

# 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

**This meeting may be filmed, recorded or photographed by the public; however, anyone who wishes to do so should inform the chairman and ensure it is done in a non-disruptive and public manner. Please review the Council's guidance on filming and recording meetings, available in the meeting room.**

## Agenda

### Date

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Friday 6 March 2020

### Time

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9.30 am

### Place

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

### Contact

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Website: [www.south-norfolk.gov.uk](http://www.south-norfolk.gov.uk)

**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 22 November 2019;** (attached – page 9)
5. **Certification of Claims and Returns Annual Report 18/19;** (Verbal report)
6. **External Audit Plan;** (attached – page 13)
7. **Progress Report on Internal Audit Activity;** (attached – page 58)
8. **Strategic and Annual Internal Audit Plans 2020/21;** (attached – page 76)
9. **Annual Report of the Finance, Resources, Audit and Governance Committee;** (attached - page 90)
10. **Finance, Resources, Audit and Governance Committee Self-Assessment;** (attached – page 94)
11. **Finance, Resources, Audit & Governance Committee Work Programme;** (attached – page 102)

## 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 lobbying<sup>3</sup> 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?

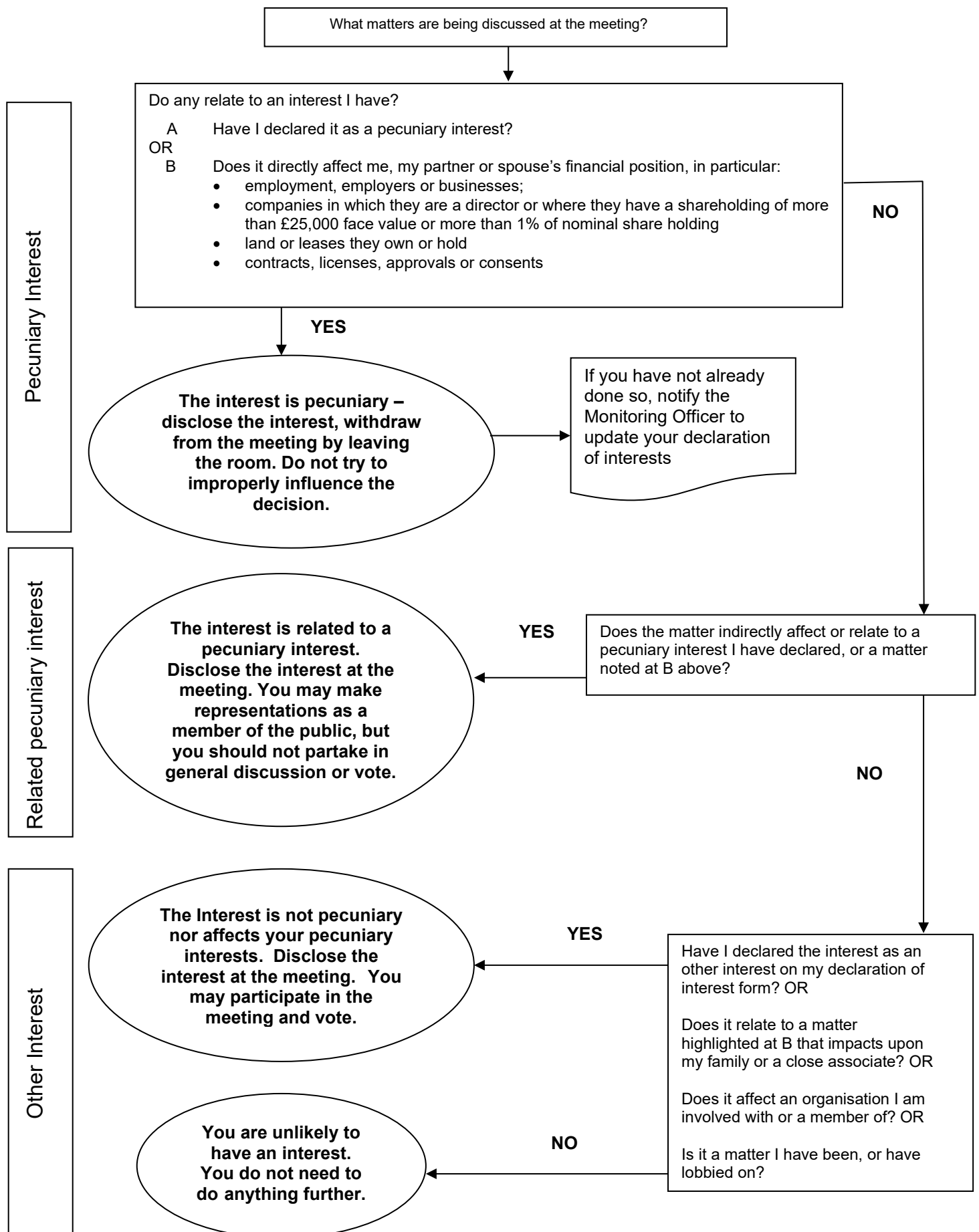
If yes, you need to inform the meeting. When it is discussed, you will have the right to make representations to the meeting as a member of the public but you should not partake in general discussion or vote.

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, 22 November 2019 at 9.30am.**

**Committee Members Present:** Councillors: P Hardy (Chairman), V Clifford-Jackson, A Dearnley, B Duffin, D Elmer, T Laidlaw, N Legg, S Ridley and R Savage

**Cabinet Member in Attendance:** Councillor: A Thomas (for items 1 – 9)

**Officers in Attendance:** The Director of Resources (D Lorimer), the Assistant Director of Governance & Business Support (E Hodds), the Group Accountant (J Brown), the Capital and Management Accountant (H Craske), the Executive Assistant (C Baldwin)

### **214 MINUTES**

The minutes of the meeting held on 27 September 2019 were confirmed as a correct record and signed by the Chairman.

Following discussion on the lateness of the audit undertaken by Ernst and Young, it was agreed to add the assurances by the auditors that resources would be in place to ensure the following year's audit would be carried out in a timely manner.

The Director of Resources informed members that Broadland District Council had discussed Contract Standing Orders and had changed some of the wording in preparation for consideration at both Full Council meetings in December 2019. The Committee was happy to proceed with the amended wording proposed by Broadland District Council.

### **215 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY**

The Internal Audit Manager presented the progress report on Internal Audit activity during the period between 1 April and 11 November 2019, highlighting the changes made to the annual plan since the Audit Plan was approved in March 2019. Members noted that 45% of the Audit Plan had been completed and that all five areas covered had been awarded a reasonable assurance.

The Officer also highlighted one important recommendation that a risk register for Big Sky Development Ltd and, in particular, Big Sky Property Management Ltd are included to reflect the extended loan agreement for better scrutiny. Members were also assured

that the loan arrangements were being reviewed to ensure a more realistic time frame for repayment.

In response to a member's question regarding what measures had been put in place following the discovery that a small number of MOT checks had not been carried out at the Depot on time, officers assured members that more robust procedures were in place and being followed.

After officers had responded to a number of queries on points of detail, 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 2019/20.

## **216 FOLLOW-UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS**

The Internal Audit Manager presented her report which detailed the progress made in relation to the Council's implementation of the agreed audit recommendations as at 11 November 2019, drawing attention to the important priority recommendations outstanding and where revised deadlines had been set.

In response to a member's question regarding delays for the completion of some recommendations due to joint policies needing to be written, officers reassured members that this was to avoid policies being written twice. Officers also confirmed that all historic and future recommendations would be referred and assigned to Assistant Directors and considered by the Corporate Management Leadership Team on a quarterly basis.

