of TIAA audit files to give assurance that audit procedures are being followed in line with the PSIAS. Both of these actions have now been completed.

5.2 Performance Indicator outcomes

5.2.1 The Internal Audit Service is benchmarked against a number of performance indicators as agreed by the Finance, Resources, Audit and Governance Committee. Actual performance against these targets is outlined within the table below and overleaf:

Actual performance against these targets is outlined within the following table:

Area / Indicator	Frequency	Target	Actual	Comments
<u>Audit Committee / Senior Management</u>				
1. Audit Committee Satisfaction – measured annually	Annual	Adequate	Good	TBC
2. Chief Finance Officer Satisfaction – measured quarterly	Annual	Good	Good	Good
<u>Internal Audit Process</u>				
3. Each quarters audits completed to draft report within 10 working days of the end of the quarter	Quarterly	100%	92%	Not achieved – 1/13 assurance reports. Remote access issued after agreed deadline.
4. Quarterly assurance reports to the Contract Manager within 15 working days of the end of each quarter	Quarterly	100%	100%	Achieved - All quarterly reports received with 15 working days of year end.
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%	100%	Achieved
6. Compliance with Public Sector Internal Audit Standards		Generally conforms	Generally conforms	Achieved
7. Respond to the Contract Manager within 3 working days where unsatisfactory feedback has been received.		100%	n/a	Achieved
<u>Clients</u>				
8. Average feedback score received from key clients (auditees)		Adequate	Good	Exceeds, 7 responses received.
9. Percentage of recommendations accepted by management		90%	97%	Exceeds – 2 recommendations rejected.
<u>Innovations and Capabilities</u>				
10. Percentage of qualified (including experienced) staff working on the contract each quarter		60%	100%	Exceeds
11. Number of training hours per member of staff completed per quarter		1 day	1 day	Achieved

5.2.2 It is encouraging to the majority of performance measures have been achieved, with three of these exceeding targets. A good response has been received in relation to client feedback which has been positive, recognising the professional service provided and also the value that internal audit has brought to the Council.

The target relating to the issuing of draft audit reports within 10 working days of quarter end has not been met. The Remote Access report was issued 13 days after the agreed timeframe

in Q1. This delay was discussed with the contractor and as a result we are pleased to report this as an isolated incident.

It is extremely encouraging to note that all 13 internal audit reviews were at draft report stage by 5 April 2019, with all at final report by 16 April 2019. Thus, ensuring audits are completed within financial year and ensuring that this annual opinion can be ready in line with the earlier reporting requirements associated with the audit of the accounts.

5.3 Effectiveness of the Head of Internal Audit (HIA) arrangements as measured against the CIPFA Role of the HIA

5.3.1 This Statement sets out the 5 principles that define the core activities and behaviours that apply to the role of the Head of Internal Audit, and the organisational arrangements to support them. The Principles are:

- Champion best practice in governance, objectively assessing the adequacy of governance and management of risks;
- Give an objective and evidence based opinion on all aspects of governance, risk management and internal control;
- Undertake regular and open engagement across the Authority, particularly with the Management Team and the Audit Committee;
- Lead and direct an Internal Audit Service that is resourced to be fit for purpose; and
- Head of Internal Audit to be professionally qualified and suitably experienced.

Completion of the checklist confirms full compliance with the CIPFA guidance on the Role of the Head of Internal Audit in relation to the 5 principles set out within.

The detailed checklist has been forwarded to the Section 151 Officer for independent scrutiny and verification.

6. PROPOSAL

6.1 The Finance, Resources, Audit and Governance Committee, in maintaining an overview as to the quality of systems of internal control in operation at the Council, is being requested to note this report, and the reasonable assurance opinion awarded, and confirms that key information provided is carried across to the Council's Annual Governance Statement, which is also considered on the agenda.

7. RECOMMENDATIONS

- 7.1
- a) Receive and consider the contents of the Annual Report and Opinion of the Head of Internal Audit.
 - b) Note that a reasonable audit opinion has been given in relation to the overall adequacy and effectiveness of the Council's framework of governance, risk management and control for the year ended 31 March 2019.
 - c) Note that the opinions expressed together with significant matters arising from internal audit work and contained within this report should be given due consideration, when developing and reviewing the Council's Annual Governance Statement for 2018/19.
 - d) Note the conclusions of the Review of the Effectiveness of Internal Audit.

APPENDIX1 – AUDIT WORK UNDERTAKEN DURING 2018/19

Audit Area	Assurance	No of Recs	Implemented	P1 OS	P2 OS	P3 OS	Not yet due
Annual Opinion Audits							
Car Parks	Reasonable	4	3	0	0	1	0
Elections Part 1	Reasonable	3	3	0	0	0	0
Corporate Governance - GDPR	Reasonable	2	0	0	0	0	2
Procurement	Reasonable	7	7	0	0	0	0
Elections Part 2	Substantial	0	0	0	0	0	0
Key Controls and Assurance	Reasonable	7	4 * 2 rejected	0	2	0	1
Council Tax and NNDR	Reasonable	8	4	0	0	0	4
Housing Benefits	Reasonable	3	0	0	0	0	3
Accounts Payable	Reasonable	4	4	0	0	0	0
Payroll and Human Resources	Substantial	2	0	0	0	0	2
Building Control	Reasonable	6	0	0	0	0	6
IT audits							
Remote Access	Reasonable	4	2	0	1	1	0
Cyber Crime	Limited	18	0	0	0	0	18
Total		68	27	0	3	2	36

Assurance level definitions		Number
Substantial Assurance	Based upon the issues identified there is a robust series of suitably designed controls in place upon which the organisation relies to manage the risks to the continuous and effective achievement of the objectives of the process, and which at the time of our audit review were being consistently applied.	2
Reasonable Assurance	Based upon the issues identified there is a series of internal controls in place, however these could be strengthened to facilitate the organisations management of risks to the continuous and effective achievement of the objectives of the process. Improvements are required to enhance the controls to mitigate these risks.	10
Limited Assurance	Based upon the issues identified the controls in place are insufficient to ensure that the organisation can rely upon them to manage the risks to the continuous and effective achievement of the objectives of the process. Significant improvements are required to improve the adequacy and effectiveness of the controls to mitigate these risks.	1
No Assurance	Based upon the issues identified there is a fundamental breakdown or absence of core internal controls such that the organisation cannot rely upon them to manage risk to the continuous and effective achievement of the objectives of the process. Immediate action is required to improve the controls required to mitigate these risks.	0

Urgent – Priority 1	Fundamental control issue on which action to implement should be taken within 1 month.
Important Priority 2	Control issue on which action to implement should be taken within 3 months.
Needs Attention – Priority 3	Control issue on which action to implement should be taken within 6 months.

APPENDIX 2 ASSURANCE CHART

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
Annual Opinion Audits					
Corporate Governance and Risk Management					
Corporate Governance			Reasonable		X
Risk Management		Substantial			X
Corporate Governance - Build Insight		Reasonable			
Corporate Governance - Big Sky		Reasonable			X
Key Controls and Assurance	Reasonable	Reasonable	Reasonable	Reasonable	X
Corporate Health and Safety			Reasonable		
Fundamental Financial Systems					
Local Council Tax Support and Housing Benefit		Reasonable		Reasonable	
Council Tax and National Non Domestic Rates		Reasonable		Reasonable	
Accounts Receivable	Reasonable		Reasonable		X
Accountancy Services	Reasonable		Reasonable		X
Budgetary Control					
Accounts Payable		Reasonable		Reasonable	
Income / Remittances	Reasonable		Reasonable		X
Payroll and Human Resources		Substantial		Substantial	
Cross Authority Review - Accounts Payable	n/a				
Cross Authority Review - Accounts Receivable		n/a			
Cross Authority Review - Payroll and HR					
Service Area Reviews					
Performance Management			Reasonable		
Customer Focus, including reception, equalities, marketing, etc.					
Freedom of Information and Data Protection					
Committee Services	Reasonable				
Elections and Electoral Registration				Substantial	
Property Valuation and Management					
Nplaw Arrangements					
GDPR				Reasonable	
Procurement		Reasonable		Reasonable	
Leisure		Reasonable	Reasonable		X
Stock Control Review					
CNC transfer to South Norfolk DC host					
Building Control		Reasonable		Reasonable	
Housing Strategy and Affordable Housing		Reasonable			
Home Options		Reasonable			

	Current Contract				
	2015-16	2016-17	2017-18	2018-19	2019-20
New Homes Bonus / Affordable Housing / Home Options					
Car Parks	Reasonable			Reasonable	
Waste Management		Reasonable			X
Environmental Health					
EH - Stray Dogs, Pest Control and Flooding	Reasonable				
Licensing, Food Safety and Health and Safety		Reasonable			
Housing Standards including Disabled Facilities Grants & Discretionary grants	Reasonable		Reasonable		X
Early Help Hub		Limited			
Community Grants	Reasonable				
Development Management					X
Partnerships					
Localism and Communities / Asset of Community Value	Reasonable				
Homelessness			Reasonable		X
IT Audits					
Network Security and Infrastructure					X
Cyber Crime				Limited	
Virtualisation					
Remote Access (Supplier and User)				Reasonable	
IDOX Uniform application					
Disaster Recovery & Business Continuity			Reasonable		X
Revenues and Benefits Application	Reasonable				
Exchange 2010 & Ancillary Services	Reasonable				
Storage Area Network (SAN)	Reasonable				
Integra 2		Reasonable			
Walled Garden		Reasonable			
EZRunner		Reasonable			
Cash Receipting Application			Reasonable		
Service Desk			Limited		

APPENDIX 3 – LIMITATIONS AND RESPONSIBILITIES

Limitations inherent to the Internal Auditor's work

The Internal Audit Annual Report has been prepared and TIAA Ltd (the Internal Audit Services contractor) were engaged to undertake the agreed programme of work as approved by management and the Finance, Resources, Audit and Governance Committee, subject to the limitations outlined below.