Regarding the resilience of the disaster recovery plan following the remote working breakdown earlier in the year, the Director of Resources assured members that remote access had been improved. She also explained how the service desk would be operated with one system and one set of processes to make it easier to work from both council sites.

Following discussion on points of detail, it was;

**RESOLVED:** To note the position in relation to the completion of agreed internal audit recommendations as at 11 November 2019.

## **217 ANNUAL AUDIT LETTER**

In the absence of a representative from Ernst and Young, the Group Accountant informed the Committee that no risks have been identified in the report.

Officers also confirmed that the auditor's final fee was still to be agreed. The Director of Resources informed members that she would be attending a meeting in January which had been called by Ernst and Young. Members asked for their concerns regarding the delay in auditing to be relayed at the meeting and questioned what the ramifications would be to leave the contract early. Cllr Thomas agreed to investigate any breach of the contract on Ernst and Young's part.

It was;

**RESOLVED:** To note the report.

## **218 UPDATE ON THE LONGER-TERM CAPITAL STRATEGY**

The Group Accountant presented her report, which updated members on the progress of the development of a longer-term Capital Strategy, highlighting the further development needed to be presented for approval at Cabinet and Full Council in February 2020.

In response to a member's question regarding how tenants would be monitored to fulfill their obligation to maintain the properties, officers confirmed that Big Sky hold regular client meetings and also hold deposits from tenants.

It was;

**RESOLVED:** To note the progress that has been made on developing a longer-term Capital Strategy.

## **219 RISK MATURITY ASSESSMENT RESULTS**

The Internal Audit Manager presented her report, which outlined the results from the South Norfolk Council Risk Maturity Assessment undertaken by Internal Audit, highlighting the recommended actions to improve the risk management framework at the Council.

After officers had responded to a number of queries on points of detail, the Chairman thanked officers for their hard work and it was;

**RESOLVED:** To note the results and suggested improvements from the South Norfolk Council Risk Maturity Assessment undertaken by Internal Audit.

## **220 JOINT COMMERCIALISATION STRATEGY**

The Director of Resources presented her report, which outlined the approach for commercial opportunities to achieve greater long-term financial stability that can be adapted according to South Norfolk and Broadland Councils' ambitions and risk appetite to deliver these opportunities.

Officers drew members' attention the high-level action plan that would be put into practice over the next few years.

Members were pleased to note that staff would have the opportunity to develop their commercial skills and suggested having an incentive scheme to further encourage staff, which the Director of Resources agreed to look at developing.

Responding to a member's question regarding the savings made on the waste service review, officers confirmed that trade waste does make a profit.

After officers had responded to a number of queries on points of detail, the Chairman thanked officers for their hard work and it was;

**RESOLVED:** To recommend that Cabinet recommends to Council the approval and adoption of the Joint Commercialisation Strategy

## **221 REVIEW OF THE LOCAL GOVERNMENT OMBUDSMAN 2019**

The Executive Assistant to the Managing Director and Leader presented her report, which provided a summary of the Local Government and Social Care Ombudsman report of complaints referred for the year ending 31 March 2019.

Members were pleased to note that there was no rise in the number of complaints received from the previous year.

**RESOLVED:** To note the contents of the report and provide any views or comments regarding our approach to dealing with complaints.

## **222 WORK PROGRAMME**

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

The meeting concluded at 11.20 am.

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Chairman

**South Norfolk  
District Council**

**Provisional Audit Plan**  
Year ended 31 March 2020

14 February 2020



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

14 February 2020

Dear Committee Members

**Provisional Audit Plan - 2019/20**

We are pleased to attach our Provisional 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 2019/20 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 Provisional Audit 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. Our planning procedures remain ongoing; we will inform the Finance, Resources, Audit and Governance (FRAG) Committee if there any significant changes or revisions once we have completed these procedures and will provide an update to the next meeting of the committee.

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 6 March 2020 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



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Public Sector Audit Appointments Ltd (PSAA) issued the "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (<https://www.psaa.co.uk/audit-quality/statement-of-responsibilities/>). 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 and further guidance (updated April 2018)" 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 2019/20 audit strategy





## Overview of our 2019/20 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.
Incorrect apportionment of recharged expenditure overheads between South Norfolk District Council and Broadland District Council	Fraud risk	New area of focus	<p>The new partnership with Broadland District Council has resulted in an agreement for apportioning expenditure overheads shared between the two councils.</p> <p>The allocation of these expenditure overheads provides opportunity for management to manipulate accounting records directly or indirectly and prepare fraudulent financial statements.</p>

## Overview of our 2019/20 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.

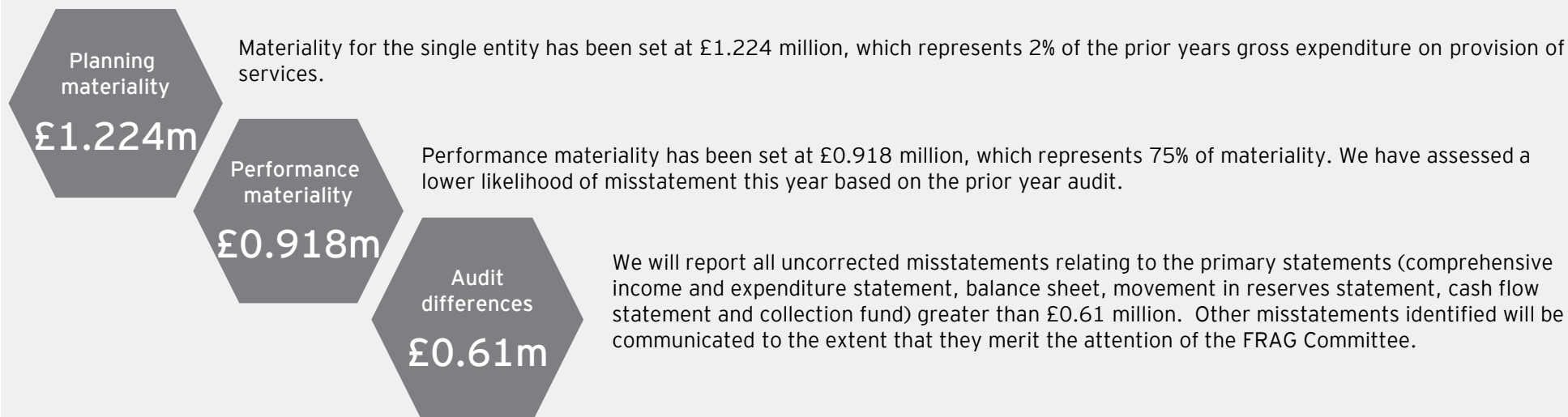
Audit risks and areas of focus			
Risk / area of focus	Risk identified	Change from PY	Details
Valuation of Land and Buildings	Inherent risk	No change in risk or focus	<p>The valuation of land and buildings represent significant balances in the Council's accounts. Management is required to make material 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>

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 auditing and accounting standards	New area of focus	<p><b>IFRS 16 Leases:</b> Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'. It is likely there will be some disclosure requirements for the 2019/20 statement of accounts.</p> <p><b>Going Concern Compliance with ISA 570:</b> This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after. The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements.</p>

## Overview of our 2019/20 audit strategy

### Materiality



# Overview of our 2019/20 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 2020 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.