Opinions

The opinions expressed are based solely on the work undertaken in delivering the approved 2018/19 Annual Internal Audit Plan. The work addressed the risks and control objectives agreed for each individual planned assignment as set out in the corresponding audit planning memorandums (terms of reference) and reports.

Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate the risk of failure to achieve corporate/service policies, aims and objectives: it can therefore only provide reasonable and not absolute assurance of effectiveness. Internal control systems essentially rely on an ongoing process of identifying and prioritising the risks to the achievement of the organisation's policies, aims and objectives, evaluating the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. That said, internal control systems, no matter how well they have been constructed and operated, are affected by inherent limitations. These include the possibility of poor judgement in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

Future Periods

Internal Audit's assessment of controls relating to South Norfolk Council is for the year ended 31 March 2019. Historic evaluation of effectiveness may not be relevant to future periods due to the risk that:

- The design of controls may become inadequate because of changes in the operating environment, law, regulation or other matters; or,
- The degree of compliance with policies and procedures may deteriorate.

Responsibilities of Management and Internal Auditors

It is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

The Head of Internal Audit, has sought to plan Internal Audit work, so that there is a reasonable expectation of detecting significant control weaknesses and, if detected, additional work will then be carried out which is directed towards identification of consequent fraud or other irregularities. However, internal audit procedures alone, even when carried out with due professional care, do not guarantee that fraud will be detected and TIAA's examinations as the Council's internal auditors should not be relied upon to disclose all fraud, defalcations or other irregularities which may exist.

Annual Governance Statement 2018/19

Report Author(s): Emma Hodds
Assistant Director Governance and Business Support
01508 533791
ehodds@s-norfolk.gov.uk

Portfolio: Stronger Communities & Governance

Ward(s) Affected: All

Purpose of the Report:

The Committee is requested to review the Annual Governance Statement for 2018/19 to ensure that it reflects the reports that have been considered over the past year and that it supports the Committee's general understanding of the Council's governance arrangements.

Recommendations:

1. To approve the Annual Governance Statement for 2018/19.

1 SUMMARY

- 1.1 The Council is required to gather evidence that the governance arrangements are adequate and to support the production of an Annual Governance Statement. Evidence, through assurance statements, has been submitted by key officers, and the Head of Internal Audit has provided an annual audit opinion.

2 BACKGROUND

- 2.1 The CIPFA/SOLACE framework “Delivering Good Governance in Local Government” brings together an underlying set of legislative requirements, governance principles and management processes. Crucially, it states that good governance relates to the whole organisation. CIPFA has assigned proper practice to the governance framework. It outlines six core principles of governance focusing on the systems and processes for the direction and control of the organisation and its activities through which it accounts to, engages with and leads the community.
- 2.2 The arrangements required for gathering assurances for the preparation of the Annual Governance Statement provide an opportunity for authorities to consider the robustness of their governance arrangements. In doing so, authorities need to recognise that this is a corporate issue, affecting everyone in the organisation. Furthermore, it is not simply about evidencing compliance, but to highlight what arrangements are in place and the improvements which are necessary to inform stakeholders.
- 2.3 The key sources of assurance which have been used to prepare the Annual Governance Statement are:
- Performance management information
 - Risk management
 - Legal and regulatory assurances
 - Members’ assurances
 - Assurance Statements for key senior officers, reviewed and approved by Directors
 - Financial control assurance
 - Internal audit
 - External audit

- 2.4 The regulations state that the Annual Governance Statement needs to be approved in advance of the relevant authority approving the Statement of Accounts.

3 CURRENT POSITION/FINDINGS

- 3.1 The Committee receives regular reports from Internal Audit in relation to the framework of governance, risk management and control through review of:
- The Annual Report and Opinion of the Head of Internal Audit;

- Internal Audit Progress Reports, which contains the findings and associated recommendations agreed with management to address weaknesses and risks;
 - Reports on the progress made in addressing the findings and recommendations; and
 - Strategic and Annual Internal Audit Plans.
- 3.2 The work of Internal Audit on the 2018/19 internal audit plan has been completed and a “reasonable” opinion has been given on the framework of governance, risk management and control.
- 3.3 During the year the Cabinet received regular reports on performance and financial monitoring in relation to both the capital and revenue budgets, and quarterly reports on Risk Management were taken to the Cabinet, alongside the performance and financial reports.
- 3.4 Assistant Directors and those who report into a Director have again this year completed an Assurance Statement which covers key areas of responsibility as follows:
- Procedures;
 - Effectiveness of key controls;
 - Alignment of Services with Business Plan;
 - Human Resources and Finance;
 - Risks and Controls;
 - Health and Safety;
 - Procurement;
 - Insurance;
 - Information Technology;
 - Data Protection and Freedom of Information;
 - Business Continuity;
 - Partnerships; and
 - Equalities.
- 3.5 In addition, the Monitoring Officer, the Head of Internal Audit, the IT Manager and the Head of Environmental Services have also provided statements in relation to specific role queries.
- 3.6 The responses have highlighted that governance arrangements are mainly consistent across the Council; however, Managers have highlighted some development areas which are service specific and this will be reviewed over the forthcoming months. It has also been highlighted where improvement in awareness is needed in terms of risk management and an action plan will be developed to address this over the forthcoming financial year.

4 PROPOSED ACTION

- 4.1 The Committee is requested to review the Annual Governance Statement for 2018/19 to ensure that it reflects the reports that have been considered over the past year and that it supports the Committees general understanding of the Council's governance arrangements.

5 OTHER OPTIONS

- 5.1 None.

6 ISSUES AND RISKS

- 6.1 **Resource Implications** – none
- 6.2 **Legal Implications** – none
- 6.3 **Equality Implications** – none
- 6.4 **Environmental Impact** – none
- 6.5 **Crime and Disorder** – none
- 6.6 **Risks** – none

7 RECOMMENDATIONS

- 7.1 To approve the Annual Governance Statement for 2018/19.

ANNUAL GOVERNANCE STATEMENT

Scope of Responsibility

South Norfolk Council is responsible for ensuring that its business is conducted in accordance with the law and proper standards. It must ensure that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. South Norfolk Council also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, South Norfolk Council is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and making proper arrangements for the management of risk.

As part of its Constitution, South Norfolk Council has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework “Delivering Good Governance in Local Government”.

A copy of the Code is available on our website, within the Constitution, and can be downloaded [here](#).

This statement explains how South Norfolk Council has complied with the code and also meets the requirements of regulation 6 (1) of the Accounts and Audit (England) Regulations 2015 in relation to the publication of a statement on internal control, and accompanies the 2018/19 Statement of Accounts of the Council. The Annual Governance Statement is subject to detailed review and approval by the Finance, Resources, Audit and Governance Committee.

The Purpose of the Governance Framework

The governance framework comprises the systems and processes for the direction and control of the authority and its activities through which it accounts to, engages with and leads the community. It enables the authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of South Norfolk Council's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The governance framework has been in place at South Norfolk Council for the year ended 31 March 2019 and up to the date of approval of the statement of accounts.

The Governance Framework

An annual review of the Governance Framework at South Norfolk Council was completed prior to the preparation of the Annual Governance Statement, with key officers completing full assurance statements for their area of responsibility, and these being signed off by the relevant member of the Corporate Management Leadership Team (CMLT). These are in place to ensure the governance arrangements across the Council are adequate, and to also recognise where any further work needs to be done.

A new code of corporate governance was developed early in 2017 which has been in place for the 2018/19 financial year. The new code is the framework of policies, procedures, behaviours and values which determine how the Council will achieve its priorities and is based upon the seven principles of the International Framework for Corporate Governance in the Public Sector.

The Council's Vision and Priorities:

As a Council, we are committed to making South Norfolk one of the best places to live and work in the country. The Council has a Corporate Plan 2016-2020 which confirms our vision for South Norfolk as a place and our ambition for South Norfolk Council as an organisation:



The main aims of the Corporate Plan are to:

- Set our overall vision and priorities for the District and the organisation
- Present an overview of the key strengths of the District and the context in which we operate
- Demonstrate how all our activities link together to achieve our overall ambition

- Showcase the innovative work that the Council is undertaking
- Demonstrate our focus on delivering better results for South Norfolk- the people and the place

The Corporate Plan is a digital and interactive document which acts as a gateway for more in-depth details of the priorities and work of the Council and can be found [here](#).

The vision and priorities are communicated through the Corporate Plan, plus regular briefings, press releases, website and the Link magazine, which is delivered 3 times a year to every household and business in the District.