Taking the above into account, and as articulated in this audit plan, our professional responsibilities require us to independently assess the risks associated with providing an audit opinion and undertake appropriate procedures in response to that. Our Terms of Appointment with PSAA allow them to vary the fee dependent on "the auditors assessment of risk and the work needed to meet their professional responsibilities". PSAA are aware that the setting of scale fees has not kept pace with the changing requirements of external audit with increased focus on, for example, the valuations of land and buildings, the auditing of groups, the valuation of pension obligations, the introduction of new accounting standards such as IFRS 9 and 15 in recent years as well as the expansion of factors impacting the value for money conclusion. Therefore to the extent any of these or any other risks are relevant in the context of South Norfolk District Council's audit, we will discuss these with management as to the impact on the scale fee.



## 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"><li>▶ Identifying fraud risks during the planning stages;</li><li>▶ Inquiry of management about risks of fraud and the controls put in place to address those risks;</li><li>▶ Understanding the oversight given by those charged with governance of management's processes over fraud;</li><li>▶ Consideration of the effectiveness of management's controls designed to address the risk of fraud;</li><li>▶ Determining an appropriate strategy to address those identified risks of fraud; and</li><li>▶ Performing mandatory procedures regardless of specifically identified fraud risks, including testing of journal entries and other adjustments in the preparation of the financial statements.</li></ul>



## Our response to significant risks (continued)

**Misstatements due to fraud or error – Incorrect capitalisation of revenue expenditure\***

### What is the risk?

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 (see above).

As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in:

- ▶ the capitalisation of revenue expenditure on property, plant and equipment as a specific area of risk given the Council's £37.6 million capital programme in 2019/20.

### What will we do?

In addition to our standard procedures we will:

- ▶ 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.



## Audit risks

### Our response to significant risks (continued)

**Misstatements due to fraud or error - Incorrect apportionment of recharged expenditure overheads between South Norfolk District Council and Broadland District Council \***

#### What is the risk?

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 (see above).

As the Council is more focused on its financial position over medium term, we have considered the risk of management override to be more prevalent in:

- ▶ the incorrect application of recharges between South Norfolk District Council and Broadland District Council thus manipulating the financial position of one or both Councils.

#### What will we do?

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

- ▶ Reviewing the appropriateness of recharges and that they are in line with the agreed cost sharing arrangement;
- ▶ Performing sample testing on recharge invoices to ensure that they are in line with the cost sharing agreement; and
- ▶ Testing the appropriateness of journal entries recorded in the general ledger and other adjustments made in the preparation of the financial statements purporting to recharges.



## 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. At 31 March 2019 the value of PPE and IP totalled £43.7 million.

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 2019/20 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.

## Other areas of audit focus (continued)

What is the risk/area of focus?	What will we do?
<p><b>Pension Liability Valuation</b></p> <p>The Local Authority Accounting Code of Practice and IAS19 require the Council to make extensive disclosures within its financial statements regarding the Local Government Pension Scheme (LGPS) in which it is an admitted body.</p> <p>The Council's current pension fund deficit is a material and sensitive item and the Code requires that this liability be disclosed on the Council's balance sheet.</p> <p>At 31 March 2019 this totalled £68.8 million. The information disclosed is based on the IAS 19 report issued to the Council by the actuary to the administering body.</p> <p>Accounting for this scheme involves significant estimation and judgement.</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>	<p>In order to address this risk we will carry out a range of procedures including:</p> <ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ 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</li> <li>▶ Review and test the accounting entries and disclosures made within the Council's financial statements in relation to IAS19.</li> </ul>



## Audit risks

### Other areas of audit focus (continued)

#### What is the risk/area of focus?

##### IFRS16 - leases

IFRS 16 Leases was issued by the IASB in 2016. Its main impact is to remove (for lessees) the traditional distinction between finance leases and operating leases. Finance leases have effectively been accounted for as acquisitions (with the asset on the balance sheet, together with a liability to pay for the asset acquired). In contrast, operating leases have been treated as “pay as you go” arrangements, with rentals expensed in the year they are paid. IFRS 16 requires all substantial leases to be accounted for using the acquisition approach, recognising the rights acquired to use an asset.

Implementation of IFRS 16 will be included in the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) for 2020/21. This Code has yet to be published, but in July 2019 CIPFA/LASAAC issued 'IFRS 16 leases and early guide for practitioners'.

This early guidance provides comprehensive coverage of the requirements of the forthcoming provisions, including:

- ▶ the identification of leases
- ▶ the recognition of right-of-use assets and liabilities and their subsequent measurement
- ▶ treatment of gains and losses
- ▶ derecognition and presentation and disclosure in the financial statements,
- ▶ the management of leases within the Prudential Framework.

The guidance also covers the transitional arrangements for moving to these new requirements, such as:

- ▶ the recognition of right-of-use assets and liabilities for leases previously accounted for as operating leases by lessees
- ▶ the mechanics of making the transition in the 2020/21 financial statements (including the application of transitional provisions and the preparation of relevant disclosure notes).

#### What will we do?

IFRS 16 - leases introduces a number of significant changes which go beyond accounting technicalities. For example, the changes have the potential to impact on procurement processes as more information becomes available on the real cost of leases.

The key accounting impact is that assets and liabilities in relation to significant lease arrangements previously accounted for as operating leases will need to be recognised on the balance sheet.

Although the new standard will not be included in the CIPFA Code of Practice until 2020/21, work will be necessary to secure information required to enable authorities to fully assess their leasing position and ensure compliance with the standard from 1 April 2020 and some narrative disclosures are likely to be required for 2019/20.

In particular, full compliance with the revised standard for 2020/21 is likely to require a detailed review of existing lease and other contract documentation prior to 1 April 2020 in order to identify:

- ▶ all leases which need to be accounted for
- ▶ the costs and lease term which apply to the lease
- ▶ the value of the asset and liability to be recognised as at 1 April 2020 where a lease has previously been accounted for as an operating lease.

We will discuss progress made in preparing for the implementation of IFRS 16 - leases with the finance team over the course of our 2019/20 audit.

## Other areas of audit focus (continued)

### What is the risk/area of focus?

#### Going Concern Compliance with ISA 570

This auditing standard has been revised in response to enforcement cases and well-publicised corporate failures where the auditor's report failed to highlight concerns about the prospects of entities which collapsed shortly after.

The revised standard is effective for audits of financial statements for periods commencing on or after 15 December 2019, which for the Council will be the audit of the 2020/21 financial statements. The revised standard increases the work we are required to perform when assessing whether the Council is a going concern. It means UK auditors will follow significantly stronger requirements than those required by current international standards; and we have therefore judged it appropriate to bring this to the attention of the Audit Committee.

The CIPFA Guidance Notes for Practitioners 2019/20 accounts states 'The concept of a going concern assumes that an authority's functions and services will continue in operational existence for the foreseeable future. The provisions in the Code in respect of going concern reporting requirements reflect the economic and statutory environment in which local authorities operate. These provisions confirm that, as authorities cannot be created or dissolved without statutory prescription, they must prepare their financial statements on a going concern basis of accounting.'

'If an authority were in financial difficulty, the prospects are thus that alternative arrangements might be made by central government either for the continuation of the services it provides or for assistance with the recovery of a deficit over more than one financial year. As a result of this, it would not therefore be appropriate for local authority financial statements to be provided on anything other than a going concern basis.'