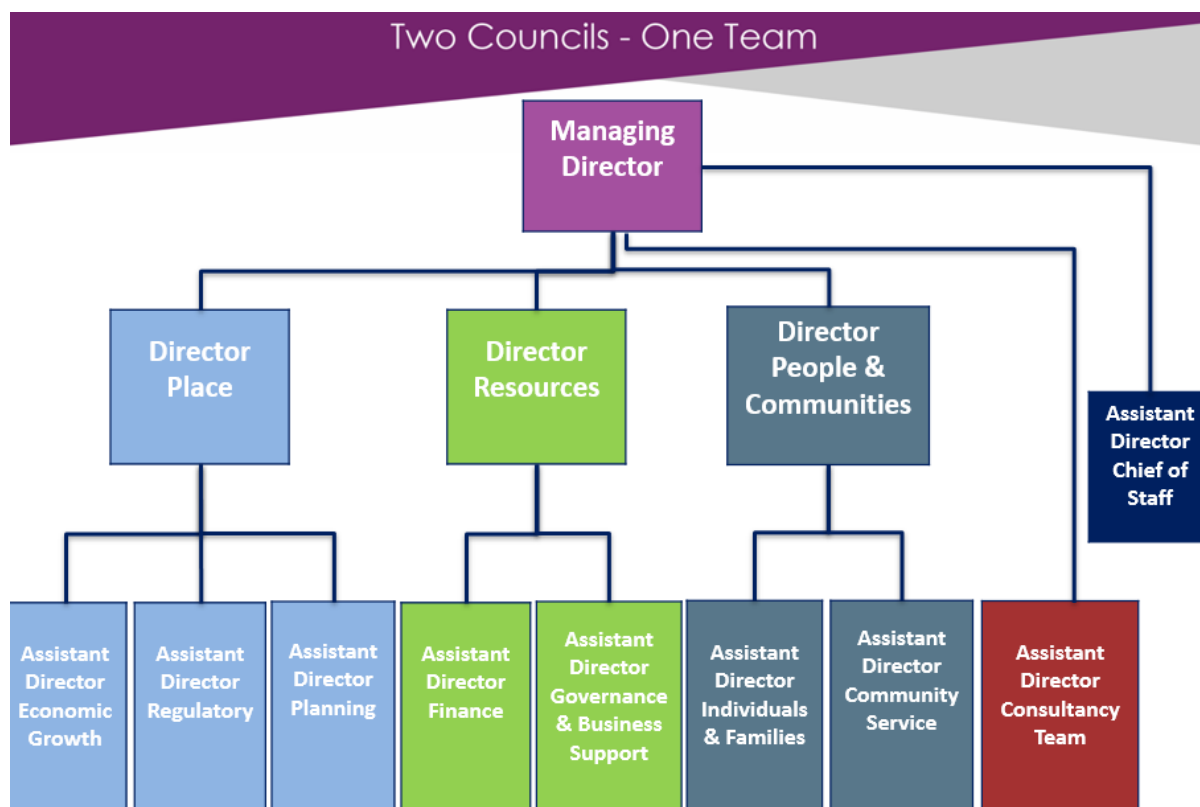
The 2016-2020 Corporate Plan identifies three priority areas where we will focus our resources and efforts. These areas are supported by our customer focussed, collaborative and commercial approach to service delivery.



To underpin the Corporate Plan, a detailed Corporate Business Plan is produced annually. This describes our intended activities for the 12 months from April to March each year to support the new priorities set out in the Corporate Plan. This plan is produced as an integrated process with the Council's annual budget setting and Medium-Term Financial Plan revision. The 2018/19 Plan can be accessed [here](#).

[Review of the Council's Governance Arrangements:](#)

The Council regularly reviews its organisational structure as part of aligning resources with demand to deliver the priorities above. In addition, the progression with the Council's collaboration with Broadland District Council has resulted in the establishment of a joint management structure. This comprises of a joint Managing Director, three Directors, and nine Assistant Directors, as follows:



The recruitment of joint posts has been subject to a new shared process, that has been developed and agreed at meetings of both authorities Full Councils. The Managing Director was appointed at the end of 2018 following an external recruitment drive and took up post on 2 January 2019. The recruitment process for the remaining posts in the new structure began in early 2019, with Director positions being appointed to initially on 18 March. Five out of the nine Assistant Director roles have also been appointed to: Economic Growth; Governance and Business Support; Individuals and Families; Chief of Staff; and Consultancy Team. The remaining vacant Assistant Director roles will be advertised internally initially, with a view to publicise externally if internal recruitment is not successful. In addition, the Director and statutory posts appointments were formally endorsed by South Norfolk and Broadland Full Council meetings on 23 and 25 April respectively.

The Council has made ongoing savings through reviews of services and taking opportunities to make efficiencies; alongside this the authority has sought to grow income levels through a number of commercial initiatives.

The Moving Forward Together (MFT) programme continues to develop the organisation and employees so that they are readily able to adapt to change. During 2018/19 all staff attended a course of three workshops entitled *Being the best you can*. The Workshops supported the MFT programme, continuous service

development and collaborative working and were designed to enable staff to embrace change.

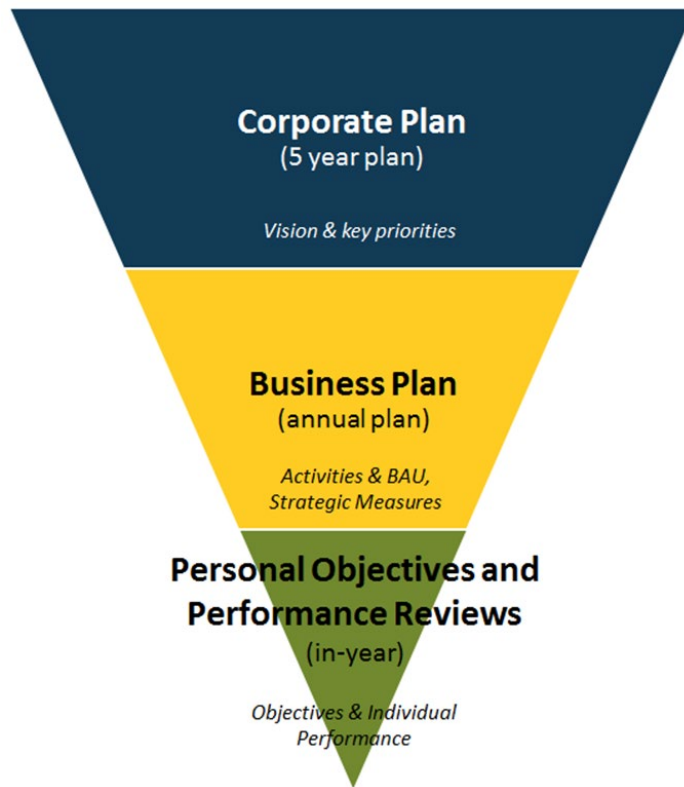
The Council was assessed by Investors In People in March 2017 and was accredited with the Platinum standard. The Council was re-assessed in early 2018 and it was concluded that we had got even better by continuing to focus on strategies to maintain and enhance the service to the community, by equipping, enabling and empowering all employees to deliver and continuously improve. Particular high points were the examples of best practice that support the MFT culture and values and the way the Council drives changes and continuously looks for improvement and innovation to ensure that services are delivered in the most efficient way.

Our annual GEM (Going the Extra Mile) awards continue to recognise staff achievement and Coaching and Leadership courses and workshops for staff at all levels of the organisation have been delivered in the financial year.

Measuring the Quality of Services for Users and ensuring they are delivered in accordance with the Council's objectives and best use of resources:

The 5-year Corporate Plan sets out our key corporate priorities together with 5-year targets for success. The 2018/19 Business Plan uses these priorities and shows the 'Strategic Measures' with year-end targets for each priority. The Strategic Measures are tracked and reported each quarter to Cabinet as part of our Performance Framework.

The Corporate Business Plan sets out the proposed activities and 'business as usual' operational services that will be undertaken for the financial year ahead commencing 1 April. Between February and April staff personal objectives are set for the year and reflect the proposed activities they will be working on from the Business Plan. These personal objectives are reviewed regularly during the year and are assessed as part of annual staff performance reviews in March/April each year.



Defining and Documenting Roles and Responsibilities of Councillors and Officers and how decisions are taken:

The Council's constitution, scheme of delegation, codes of conduct, Local Member Protocol and rules of financial governance set the framework in which the organisation makes decisions.

Codes of Conduct Defining Standards of Behaviour for Councillors and Officers:

The Council operates Codes of Conduct for Councillors and Officers, with clear processes embedded to respond to any concerns raised regarding the standards of behaviour.

The Council conforms to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2016)

The Rules of Financial Governance explain the statutory duties of the Section 151 Officer including the responsibility under direction of the Cabinet for the proper administration of the Council's financial affairs. The Council's governance arrangements allow the Section 151 Officer to bring influence to bear on all material business decisions. The Section 151 Officer is a full member of the Strategic Leadership Team (SLT) and reports directly to the Chief Executive. Regular specific meetings are also held to discuss matters relating to the Section 151 role.

The Finance, Resources, Audit and Governance Committee

The Committee met regularly during the year. Its key tasks are to monitor the work of Internal and External Audit, to approve the statutory accounts, and to oversee the work in supporting the production of this Annual Governance Statement.

Ensuring Compliance with Laws and Regulations, Internal Policies and Procedures:

Responsibilities for statutory obligations are formally established. The Head of Paid Service disseminates statutory instruments to Managers responsible for acting on them. The relevant professional Officers are tasked with ensuring compliance with appropriate policies and procedures to ensure all Officers work within them.

Decisions to be taken by Councillors are subject to a rigorous scrutiny process by the Monitoring Officer, Section 151 Officer and in most cases CMLT before they are considered by Cabinet or Full Council.

Heads of Service and key officers have completed an Assurance Statement covering key governance aspects with their area of responsibility. The outcomes of these Assurance Statements are described under Managers' Assurance within Governance Issues.

Whistle-blowing Policies and Investigating Complaints:

As employees, councillors and others who deal with the Council are often the first to spot things that may be wrong or inappropriate at the Council, a Whistle-blowing Policy is in place to provide help and assistance with such matters. There is also a

formal complaints procedure operated as part of the Council's performance management framework.