### What will we do?

The revised standard requires:

- ▶ auditor's challenge of management's identification of events or conditions impacting going concern, more specific requirements to test management's resulting assessment of going concern, an evaluation of the supporting evidence obtained which includes consideration of the risk of management bias;
- ▶ greater work for us to challenge management's assessment of going concern, thoroughly test the adequacy of the supporting evidence we obtained and evaluate the risk of management bias. Our challenge will be made based on our knowledge of the Authority obtained through our audit, which will include additional specific risk assessment considerations which go beyond the current requirements;
- ▶ improved transparency with a new reporting requirement for public interest entities, listed and large private companies to provide a clear, positive conclusion on whether management's assessment is appropriate, and to set out the work we have done in this respect. While the Council are not one of the three entity types listed, we will ensure compliance with any updated reporting requirements;
- ▶ a stand back requirement to consider all of the evidence obtained, whether corroborative or contradictory, when we draw our conclusions on going concern; and
- ▶ necessary consideration regarding the appropriateness of financial statement disclosures around going concern.

The revised standard extends requirements to report to regulators where we have concerns about going concern.

We will discuss the detailed implications of the new standard with finance staff during 2019/20 ahead of its application for 2020/21.



03

## Value for Money Risks



## 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 2019/20 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.

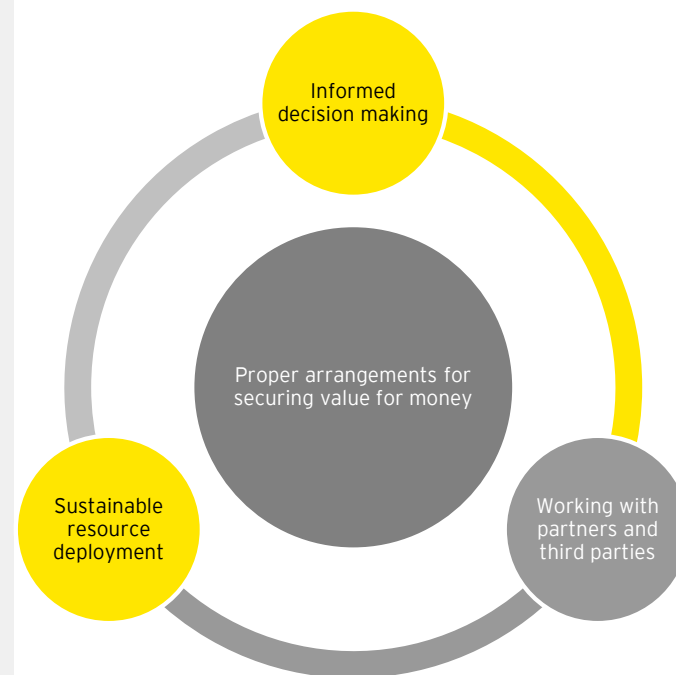
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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 2019/20. 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

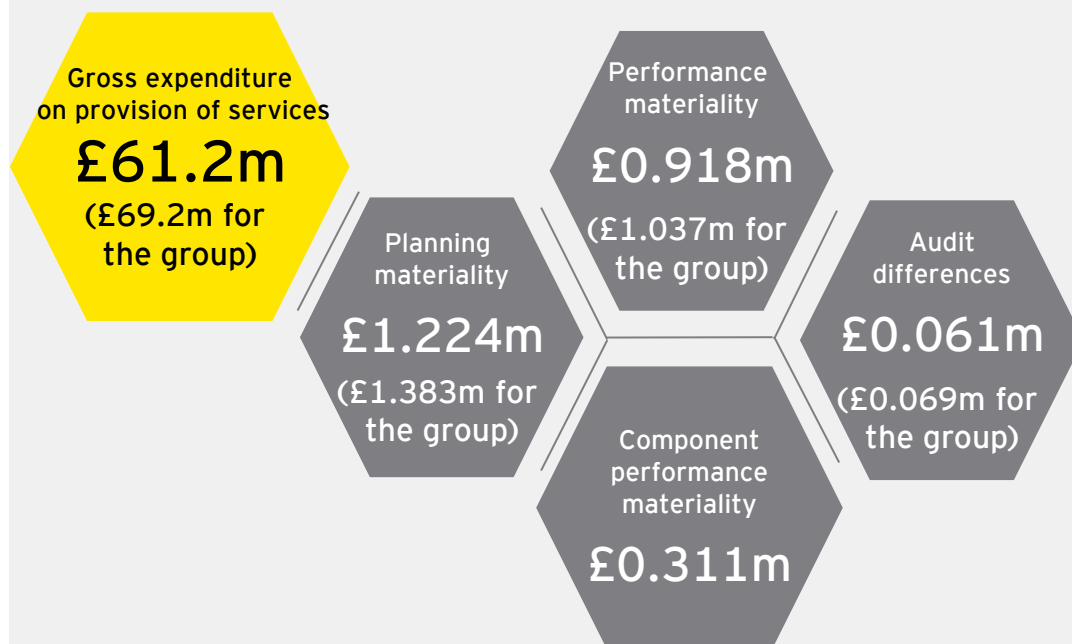
## Audit materiality



## Materiality

### Materiality

For planning purposes, materiality for 2019/20 has been set at £1.224 million (Group: £1.383 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 £0.918 million (Group: £1.037 million) which represents 75% of planning materiality (2018/19: 50%). We increased this measure due to the lower volume of errors identified in 2018/19 and the risk that a similar volume of errors will recur in 2019/20. Performance materiality for the group is set at £1.037 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 £0.311 million for Big Sky Developments and £0.207 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 £0.069 million.

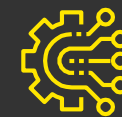
Other uncorrected misstatements, such as reclassifications and misstatements in the cashflow statement and movement in reserves statement or disclosures, and corrected misstatements will be communicated to the extent that they merit the attention of the committee, or are important from a qualitative 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 2019/20 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2019/20, 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.

# Scope of our audit

## Earlier deadline for production of the financial statements

The Accounts and Audit Regulations 2015 introduced a significant change in statutory deadlines from the 2017/18 financial year. From that year the timetable for the preparation and approval of accounts will be brought forward with draft accounts needing to be prepared by 31 May and the publication of the accounts by 31 July.

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

- ▶ The Council now has less time to prepare the financial statements and supporting working papers. Risks to the Council include slippage in delivering data for analytics work in format and to time required, late working papers, internal quality assurance arrangements, changes to finance team etc.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

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

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

Where additional work is required to complete your audit, due to additional risks being identified, additional work being required as a result of scope changes, or poor audit evidence, we will notify you of the impact on the fee and the timing of the audit. Such circumstances may result in a delay to your audit while we complete other work elsewhere.

To support the Authority we will:

- ▶ Work with the Authority and officers to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Authority's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate a closedown workshop with Statutory Finance Officers to agree an approach to enable us all to achieve a successful closure of accounts for the 2019/20 financial year.
- ▶ Work with the Authority to implement/ embed/ improve the use of EY Client Portal, this will:
  - ▶ Streamline our audit requests through a reduction of emails and improved means of communication;
  - ▶ Provide on -demand visibility into the status of audit requests and the overall audit status;
  - ▶ Reduce risk of duplicate requests; and
  - ▶ Provide better security of sensitive data.
- ▶ Agree the team and timing of each element of our work with you.
- ▶ Agree the supporting working papers that we require to complete our audit.

## 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
4	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.

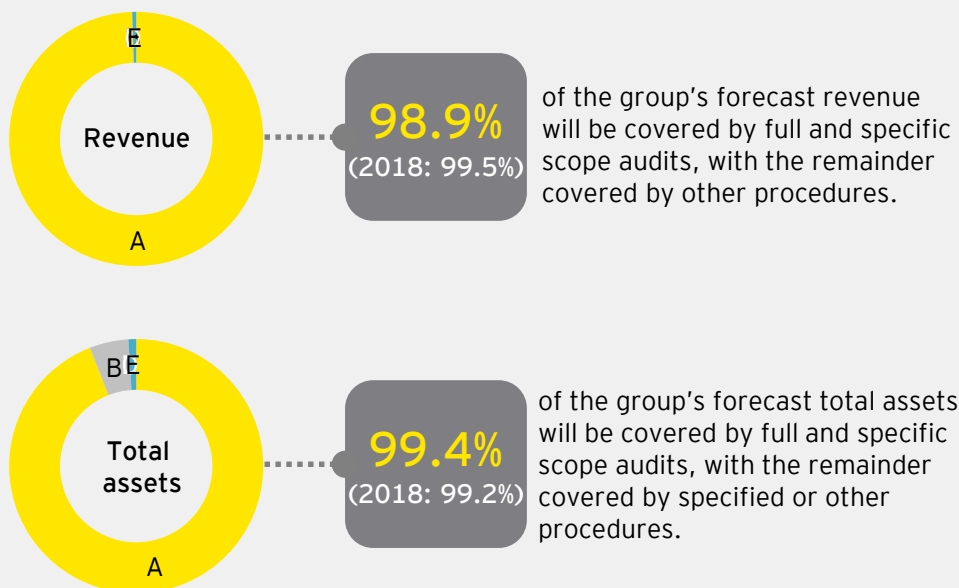


## Scope of our audit

### 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

No key changes in 2019/20. Big Sky Ventures continues to be 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	Total assets	Size	Risk
South Norfolk District Council	Full	Yes	84.7%	85.2%	Yes	Yes
Big Sky Developments	Full	No	13.4%	15.9%	Yes	Yes
Big Sky Property Management	Specific	No	0.8%	6.5%	No	No
TOTAL FULL & SPECIFIC SCOPE			98.9%	99.4%		

In addition other procedures will be performed on the following:

- ▶ Build Insight Ventures Ltd
- ▶ Build Insight Ltd
- ▶ Build Insight Consulting Ltd
- ▶ Big Sky Ventures (as per previous slide)



06

## Audit team





## Audit team

The engagement team is led by Mark Hodgson for his second year as Associate Partner on the audit. Mark has 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 Dan Cooke, Manager, who is responsible for the day-to-day direction of audit work and is the key point of contact for the finance manager. Dan was the manager for the execution and conclusion stage of the 2018/19 audit.

## 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 valuer. 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







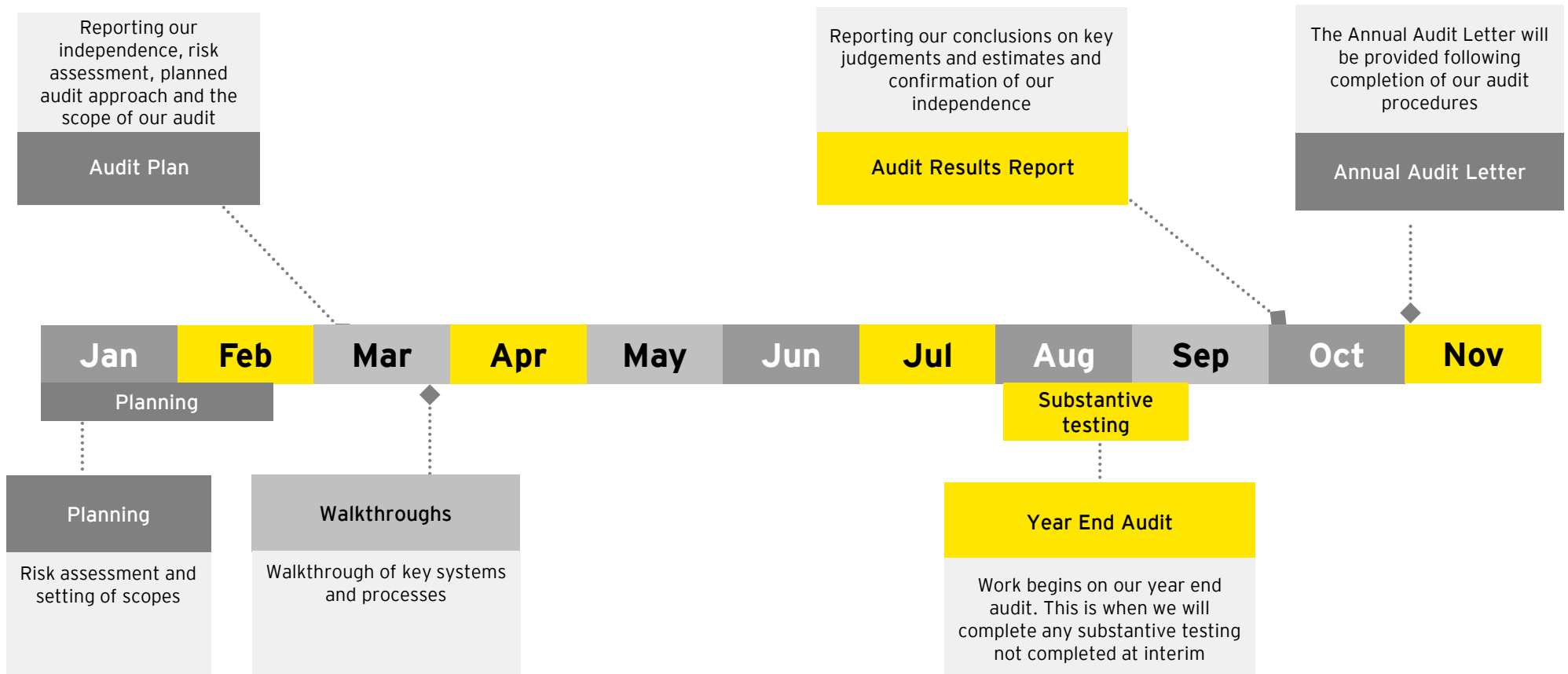
## Audit timeline

# 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 2019/20.

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"> <li>▶ The principal threats, if any, to objectivity and independence identified by Ernst &amp; Young (EY) including consideration of all relationships between the you, your affiliates and directors and us;</li> <li>▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review;</li> <li>▶ The overall assessment of threats and safeguards;</li> <li>▶ Information about the general policies and process within EY to maintain objectivity and independence.</li> <li>▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard.</li> </ul>	<ul style="list-style-type: none"> <li>▶ 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;</li> <li>▶ Details of non-audit services provided and the fees charged in relation thereto;</li> <li>▶ 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;</li> <li>▶ Written confirmation that all covered persons are independent;</li> <li>▶ 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;</li> <li>▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and</li> <li>▶ An opportunity to discuss auditor independence issues.</li> </ul>

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 2019/20. The agreed upon procedures on the certification arrangements are due to start in April. Our current fee level is £14,500 however we will update you should this amount change.	Self review threat - figures included in the return are also included in the 2019/20 financial statements.	Relates to 2019/20 return for the period to 31 March 2020.	<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 2019/20.</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>



## New UK Independence Standards

The Financial Reporting Council (FRC) published the Revised Ethical Standard 2019 in December and it will apply to accounting periods starting on or after 15 March 2020. A key change in the new Ethical Standard will be a general prohibition on the provision of non-audit services by the auditor (and its network) which will apply to UK Public Interest Entities (PIEs). A narrow list of permitted services will continue to be allowed.