Tackling Fraud and Corruption:

The Council has a Counter Fraud, Corruption and Bribery Strategy in place to ensure that we can deliver against our priorities whilst minimising losses to fraud, corruption and bribery. The Council has a Housing Benefit and Council Tax Support Anti-fraud and Corruption Policy.

Each Internal Audit undertaken recognises fraud risks and assesses the adequacy and effectiveness of the controls in place to mitigate such risks and an Annual Fraud Return is provided to the External Auditor which summarises the Head of Internal Audit's views on risk of fraud at the Authority. In addition, the Monitoring Officer, the Section 151 Officer and the Chair of the Finance, Resources, Audit and Governance Committee also complete such statements on an annual basis.

Development Needs of Councillors and Officers:

There is a training programme in place for Officers and Councillors. This is drawn up from new risks or legislation, in response to known and emerging key areas of focus and from the Business Plan and staff Performance Reviews. The Council has made extensive investment in training in line with its Learning and Development Strategy for staff. As outlined elsewhere in this Statement, the Council has maintained the new Platinum Standard for Investors in People. This was the highest level that could be awarded and the Council is one of only a small number of organisations nationally to achieve this.

Establishing Communication with all Sections of the Community and Other Stakeholders:

The Council works with the County Council, other Norfolk District Councils, the Police, NHS, Central Government departments, businesses, and voluntary and community groups.

The Council consults with members of the public through a number of avenues from workshops, telephone calls, social media channels and the website, to gauge public opinion on a number of issues such as shaping the budget, the development of the Local Plan and the Council Tax Support Scheme.

Good Governance Arrangements with Partnerships:

Partnership arrangements take the form of Service Level Agreements. These are reviewed as part of the budget setting process and in advance of the date of cessation. The Council maintains a formal protocol on how it enters into funding arrangements with voluntary and third sector organisations.

The CIPFA Framework for Corporate Governance places a high degree of emphasis on partnership working. In practice, the Council takes a collaborative approach to working, recognising that there are a variety of means to engage with third parties.

In addition, as the feasibility study is being progressed for collaborative working with Broadland District Council, appropriate governance arrangements have been put in place to ensure that Councillors and Officers are involved in the progression of this work.

Review of Effectiveness

The Role of the Council

South Norfolk Council has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Managers and Councillors within the authority who have responsibility for the development and maintenance of the governance environment, Internal Audit's annual report, and by comments made by the External Auditors and other review agencies. The Full Council approved the Revenue and Capital Budget and the Treasury Management Strategy during the year.

The Role of the Cabinet

The Cabinet approved the Corporate Business Plan and reviewed a range of strategies and policies during the year, including the Treasury Management Strategy, the Medium-Term Financial Strategy and the Revenue and Capital Budget. It received regular reports on performance monitoring, projects and their financial implications. Cabinet received quarterly combined performance, risk and finance reports and delegates policy development to four policy committees.

The Role of the Finance, Resources, Audit and Governance Committee

The activity of the Committee in the financial year is described above. It has also ensured that it is satisfied that the control, governance and risk management arrangements have operated effectively. The work of the Finance, Resources, Audit and Governance Committee is summarised in an Annual Report to Council.

The Role of the Scrutiny Committee

The Scrutiny Committee can undertake any work relating to the four key principles of scrutiny as follows:

- Hold the Executive to account (Call-In of Reports before final decision)
- Performance management
- Assist policy reviews
- Internal/external scrutiny

The work of the Scrutiny Committee is summarised to Council in an Annual Report.

Role of the Monitoring Officer

The Monitoring Officer has the specific duty to ensure that the Council, its Officers, and its Elected Councillors, maintain the highest standards of conduct in all they do. The Monitoring Officer's legal basis is found in Section 5 of the Local Government

and Housing Act 1989, as amended by Schedule 5 paragraph 24 of the Local Government Act 2000. The Monitoring Officer has three main roles:

- To report on matters they believe are, or are likely to be, illegal or amount to maladministration.
- To be responsible for Matters relating to the conduct of Councillors and Officers.
- To be responsible for the operation of the Council's Constitution.

The Monitoring Officer is supported in their role by the Council's legal service which is provided by nplaw and the Deputy Monitoring Officer.

The new joint management structure will result in the Assistant Director of Governance and Business Support post holder becoming the Monitoring Officer for both South Norfolk Council and Broadland District Council. This has resulted in the appointment of the Council's current Monitoring Officer to this position.

The Role of the Chief Financial Officer

The Director of Resources is designated as the Section 151 Officer for the purposes of Section 151 of the Local Government Act 1972 and is responsible under the general direction of the Cabinet for the proper administration of the Council's affairs. This statutory responsibility cannot be overridden. Responsibilities include:

- Setting and monitoring compliance with financial management standards
- Advising on the corporate financial position and on the key financial controls necessary to secure sound financial management

Section 114 of the Local Government Finance Act 1988 requires the Section 151 Officer to report to the full Council, Cabinet and External Auditor if the authority or one of its Officers:

- Has made, or is about to make, a decision which involves incurring unlawful expenditure
- Has taken, or is about to take, an unlawful action which has resulted or would result in a loss or deficiency to the authority
- Is about to make an unlawful entry in the authority's accounts.

The Section 151 Officer has not been required to make such a report.

The Role of Internal Audit

All audits are performed in accordance with the good practice contained within the Public Sector Internal Audit Standards (PSIAS) 2013. Internal Audit report to the Finance, Resources, Audit and Governance Committee and provides an opinion on the system of internal control, which is incorporated in the Head of Internal Audit's Annual Report and Opinion 2018/19.

Internal Audit is arranged through a consortium, Eastern Internal Audit Services, which comprises Breckland, Broadland, North Norfolk, South Norfolk and South Holland District Councils, Great Yarmouth Borough Council and the Broads Authority. The Head of Internal Audit is employed by South Norfolk Council and the

operational and field management staff are employed by an external provider, TIAA Ltd.

The Internal Audit Service assesses itself annually to ensure conformance against the PSIAS, and are also required to have an external assessment every five year's. The most recent assessment in January 2017, concluded that the internal audit service conforms to the professional standards and the work has been performed in accordance with the International Professional Practices Framework.

The Role of External Review Bodies

Ernst and Young LLP review the Council's arrangements for:

- preparing accounts in accordance with statutory and other relevant requirements
- ensuring the proper conduct of financial affairs and monitoring their adequacy and effectiveness in practice
- managing performance to secure economy, efficiency and effectiveness in the use of resources

Ernst & Young LLP were appointed by Public Sector Audit Appointments (PSAA) as the Council's external auditors for 2018/19. The auditors give an opinion on the Council's accounts, corporate governance and performance management arrangements. The Council takes appropriate action where improvements need to be made.

Effectiveness of Other Organisations

The Council established a group structure in 2015/16 with all companies held by Big Sky Ventures Ltd. At the end of 2017, Big Sky Ventures Ltd transferred its shares in Build Insight Ventures Ltd to the Council and the Council proceeded to establish a joint venture with Norfolk Property Services (NPS) Limited for the Build Insight group of companies. As at 31 March 2019, Build Insight Ltd, an Approved Inspector for Building Control, was actively trading, along with Build Insight Consulting.

Big Sky Developments Ltd, a property development company, and Big Sky Property Management Ltd, a property rental company, were also trading. Management have continued to monitor the effectiveness of internal controls within the companies over the course of the year. There were no significant control weaknesses identified during the year that are required to be included in this statement.

Following preparation of their accounts, the companies have been subject to independent review by Aston Shaw Ltd. The governance arrangements for Big Sky Developments were subject to internal audit review during 2016/17 which resulted in a "reasonable" assurance opinion.

Governance Issues

Looking back on the issues raised in 2017/18

During 2017/18 the following significant areas of development or risk were highlighted, with the current position also now noted:

- There was one specific area whereby improvement in awareness was needed and this is in terms of risk management. There was a number of new managers in post and it appeared that awareness of the risk management framework needed to be raised. Risk management was not raised as an issue within the assurance statements in relation to 2018/19, which is positive. The framework itself is being reviewed (particularly in light of collaborative working with Broadland District Council), and will be updated as needed, with further training to be provided to key members of staff as required across the Council.
- A number of managers last year were only able to provide partial compliance in relation to data protection in light of the imminent introduction of the General Data Protection Regulation (GDPR) and ongoing work required to comply with the new legislation. The Statements now reflect a position whereby the Council has met these requirements and departments can provide assurances that adequate measures are in place and followed.
- Staff realignments continued to deliver a more effective and efficient service to customers, however this is well managed and clear processes are in place. Larger scale changes to the senior management structure have been implemented in the last year to progress the collaboration with Broadland District Council and realise the *Two Councils – One Team* approach. Governance regarding this has been carefully considered, with joint procedures and terms of reference established for joint appointment panels as appropriate. Furthermore, shared officer employment rules have also been adopted by both authorities.

Managers' Assurance Statements for 2018/19

Managers across the Council completed an Assurance Statement relating to their service area. The Assurance Statements were based on last year and presented a broadened reflection compared to previous years. The statements were completed by all Heads of Service, or equivalent, and then signed off by the officer of CMLT responsible for the service area.

The Assurance Statement asked specific questions about; policy and procedure; effectiveness of key controls, alignment of services with the business plan, human resources, finance, risks and controls, health and safety, procurement, insurance, information technology, data protection, freedom of information, business continuity, partnerships and equalities. A yes / partial / no response was required with evidence and action needed noted. Each Manager also needed to note any issues that they felt represented a significant control item or governance issue.