### Summary of key changes

- Extraterritorial application of the FRC Ethical Standard to UK PIE and its worldwide affiliates
- A general prohibition on the provision of non-audit services by the auditor (or its network) to a UK PIE, its UK parent and worldwide subsidiaries
- A narrow list of permitted services where closely related to the audit and/or required by law or regulation
- Absolute prohibition on the following relationships applicable to UK PIE and its affiliates including material significant investees/investors:
  - Tax advocacy services
  - Remuneration advisory services
  - Internal audit services
  - Secondment/loan staff arrangements
- An absolute prohibition on contingent fees.
- Requirement to meet the higher standard for business relationships i.e. business relationships between the audit firm and the audit client will only be permitted if it is inconsequential.
- Permitted services required by law or regulation will not be subject to the 70% fee cap.
- Grandfathering will apply for otherwise prohibited non-audit services that are open at 15 March 2020 such that the engagement may continue until completed in accordance with the original engagement terms.
- A requirement for the auditor to notify the Audit Committee where the audit fee might compromise perceived independence and the appropriate safeguards.
- A requirement to report to the audit committee details of any breaches of the Ethical Standard and any actions taken by the firm to address any threats to independence. A requirement for non-network component firm whose work is used in the group audit engagement to comply with the same independence standard as the group auditor. Our current understanding is that the requirement to follow UK independence rules is limited to the component firm issuing the audit report and not to its network. This is subject to clarification with the FRC.

### Next Steps

We do not provide any non-audit services which would be prohibited under the new standard.

## Other communications

### EY Transparency Report 2019

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 end 30 June 2019:

[https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/\\$FILE/ey-uk-2019-transparency-report.pdf](https://www.ey.com/Publication/vwLUAssets/ey-uk-2019-transparency-report/$FILE/ey-uk-2019-transparency-report.pdf)



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 Housing, Communities and Local Government.

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 requirements of the Code of Audit Practice and supporting guidance published by the National Audit Office, the financial reporting requirements set out in the Code of Practice on Local Authority Accounting published by CIPFA/LASAAC, and the professional standards applicable to auditors' work.

	Scale fee 2019/20	Final Fee 2018/19
	£	£
Total Fee - Code work	39,231 (Note 3)	46,474 (Note 1)
Other non-audit services not covered above (Housing Benefits)	14,500 (Note 2)	14,500 (Note 2)
<b>Total fees</b>	<b>53,731</b>	<b>60,974</b>

**All fees exclude VAT**

(1) The 2018/19 Audit work includes an additional fee of £7,243, which relates to additional work for the consolidation of group accounts 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. We will applied a further scale fee variation because of our reduced performance materiality level (50% of Planning Materiality) in 2018/19. We have agreed the variation with officers, but are awaiting approval from PSAA.

(2) The 2018/19 work has just been completed and a final fee is based on the engagement letter issued on 26 June 2019. For 2019/20 the planned fee represents the base fee and expected number of extended testing samples based on 2018/19 testing.

For 2019/20, the scale fee will be impacted by a range of factors which will result in additional work. The issues we have identified at the planning stage which will impact on the fee include:

- The need to audit the group including liaison with the group auditor and review of their working papers.
- The work performed in relation to the new risk of incorrect apportionment of recharged expenditure overheads between South Norfolk District Council and Broadland District Council.

In addition, we are driving greater innovation in the audit through the use of technology. The significant investment costs in this global technology continue to rise as we seek to provide enhanced assurance and insight in the audit.

The agreed fee presented is based on the following assumptions:

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




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

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

## Appendix B

# 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 - 6 March 2020
Significant findings from the audit	<ul style="list-style-type: none"> <li>▶ Our view about the significant qualitative aspects of accounting practices including accounting policies, accounting estimates and financial statement disclosures</li> <li>▶ Significant difficulties, if any, encountered during the audit</li> <li>▶ Significant matters, if any, arising from the audit that were discussed with management</li> <li>▶ Written representations that we are seeking</li> <li>▶ Expected modifications to the audit report</li> <li>▶ Other matters if any, significant to the oversight of the financial reporting process</li> </ul>	Audit Results Report - September/October 2020






## 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"> <li>▶ Whether the events or conditions constitute a material uncertainty</li> <li>▶ Whether the use of the going concern assumption is appropriate in the preparation and presentation of the financial statements</li> <li>▶ The adequacy of related disclosures in the financial statements</li> </ul>	Audit Results Report - September/October 2020
Misstatements	<ul style="list-style-type: none"> <li>▶ Uncorrected misstatements and their effect on our audit opinion, unless prohibited by law or regulation</li> <li>▶ The effect of uncorrected misstatements related to prior periods</li> <li>▶ A request that any uncorrected misstatement be corrected</li> <li>▶ Corrected misstatements that are significant</li> <li>▶ Material misstatements corrected by management</li> </ul>	Audit Results Report - September/October 2020
Fraud	<ul style="list-style-type: none"> <li>▶ Enquiries of the FRAG Committee to determine whether they have knowledge of any actual, suspected or alleged fraud affecting the entity</li> <li>▶ Any fraud that we have identified or information we have obtained that indicates that a fraud may exist</li> <li>▶ A discussion of any other matters related to fraud</li> </ul>	Audit Results Report - September/October 2020
Related parties	<ul style="list-style-type: none"> <li>▶ Significant matters arising during the audit in connection with the entity's related parties including, when applicable:</li> <li>▶ Non-disclosure by management</li> <li>▶ Inappropriate authorisation and approval of transactions</li> <li>▶ Disagreement over disclosures</li> <li>▶ Non-compliance with laws and regulations</li> <li>▶ Difficulty in identifying the party that ultimately controls the entity</li> </ul>	Audit Results Report - September/October 2020

## 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"> <li>▶ The principal threats</li> <li>▶ Safeguards adopted and their effectiveness</li> <li>▶ An overall assessment of threats and safeguards</li> <li>▶ Information about the general policies and process within the firm to maintain objectivity and independence</li> </ul>	<p>Audit Results Report - September/October 2020</p> <p>Audit Plan - 6 March 2020</p>
External confirmations	<ul style="list-style-type: none"> <li>▶ Management's refusal for us to request confirmations</li> <li>▶ Inability to obtain relevant and reliable audit evidence from other procedures</li> </ul>	Audit Results Report - September/October 2020
Consideration of laws and regulations	<ul style="list-style-type: none"> <li>▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off</li> <li>▶ Enquiry of the 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</li> </ul>	Audit Results Report - September/October 2020
Internal controls	<ul style="list-style-type: none"> <li>▶ Significant deficiencies in internal controls identified during the audit</li> </ul>	Audit Results Report - September/October 2020



## 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"> <li>▶ An overview of the type of work to be performed on the financial information of the components</li> <li>▶ 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</li> <li>▶ 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</li> <li>▶ Any limitations on the group audit, for example, where the group engagement team's access to information may have been restricted</li> <li>▶ 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</li> </ul>	Audit Results Report - September/October 2020  Audit Plan - 6 March 2020
Representations	Written representations we are requesting from management and/or those charged with governance	Audit Results Report - September/October 2020
Material inconsistencies and misstatements	Material inconsistencies or misstatements of fact identified in other information which management has refused to revise	Audit Results Report - September/October 2020
Auditors report	<ul style="list-style-type: none"> <li>▶ Key audit matters that we will include in our auditor's report</li> <li>▶ Any circumstances identified that affect the form and content of our auditor's report</li> </ul>	Audit Results Report - September/October 2020
Fee Reporting	<ul style="list-style-type: none"> <li>▶ Breakdown of fee information when the audit plan is agreed</li> <li>▶ Breakdown of fee information at the completion of the audit</li> <li>▶ Any non-audit work</li> </ul>	Audit Results Report - September/October 2020  Audit Plan - 6 March 2020
Certification work	Summary of certification work undertaken	Certification report - December 2020

## 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.

## Eastern Internal Audit Services



South Norfolk Council

Progress Report on Internal Audit Activity

Period Covered: 11 November 2019 to 26 February 2020

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 8 March 2019, 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 March 2019, there has been one significant changes to the plan as detailed below:

Audit description	Nature of the change
Network Infrastructure & Security	At the request of management it was considered that a better use of internal audit resources would be to carry out a position statement review into the management of the data centre at both Councils; identifying areas for improvement in relation to IT equipment/resource management at each office. The 10 day review was reduced by 2.5 days.