Overall, governance regarding closer working relationships with Broadland District Council emerged as a key theme, as referenced above. Although not resulting in non-compliance, officers noted in their responses that policies, procedures etc would require review in light of the collaboration with Broadland District Council. This will be

an area of work that is progressed in the coming year as the two Councils' officers begin to work closer together as one team. Alignment of key policies will be prioritised, particularly those that relate to staff eg, terms and conditions. Procurement has been raised across some areas of the Council as requiring some attention, particularly as exemptions have been required in some cases. The Procurement Consortium Manager has already begun to address these issues with further guidance provided to specific teams and meetings planned to review annual forward plans of work so that issues do not arise in future.

The responses have highlighted that governance arrangements are mainly consistent across the Council. Where partial responses have been provided, managers have already identified actions that are being progressed to address these areas and the Assistant Director of Governance and Business Support will review progress during 2019/20, with updates being sought from Managers.

Internal Audit

The Head of Internal Audit has concluded that the overall opinion in relation to the framework of governance, risk management and control at South Norfolk Council is reasonable. The Head of Internal Audit has also highlighted that 12 of the 13 assurance audits completed within year resulted in a positive assurance, with no priority one recommendations raised.

The Head of Internal Audit has highlighted that a limited assurance opinion was reached for Cyber Crime. A total of 18 recommendations were raised; eight priority two and 10 priority three. The agreed recommendations will ensure that associated operational risks are managed to improve cyber security maturity. All agreed recommendations are due to be addressed by August 2019.

The Head of Internal Audit has also drawn attention to two outstanding important recommendations raised in 2017/18. The first relates to the Service Desk report and the to the implementation of a formal change management policy due for 30 April 2019 and the second relates to the Business Continuity and Disaster Recovery report and developing a disaster recovery test plan due for August 2019.

A further four important recommendations from 2018/19 are outstanding. In response to all audit recommendations, the Council has developed an action plan to ensure that recommendations are implemented.

Risk Management

A risk management framework is in place to ensure a consistent approach at the Council, with risks identified as Strategic, Directorate or Operational.

Reports on risk management were taken to the Cabinet on a quarterly basis during 2018/19. These reports cover all strategic risks that the Council actively manages; each risk has an agreed action plan managed by Officers and monitored on a quarterly basis by Councillors by way of the accompanied report. Directorate and Operational risks are reviewed quarterly with any significant changes also reported to Cabinet.

Risks are added to the register as and when they are identified and all risks are reviewed regularly with further consideration by CMLT.

Review and Approval of the Annual Governance Statement

The annual review of governance is coordinated by the Head of Governance, involving senior managers across the Council and reviewed by the Strategic Leadership Team. This Annual Governance Statement is considered in draft by the Finance, Resources, Audit and Governance Committee and amended to reflect the Committee's considerations and the views of the external auditor. The revised Annual Governance Statement is then formally reviewed and approved by the Finance, Resources, Audit and Governance Committee, prior to the approval of the Council's annual accounts.

Certification

We are satisfied that appropriate arrangements are in place to address improvements in our review of effectiveness. Progress on these improvements and mitigation of risks will be monitored through the year and considered at our next annual review.

Trevor Holden, Managing Director

Philip Hardy (Chairman of the Finance, Resources, Audit and Governance Committee) – Lead Councillor

South Norfolk District Council

Audit Plan

Year ended 31 March 2019

26 April 2019



South Norfolk District Council
Finance, Resources, Audit and Governance Committee Members
South Norfolk House
Swan Lane
Long Stratton
Norfolk
NR15 2XE

26 April 2019

Dear Committee Members

Audit Plan

We are pleased to attach our Audit Plan which sets out how we intend to carry out our responsibilities as auditor. Its purpose is to provide the Finance, Resources, Audit and Governance (FRAG) Committee with a basis to review our proposed audit approach and scope for the 2018/19 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 FRAG 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 21 June 2019 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

MARK HODGSON

Mark Hodgson
Associate Partner
For and on behalf of Ernst & Young LLP
Enc

Contents



In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the 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 FRAG Committee and management of South Norfolk District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the FRAG Committee, and management of South Norfolk 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 FRAG Committee, and management of South Norfolk 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 2018/19 audit strategy



Overview of our 2018/19 audit strategy

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

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Misstatements due to fraud or error	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.
Incorrect capitalisation of revenue expenditure	Fraud risk	No change in risk or focus	Linking to our fraud risk above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a separate risk, given the extent of the Council's capital programme.
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	<p>The valuation of land and buildings represent significant balances in the Council's accounts. Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p> <p>There is a risk fixed assets may be under/overstated or the associated accounting entries incorrectly posted.</p>
Pension Liability Valuation	Inherent risk	No change in risk or focus	<p>The Council's pension fund deficit is a material estimated balance disclosed on the Council's balance sheet. Accounting for this scheme involves significant estimation and judgement, management engages an actuary to undertake the calculations on their behalf.</p> <p>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.</p>

Overview of our 2018/19 audit strategy

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

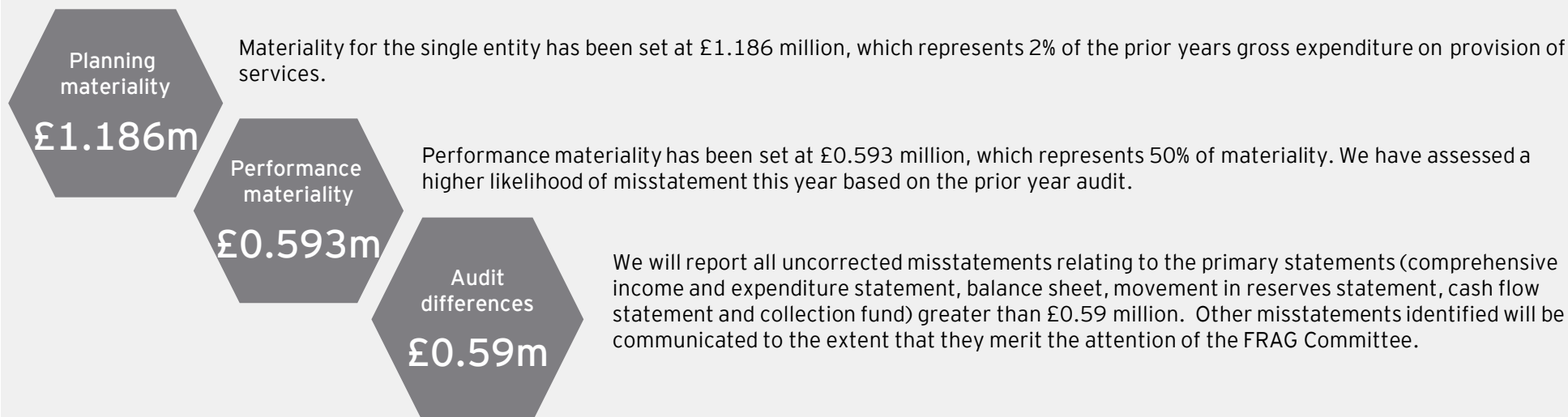
Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Finance Team Capacity	Inherent risk	New area of focus	<p>The 2017/18 Statement of Accounts were not signed off until 28 September 2018 due mainly to complications with production of the group accounts, though there were other corrected and uncorrected misstatements.</p> <p>We are aware that the Accountancy Manager, who has been a key contact for the audit team in previous years left the Council in February 2019 prior to the preparation of the 2018/19 Statement of Accounts. We note that interim arrangements are in place for the Statutory Finance Officer post from February also.</p> <p>There were a number of audit errors above our materiality threshold in the previous financial period. There is a risk that this level of adjustments may be repeated due to reduced finance team capacity.</p>

In addition to the risks outlined above we have identified an area of audit focus.

Area of focus	Change from PY	Details
Implementation of new accounting standards	New area of focus	<p>The 2018/19 CIPFA Code of practice on local authority accounting confirms that the Local Government will implement International Financial Reporting Standard ("IFRS") 9 - Financial Instruments and IFRS 15 - Revenue from Contracts with Customers. The Council needs to assess and evaluate the implications of these new standards on the 2018/19 accounts.</p>

Overview of our 2018/19 audit strategy

Materiality



Overview of our 2018/19 audit strategy

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 South Norfolk District Council give a true and fair view of the financial position as at 31 March 2019 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 (Value for Money).

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.

Audit team changes

Key changes to our team.



Audit Partner

The Partner in charge of the audit has been changed from Kevin Suter to Mark Hodgson. Mark Hodgson joined EY in 2012, transferring with colleagues from the Audit Commission. He has over 20 years experience in auditing District and County Councils in East Anglia. He will be responsible for signing off the financial statements.



02 Audit risks



Audit risks

Our response to significant risks

We have set out the significant risks (including fraud risks denoted by*) 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.

Misstatements due to fraud or error*	What is the risk?	What will we do?
	<p>The financial statements as a whole are not free of material misstatements whether caused by fraud or error.</p> <p>As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.</p> <p>We identify and respond to this fraud risk on every audit engagement.</p>	<p>We will undertake our standard procedures to address fraud risk, which include:</p> <ul style="list-style-type: none">▶ Identifying fraud risks during the planning stages;▶ Inquiry of management about risks of fraud and the controls put in place to address those risks;▶ Understanding the oversight given by those charged with governance of management's processes over fraud;▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;▶ Determining an appropriate strategy to address those identified risks of fraud; and▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.

Our response to significant risks (continued)

<p>Incorrect capitalisation of revenue expenditure*</p>	<p>What is the risk?</p> <p>Linking to our risk of misstatements due to fraud and error above, we have considered the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the Council's £30.9 million capital programme in 2018/19.</p>	<p>What will we do?</p> <p>In addition to our standard procedures we will:</p> <ul style="list-style-type: none"> ▶ Walk through controls designed and implemented to address the significant risk; ▶ Review expenditure capitalised in the year and review the GL to identify whether there are any potential transactional items that should be revenue in nature; ▶ Sample test additions to a higher degree than would otherwise be the case if the risk was not present; and ▶ Design specific journal procedures to review adjustment journals from across the financial year that move amounts from revenue to capital codes.
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Audit risks

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?

Valuation of Land and Buildings

The fair value of Property, Plant and Equipment (PPE) and Investment Properties (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.

Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.

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.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Consider the work performed by the Council's valuers, including the adequacy of the scope of the work performed, their professional capabilities and the results of their work;
- ▶ Sample test key asset information used by the valuers in performing their valuation (e.g. floor plans to support valuations based on price per square metre);
- ▶ Consider the annual cycle of valuations to ensure that assets have been valued within a 5 year rolling programme as required by the Code for PPE and annually for IP. We will also consider if there are any specific changes to assets that have occurred and that these have been communicated to the valuer;
- ▶ Review assets not subject to valuation in 2018/19 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements.

Audit risks

Other areas of audit focus (continued)

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?

Pension Liability Valuation

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

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

At 31 March 2018 this totalled £54.8 million. 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.

In order to address this risk we will carry out a range of procedures including:

- ▶ Liaise with the auditors of the administering authority (Norfolk County Council), to obtain assurances over the information supplied to the actuary in relation to South Norfolk District Council;
- ▶ Assess the work of the Pension Fund actuary (Hymans) including the assumptions they have used by relying on the work of PWC - Consulting Actuaries commissioned by National Audit Office for all Local Government sector auditors, and considering any relevant reviews by the EY actuarial team; and
- ▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.

Audit risks

Other areas of audit focus (continued)

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?

Finance Team Capacity

The 2017/18 Statement of Accounts were not signed off until 28 September 2018 due mainly to complications with production of the group accounts, though there were other corrected and uncorrected misstatements.

This year the Council has lost an experienced member of the finance team who is yet to be replaced and interim arrangements are in place for the Statutory Finance Officer post.

We are aware that the Accountancy Manager, who has been a key contact for the audit team in previous years, left the Council in February 2019 prior to the preparation of the 2018/19 Statement of Accounts.

There is a risk that the level of audit adjustments may be repeated due to reduced capacity of the finance team.

What will we do?

In order to address this risk we will carry out a range of procedures including:

- ▶ Assess the authority's plans for preparing the 2018/19 statement of accounts;
- ▶ Review the quality of the draft financial statements prepared for the deadline of 31 May 2019;
- ▶ Assess the quality of the general ledger data analytics provided in advance of the audit commencement date; and
- ▶ Assess the quality of the working papers provided for the audit start date on 3 June 2019.

Other areas of audit focus (continued)

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?
<p>IFRS 9 financial instruments</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year and will change:</p> <ul style="list-style-type: none"> ▶ How financial assets are classified and measured; ▶ How the impairment of financial assets are calculated; and ▶ The disclosure requirements for financial assets. <p>There are transitional arrangements within the standard; and the 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 9. However, until the Guidance Notes are issued and any statutory overrides are confirmed there remains some uncertainty on the accounting treatment.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19; ▶ Consider the classification and valuation of financial instrument assets; ▶ Review new expected credit loss model impairment calculations for assets; and ▶ Check additional disclosure requirements.
<p>IFRS 15 Revenue from contracts with customers</p> <p>This new accounting standard is applicable for local authority accounts from the 2018/19 financial year.</p> <p>The key requirements of the standard cover the identification of performance obligations under customer contracts and the linking of income to the meeting of those performance obligations.</p> <p>The 2018/19 Cipfa Code of practice on local authority accounting provides guidance on the application of IFRS 15 and includes a useful flow diagram and commentary on the main sources of LG revenue and how they should be recognised.</p> <p>The impact on local authority accounting is likely to be limited as large revenue streams like council tax, non domestic rates and government grants will be outside the scope of IFRS 15. However where that standard is relevant, the recognition of revenue will change and new disclosure requirements introduced.</p>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> ▶ Assess the authority's implementation arrangements that should include an impact assessment paper setting out the application of the new standard, transitional adjustments and planned accounting for 2018/19. ▶ Consider application to the authority's revenue streams, and where the standard is relevant test to ensure revenue is recognised when (or as) it satisfies a performance obligation; and ▶ Check additional disclosure requirements.



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 2018/19 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.

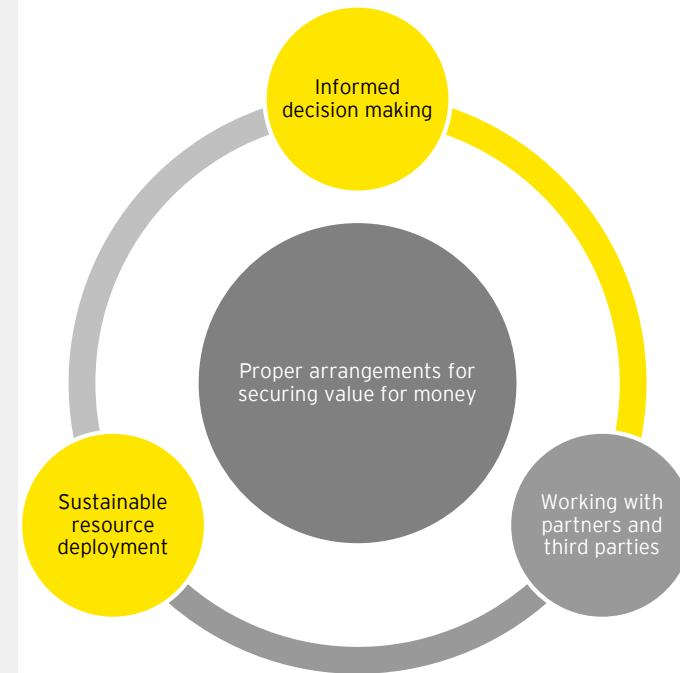
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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. We consider business and operational risks insofar as they relate to proper arrangements at both sector and organisation-specific level.

We have not yet completed our value for money planning risk assessment for 2018/19. As part of this we will consider the steps taken by the Council to consider the impact of Brexit on its future service provision, medium-term financing and investment values. Although the precise impact cannot yet be modelled, we would expect that Authorities will be carrying out scenario planning and that Brexit and its impact will feature on operational risk registers. Our risk assessment will consider both the potential financial impact of the issues we identify, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders.





04

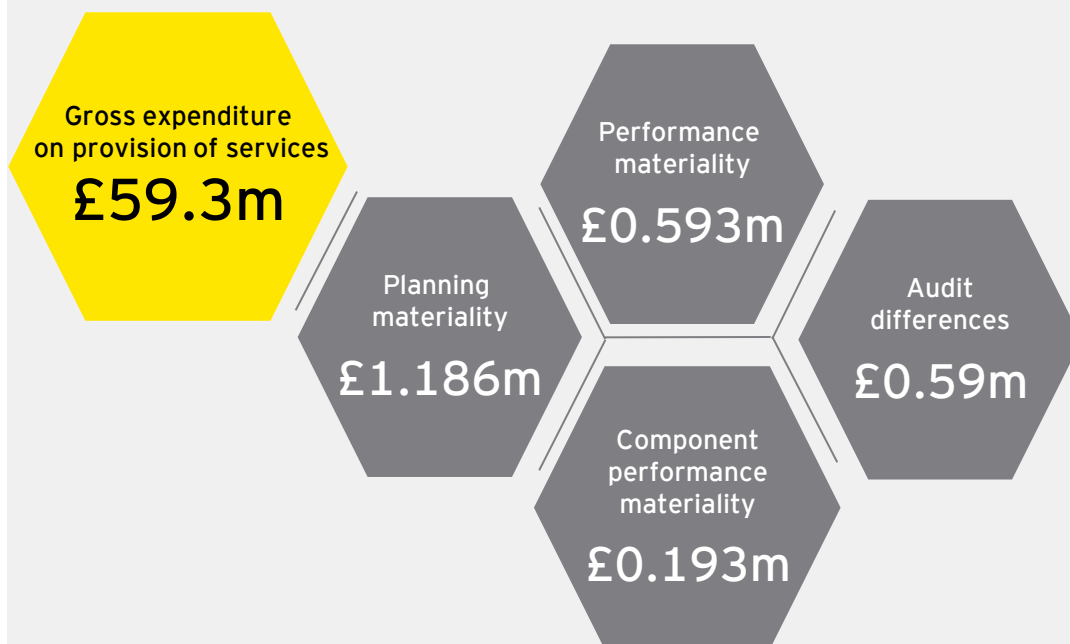
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2018/19 has been set at £1.186 million (Group: £1.284 million). This represents 2% of the Council's prior year gross expenditure on provision of services. It will be reassessed throughout the audit process. We have used this basis primarily due to the fact that the main function of the entity is to provide services to the local community. We have provided supplemental information about audit materiality in Appendix C.



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 £0.593 million (Group: £0.642 million) which represents 50% of planning materiality (2017/18: 75%). We reduced this measure due to the volume of errors identified in 2017/18 and the risk that a similar volume of errors will recur in 2018/19. Performance materiality for the group is set at £0.642 million.

Component performance materiality range - we determine component performance materiality as a percentage of Group performance materiality based on risk and relative size to the Group. We have set this at £0.193 million for Big Sky Developments and £0.128 million for Big Sky Property Management.

Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. A marginally higher threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income and expenditure statement, balance sheet and collection fund. The Group audit differences threshold has been set at £0.064 million.