## 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 140.5 days of programmed work has been completed, equating to 88% 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 has issued three final reports:

Audit	Assurance	P1	P2	P3
Disaster Recovery	Limited	1	2	2
Corporate Governance	Reasonable	0	2	2
Accountancy Services	Reasonable	0	2	5

The Executive Summary of these reports are attached at **Appendix 2**, 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 16 recommendations have been raised and agreed by management.

In addition, 5 Operational Effectiveness Matters has 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 Disaster Recovery where a total of one urgent, two important and two needs attention recommendations were raised. Details of recommendations can be found at Appendix 3 of this report.

- 4.7 In addition a position statement was issued in the area of data centre management. A number of suggested recommendations have been agreed by management and can be summarised as follows:

- Improvements to environmental controls have been suggested at various sites including: regularly changing key code locks for entry; locating any future data centres within internal rooms that are not adjacent to external walls and have no windows; ensuring visitor logs are completed; any external contractors visiting data centres should be accompanied by IT, securing server cabinets with side panels, ensuring data centres are not used for storage, ensuring data centre locations are not advertised, including water detection provision and installing fire suppressants.

In addition suggested actions were raised relating to building future IT capacity requirements into business strategy documents, that any decommissioned space is redeployed and ensuring asset support lifecycles are monitored.

## **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.
- 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 first, second and third 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 2019/20 Internal Audit Plan is being 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 plan for 2019/20.

## APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Notes	Date to Committee
							Urgent	Important	Needs Attention	Op		
<b>Quarter 1</b>												
Big Sky	SNC2001	10	10	10	Final report issued 19 July 2019	Reasonable	0	1	6	0		November 19
<b>TOTAL</b>		<b>10</b>	<b>10</b>	<b>10</b>								
<b>Quarter 2</b>												
Leisure	SNC2002	10	10	10	Final report issued 31 October 2019	Reasonable	0	2	0	1		November 19
Waste Management	SNC2003	10	10	10	Final report issued 27 August 2019	Reasonable	0	5	1	0		November 19
Housing Standards and DFGs	SNC2004	10	10	10	Final report issued 12 September 2019	Reasonable	0	3	2	1		November 19
Homelessness and Housing Options	SNC2005	12	12	12	Final report issued 7 October 2019	Reasonable	0	3	0	0		November 19
<b>TOTAL</b>		<b>42</b>	<b>42</b>	<b>42</b>								
<b>Quarter 3</b>												
Corporate Governance	SNC2006	6	6	6	Final report issued 7 January 2020	Reasonable	0	2	2	3	Joint	March 2020
Accountancy Services	SNC2007	15	15	15	Final report issued 14 February 2020	Reasonable	0	2	5	1		March 2020
Accounts Receivable	SNC2008	10	10	9	Draft report issued 16 December 2020							
Income	SNC2009	8	8	7	Draft report issued 16 December 2020							
<b>TOTAL</b>		<b>39</b>	<b>39</b>	<b>37</b>								
<b>Quarter 4</b>												
Key Controls and Assurance	SNC2010	15	15	8	Audit Underway							
Risk Management	SNC2011	5	5	5	Risk Maturity Assessment reported November 2019						Joint	November 2019
Planning and Development	SNC2012	20	20	15	Audit Underway						Joint	
<b>TOTAL</b>		<b>40</b>	<b>40</b>	<b>28</b>								
<b>IT Audits</b>												
Disaster Recovery	SNC2013	10	10	10	Final report issued 19 November 2019	Limited	1	2	2	1	Joint	March 2020
Data Centre Management	SNC2014	10	7.5	7.5	Final position statement issued 21 February 2020						Joint	March 2020
<b>TOTAL</b>		<b>20</b>	<b>17.5</b>	<b>17.5</b>								
<b>Follow Up</b>												
Follow Up	NA	12	12	6								
<b>TOTAL</b>		<b>12</b>	<b>12</b>	<b>6</b>								
<b>TOTAL</b>		<b>163</b>	<b>160.5</b>	<b>140.5</b>			1	20	18	7		
<b>Percentage of plan completed</b>				<b>88%</b>								

## APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

### Assurance Review of Disaster Recovery Arrangements

#### Executive Summary

##### OVERALL ASSURANCE ASSESSMENT



##### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Adequacy of DR Provision	0	1	0	1
DR Testing	0	0	0	0
Backup & Recovery Capabilities	1	0	0	0
DR Development for New Systems	0	0	1	0
Continuous Improvement	0	0	1	0
Physical Access Controls	0	1	0	0
Total	1	2	2	1

##### SCOPE

This area was last reviewed in 2017/18 and was given reasonable assurance. This area is viewed as a high risk due to infrastructure capabilities. There is a long- term aspiration to increase the DR resilience at both Broadland and South Norfolk by sharing these services. This review will therefore be joint and focus on the similarities of the DR offering at both Councils, provide assurance that DR plans are closely linked with Business Continuity Arrangements and are regularly tested to check their adequacy.

## RATIONALE

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- The systems and processes of internal control are, overall, deemed 'Limited Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of one 'Urgent', two 'Important' and two 'Needs Attention' recommendations being raised upon the conclusion of our work. One operational effectiveness matters action has been raised for management consideration.

## POSITIVE FINDINGS

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

- The Council has implemented 'softphone' telephony which does not require traditional telephone cables and can be used at any location with an available internet connection.
- The Computer Room located inside South Norfolk House is located in the centre of the office space next to the IT department. It has windows throughout and is visible from all sides, with access controlled by key card. Cob Lodge is located in close proximity to South Norfolk House and is secured by both a key code manual lock and electronic key card. The Wymondham Leisure Centre is similarly secured by key card and manual lock and located in an internal room in the corner of the main hall. Key card access is restricted to certain staff only.
- The audit noted adequate environmental controls in place at all three data centre facilities.
- An inspection of the environmental controls in place at all three data centre sites noted adequate controls in place.

## ISSUES TO BE ADDRESSED

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The audit has highlighted the following area where one 'Urgent' recommendation has been made.

### Backup & Recovery Capabilities

The Council's current Disaster Recovery capabilities to be communicated to the business to establish whether they support the needs/expectations of key business units. We note that documentation outlining business requirements for DR cannot be supported by current infrastructure.



The audit has also highlighted the following areas where two 'Important' recommendations have been made.

#### **Adequacy of DR Provision**

- There is a need to review the internal IT/Digital DR plan to reduce the risk of it not being aligned to current staffing resource and operational needs.

#### **Physical Access Controls**

- There is a need to ensure that the available camera surveillance technology available at all three data centres is activated and monitored on a regular basis to reduce the risk of unauthorised access into the data centres. We note that the faulty equipment at the Wymondham Leisure Centre was reported by the system and has since been repaired.

The audit has also highlighted the following areas where two 'Needs Attention' recommendations have been made.