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 committee, or are important from a qualitative perspective.



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.

Our intention is to carry out a fully substantive audit in 2018/19 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2018/19, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

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 Committee.

Internal audit:

As in prior years we will review internal audit plans and the results of the works. 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 they raise issues that could have an impact on the financial statements.

Scoping the group audit

Group scoping

Our audit strategy for performing an audit of an entity with multiple locations is risk based. We identify components as:

- 1. Significant components:** A component is significant when it is likely to include risks of material misstatement of the group financial statements, either because of its relative financial size to the group (quantitative criteria), or because of its specific nature or circumstances (qualitative criteria). We generally assign significant components a full or specific scope given their importance to the financial statements.
- 2. Not significant components:** The number of additional components and extent of procedures performed depended primarily on: evidence from significant components, the effectiveness of group wide controls and the results of analytical procedures.

For all other components we perform other procedures to confirm that there is no risk of material misstatement within those locations. These procedures are detailed below.

Scoping by Entity

Our preliminary audit scopes by number of locations we have adopted are set out below. We provide scope details for each component within Appendix D.

2	A	Full scope audits
1	B	Specific scope audits
0	C	Review scope audits
0	D	Specified procedures
1	E	Other procedures

Scope definitions

Full scope: locations where a full audit is performed to the materiality levels assigned by the Group audit team for purposes of the consolidated audit. Procedures performed at full scope locations support an interoffice conclusion on the reporting package. These may not be sufficient to issue a stand-alone audit opinion on the local statutory financial statements because of the materiality used and any additional procedures required to comply with local laws and regulations.

Specific scope: locations where the audit is limited to specific accounts or disclosures identified by the Group audit team based on the size and/or risk profile of those accounts.

Review scope: locations where procedures primarily consist of analytical procedures and inquiries of management. On-site or desk top reviews may be performed, according to our assessment of risk and the availability of information centrally.

Specified Procedures: locations where the component team performs procedures specified by the Group audit team in order to respond to a risk identified.

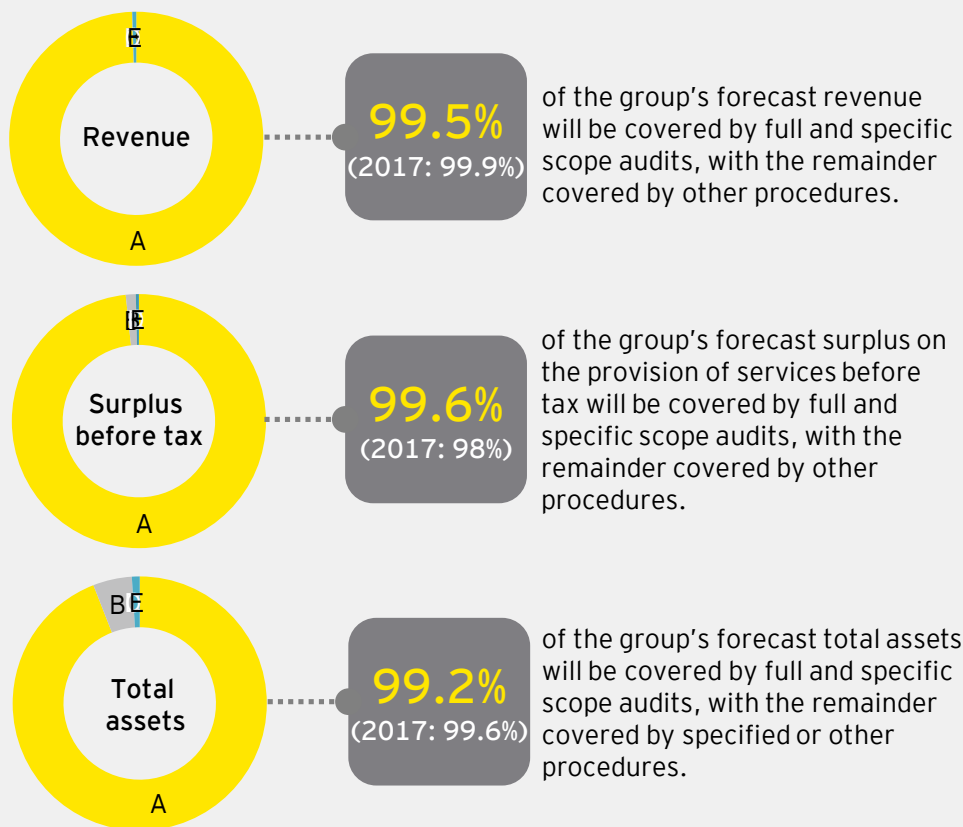
Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, and in aggregate these components do not exceed more than 1% of the Group's surplus on the provision of services before tax.

Scope of our audit

Scoping the group audit (continued)

Coverage of Revenue/Surplus before tax/Total assets

Based on the group's prior year results, our scoping is expected to achieve the following coverage of the: surplus on provision of services before tax; group's revenue, and total assets.



Our audit approach is risk based and therefore the data above on coverage is provided for your information only.

Key changes in scope from last year

Big Sky Ventures was full scope in the prior year. It has been scoped as other procedures in the current year as it is a holding company with no unusual transactions expected in the year.

Details of specified and other procedures

We will agree the consolidation entries in respect of Big Sky Ventures to supporting accounts and review for any unexpected material changes.

Appendix D

Scoping the group audit

The below table sets out the scoping details of all locations. We set audit scopes for each reporting unit which, when taken together, enable us to form an opinion on the group accounts. We take into account the size, risk profile, changes in the business environment, and other factors when assessing the level of work to be performed at each reporting unit.

Detailed scoping							
In scope locations	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Revenue	Surplus on the provision of services before tax	Total assets	Size	Risk
South Norfolk District Council	Full	Yes	91.6%	91.8%	81.8%	Yes	Yes
Big Sky Developments	Full	No	7.5%	9.1%	12.4%	No	Yes
Big Sky Property Management	Specific	No	0.4	-1.3%	5.0%	No	No
TOTAL FULL & SPECIFIC SCOPE			99.5%	99.6%	99.2%		

Changes from last year are:

- ▶ Big Sky Property Management scope has changed from specified procedures to specific scope.
- ▶ Big Sky Ventures scope has changed from specified procedures to other procedures.

In addition other procedures will be performed on the following:

- ▶ Build Insight Ventures Ltd
- ▶ Build Insight Ltd
- ▶ Build Insight Consulting Ltd



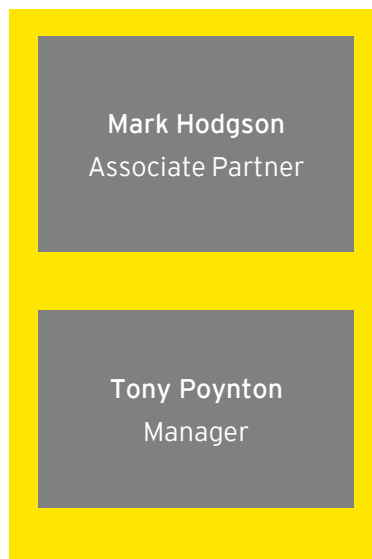
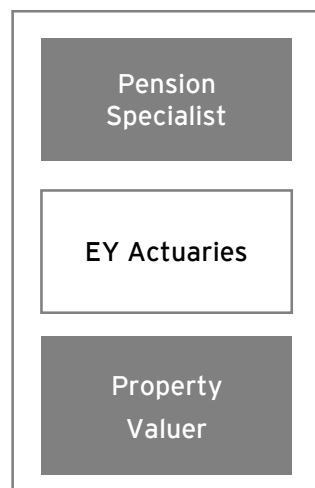
06

Audit team



Audit team

Audit team structure:



Audit team changes

Mark Hodgson, Associate Partner

- ▶ Mark takes over from Kevin Suter as the Engagement Lead. Mark has have significant public sector audit experience, with a portfolio of Local Authorities and Local Government Pension Funds and is a member of the Chartered Institute of Public Finance and Accountancy (CIPFA).
- ▶ Mark is supported by Tony Poynton, Audit Manager, 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
Valuation of Land and Buildings	South Norfolk Council's property valuers. We will also consider any valuation aspects that may require EY valuation specialists to review any material specialist assets and the underlying assumptions used.
Pensions disclosure	EY Actuaries, PwC (Consulting Actuary to PSAA) and Hymans Robertson (the Council's actuary)
Fair Value Investment Measurement	Link Asset Services (the Council's Treasury Advisor)

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





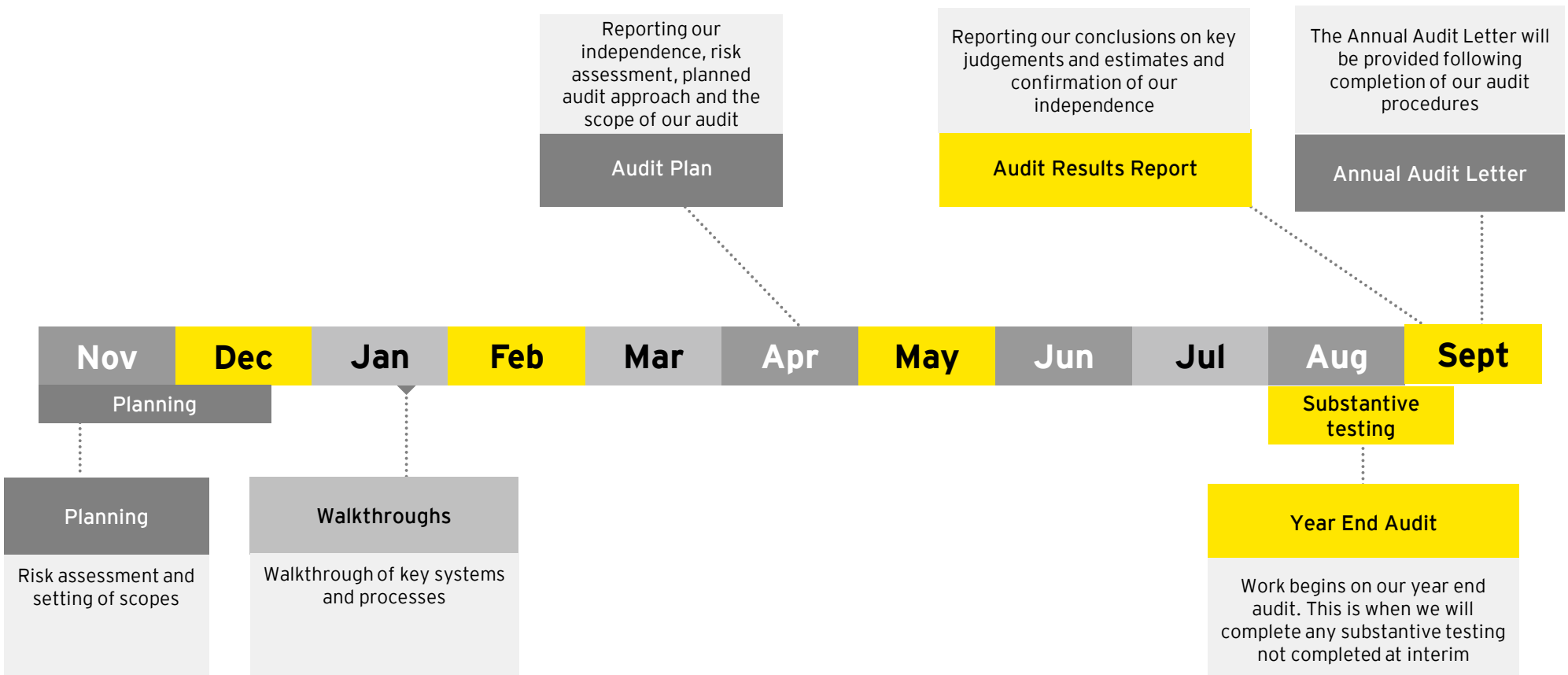
Audit timeline

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 Audit Committee and we will discuss them with the Audit 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
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the 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. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide 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. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

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 you. 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.

None of the services are prohibited under the FRC's ES or the National Audit Office's Auditor Guidance Note 01 and the services have been approved in accordance with your policy on pre-approval. The ratio of non audit fees to audits fees is not permitted to exceed 70%.

At the time of writing, the current ratio of non-audit fees to audit fees is approximately 22.1%. This is based on the planned fee for the agreed upon procedures work for the Housing Benefits certification work. No additional safeguards are required.

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.

Relationships, services and related threats and safeguards

Other threats

Other threats, such as advocacy, familiarity or intimidation, may arise.
There are no other threats at the date of this report.

Description of service	Related independence threat	Period provided/duration	Safeguards adopted and reasons considered to be effective
We have been engaged to undertake the audit of the Housing Benefits Subsidy Claim 2018/19. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £9,500 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2018/19 financial statements.	Relates to 2018/19 return for the period to 31 March 2019.	<p>We have assessed the related threats to independence and note that although certain figures in the return are included in the financial statements the agreed upon procedures are being performed after the signing of the financial statements for 2018/19.</p> <p>The agreed upon procedures focus on the specific requirements of the certification arrangements and we place limited reliance on this work for the purposes of the financial statements audit. No other threats to independence have been identified.</p>

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 2018 and can be found here:

<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>

Other communications

EY Transparency Report 2018

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.

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<https://www.ey.com/uk/en/about-us/ey-uk-transparency-report-2018>



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 2018/19	Scale fee 2018/19	Final Fee 2017/18
	£'s	£'s	£'s
Total Fee - Code work	42,974 (Note 1)	39,231	69,013 (Note 2)
Total audit fees	42,974	39,231	69,013
Other non-audit services not covered above (Housing Benefits)	9,500 (Note 3)	N/A	14,236
Total other non-audit services	9,500	N/A	14,236
Total fees	52,474	39,231	83,249

All fees exclude VAT

Note 1 - Audit Fee - 2018/19 Code work

The Council produces consolidated financial statements which in prior years have incurred a scale fee variation to reflect the additional work required for the consolidation including instructing and relying upon the component auditor and in reviewing the disclosures required to meet the group consolidation requirements of the Code of Practice and International Accounting Standards. This will incur an additional fee of £3,743. We will also be seeking a further scale fee variation because of our reduced performance materiality level (50% of Planning Materiality) in 2018/19. This is due to the scale and nature of errors found in the 2017/18 audit. As a consequence of these errors, we will need to increase our sample sizes to reduce to an appropriately low level the probability that the aggregate of uncorrected and undetected misstatements does not exceed materiality. We have not included this further scale fee variation in the table above at this stage.

Note 2 - Audit Fee - 2017/18 Code work

The 217/18 Audit Fee included a scale fee variation of £18,064 as set out in the 2017/18 Annual Audit Letter. Of this total amount £15,463 related to additional procedures for Group Reporting and £2,601 related to other additional audit procedures.

Note 3 - From 2018/19, the Council is responsible for appointing their own reporting accountant to undertake the work on their claims in accordance with the instructions determined by the relevant grant paying body. As your appointed auditor for the financial statements audit, we are pleased that for 2018/19 the Council has appointed us to act as reporting accountants in relation to the housing benefit subsidy claim. There is therefore no scale fee prescribed by PSAA as it is now no longer within their remit.

The planned fee shown, is based on the level of error within the current claim and the work required to certify that. This may change dependent on the level of error within the claim under review.

The agreed fee presented is based on the following assumptions:

- ▶ The level of risk in relation to the financial statements and VFM arrangements remains the same;
- ▶ 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




Required communications with the Audit Committee

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

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Terms of engagement	Confirmation by the FRAG 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 Plan - 21 June 2019
Significant findings from the audit	<ul style="list-style-type: none"> ▶ 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 - September 2019




Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Going concern	<p>Events or conditions identified that may cast significant doubt on the entity's ability to continue as a going concern, including:</p> <ul style="list-style-type: none"> ▶ 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 - September 2019
Misstatements	<ul style="list-style-type: none"> ▶ 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 - September 2019
Fraud	<ul style="list-style-type: none"> ▶ Enquiries of the FRAG 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 - September 2019
Related parties	<ul style="list-style-type: none"> ▶ 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 - September 2019




Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ 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 	<p>Audit Results Report - September 2019</p> <p>Audit Plan - 21 June 2019</p>
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit Results Report - September 2019
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ 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 FRAG Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit Results Report - September 2019
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Audit Results Report - September 2019

Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Group audits	<ul style="list-style-type: none"> ▶ An overview of the type of work to be performed on the financial information of the components ▶ An overview of the nature of the group audit team's planned involvement in the work to be performed by the component auditors on the financial information of significant components ▶ Instances where the group audit team's evaluation of the work of a component auditor gave rise to a concern about the quality of that auditor's work ▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted ▶ Fraud or suspected fraud involving group management, component management, employees who have significant roles in group-wide controls or others where the fraud resulted in a material misstatement of the group financial statements 	Audit Results Report - September 2019 Audit Plan - 21 June 2019
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September 2019
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - September 2019
Auditors report	<ul style="list-style-type: none"> ▶ 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 - September 2019
Fee Reporting	<ul style="list-style-type: none"> ▶ 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 Results Report - September 2019 Audit Plan - 21 June 2019
Certification work	Summary of certification work undertaken	Certification report - December 2019

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 FRAG Committee reporting appropriately addresses matters communicated by us to the 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 locations at which we conduct audit procedures to support the opinion given on the Council financial statements; and
- ▶ 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.

FRAG Work Programme

Sept tbc	Audit Results Report	External Audit	FORMAL
	Final Statement of Accounts 18/19	Debbie Lorimer/Julie Brown	FORMAL
22/11/2019	Internal Audit Activity Report	Faye Haywood	FORMAL
	Internal Audit Follow Up Report	Faye Haywood	FORMAL
	Review of the Local Government Ombudsman Report 2019	Christine Baldwin	FORMAL
	Draft Longer-term Capital Strategy	Helena Craske	FORMAL
	Training Session for members to complete their Self Assessment	Faye Haywood	INFORMAL
Mar-20	Certification of Claims & Returns Annual Report 18/19	External Audit	FORMAL
	Internal Audit Activity Report	Faye Haywood	FORMAL
	Strategic and Annual Internal Audit Plans 2020/21	Faye Haywood	FORMAL
	Annual Report of FRAG Committee	Faye Haywood	FORMAL
	External Audit Plan 19/20	External Audit	FORMAL
	Self Assessment of the FRAG Committee	Faye Haywood	FORMAL
Jun-20	Internal Audit Activity Report	Faye Haywood	FORMAL
	Internal Audit Follow Up Report	Faye Haywood	FORMAL
	Head of Internal Audit's Annual Report and Opinion for 2018/19, including Review of the Effectiveness of Internal Audit	Faye Haywood	FORMAL
	Annual Governance Statement 2019-20	Debbie Lorimer/Emma Hodds	FORMAL
	Annual Report on Counter Fraud Activity 2019/20 (if anything to report)		FORMAL
	Draft Statement of Accounts	Debbie Lorimer/Julie Brown	INFORMAL