#### **DR Development for New Systems**

- There is a need to incorporate appropriate consideration of DR support requirements within the Council's project management framework.

#### **Continuous Improvement**

- There is a need to ensure that all offsite copies of the IT DR plans are replaced once the recommended review of them is completed. This will reduce the risk of the recovery of key Council systems being hindered by inaccurate data in outdated copies.

#### **Operational Effectiveness Matters**

One operational effectiveness matters action was raised for management consideration, in relation to making a copy of disaster recovery documentation and adding it to a 'go bag' stored at the Wymondham Leisure Facility. This will assist in the timely recover of systems in the event of an incident.

#### **Other points to note:**

Testing for this audit was undertaken at both South Norfolk Council and Broadland as a joint review. The review established that there is an assumption that as part of the collaboration work, that Broadland and South Norfolk will explore options for disaster recovery integration. Once complete, it is suggested that in the event the South Norfolk office was unreachable due to an incident, data and systems could be accessed at Broadland and vice versa. Management at both Councils have confirmed that once an acceptable solution has been established and implemented, business continuity and disaster recovery plans will be updated to reflect the new arrangements.

During our review we established that a storage facility at the end of the overflow car park was not locked or alarmed at the time of visiting. Whilst we are satisfied that appropriate measures are in place to protect the backup tapes that are stored in a locked and fire proof safe, we have raised this finding with the Elections Team who

use this facility to store election signage and documentation marked for future destruction. We have been assured that this was an isolated incident and Caretakers using this facility for lawnmower storage have since been reminded to keep this facility locked and alarmed at all times.

Two historic recommendations in relation to disaster recovery testing have not yet been implemented. These are as follows:

- 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. The original deadline for this recommendation was 28/02/2018. During this review we established that a template has been included in the IT/Digital DR plan detailing tests that should be regularly undertaken, however testing has not been completed. As this recommendation remains outstanding at the time of writing, we will continue to track progress and have not raised a subsequent recommendation in this report.
- 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. This recommendation remains outstanding at the time of writing, we will continue to track progress and have not raised a subsequent recommendation in this report.

# Assurance Review of Corporate Governance

## Executive Summary

### OVERALL ASSURANCE ASSESSMENT



### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Executive and non-executive decision making in accordance with the Council's Constitution	0	0	0	0
Systems and processes in place for the preparation of reports	0	1	1	0
Member training and induction	0	0	0	1
Follow-up of previous Corporate Governance and GDPR recommendations	0	1	1	2
<b>Total</b>	<b>0</b>	<b>2</b>	<b>2</b>	<b>3</b>

### SCOPE

The objective of the audit was to review the adequacy, effectiveness and efficiency of the systems and controls within the Governance framework, with particular regard to decision-making, at both Broadland District Council and South Norfolk Council.

## RATIONALE

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- The systems and processes of internal control are, overall, deemed 'Reasonable' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' and two 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised three '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.

## POSITIVE FINDINGS

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

### Executive and non-executive decision making in accordance with the Council's constitution

- The Council's decision making processes for officers and Members are clearly documented in the Constitution facilitating clear governance in terms of executive and non-executive decision making. (BDC and SNC).
- The Scheme of Delegation is contained within the Constitution. This sets out delegations to key officers (Chief Executive and Directors) and the exceptions to this. This ensures officers are aware of their respective levels of responsibility. (BDC and SNC).

### Systems and processes in place for the preparation of reports requiring executive and non-executive decisions

- Testing established that decisions had been reported to the correct committee and that matters were undertaken in accordance with the respective committee's terms of reference, thus ensuring compliance with the Constitution. (BDC and SNC).
- Systems and control processes are in place for the preparation of reports requiring executive and non-executive decisions, as required in the Constitution. Additionally, the Monitoring Officer attends all Cabinet and Full Council meetings which helps to assist decisions being made in accordance with the Constitution (BDC and SNC).
- Executive decisions delegated to officers are published on the Council's website, enabling compliance with the Openness of Local Government Bodies Regulations 2014 (BDC and SNC).

### Member training and induction

- An overall record is maintained of Members' attendance at training sessions in the form of a spreadsheet. This provides a snapshot view of attendance for all Members, assisting in identifying attendance trends and competencies achieved by individual Members in order to discharge their duties effectively. (BDC).

## ISSUES TO BE ADDRESSED

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

### Systems and processes in place for the preparation of reports requiring executive and non-executive decisions

- Executive decisions delegated to officers, and officer decisions which are made in consultation with the portfolio holder, are recorded and published on the Council's website. This mitigates the risk of non-compliance with the Openness of Local Government Bodies Regulations 2014. (BDC)

### Follow-up of previous Corporate Governance and General Data Protection Regulations (GDPR) recommendations

- The South Norfolk Record of Processing Activities (RPAs) be reviewed by all service areas and review date and reviewer name completed. Finalisation of RPA data should include a review and update of both RPAs to bring them in line with each other so that data is presented and recorded consistently between both Councils. (BDC and SNC)  
This reduces the risk of the Councils being subject to legal challenge under GDPR should information be processed without a clear legal basis or kept longer than necessary. (BDC and SNC)

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

### Systems and processes in place for the preparation of reports requiring executive and non-executive decisions

- The report request process for new reports, is updated to include assigning unique reference numbers to each report request and the report schedule to contain the date the report request went to Corporate Management Leadership Team (CMLT). This helps in mitigating the risk that reports cannot be easily identified and the approval process cannot be accessed and traced clearly back to origin. (BDC and SNC)

### Follow-up of previous Corporate Governance and GDPR recommendations

- Arrangements to be put in place to adhere to the Openness of Local Government Bodies (OLGB) Regulations, including updating the BDC and SNC intranets and issuing regular reminders to relevant officers/CMLT. This mitigates the risk that council officers are not fully aware of the OLGB regulations leading to insufficient transparency of decisions.



### Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the following:

#### **Member training and induction**

- South Norfolk to consider adopting the Broadland approach to maintaining an overall record of Members' attendance. i.e. a spreadsheet encapsulating training undertaken by all Members which provides a snapshot view of training undertaken (SNC)

#### **Follow-up of previous Corporate Governance and GDPR recommendations**

- A self-assessment checklist is devised for all committees to undertake, taking into account the CIPFA checklist self-assessment for audit committees, particularly the section on membership, induction and training. To consider Members of committees undertaking assessments of committees they are not members of, i.e. peer reviews are undertaken. To feedback self-assessment outcomes to the Member Development Panel. (BDC and SNC)
- To undertake a self-assessment against the Member Charter Mark criteria to identify any areas of potential improvement. (BDC and SNC)

### Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which only one remained outstanding, as confirmed during audit cyclical follow up checks. However, management were unable to provide evidence in respect of one recommendation from the BRD/19/03 GDPR review which relates to the Broadland District Council Data Retention Policy being finalised and placed on the Council's website (this being a 'needs attention' priority 3 recommendation). The one outstanding recommendation relates to the fields for legal basis for the processing of all assets, retention periods and DPIAs on the Broadland District Council (BDC) Record of Processing Activity (RPA) being completed. It was agreed that the Data Retention Policy does not require publishing on the website, as the privacy statements on the website are sufficient and a revised date of 31/12/2020 has been assigned to the outstanding recommendation regarding the completion of the BDC RPA.

The review of the BRD/17/11 Position Statement on Corporate Governance ascertained that two suggested actions/improvements have not been completed. These relate to devising a self-assessment checklist for all committees to undertake, taking into account the CIPFA checklist self-assessment for audit committees; and undertaking a self-assessment against the Member Charter Mark criteria to identify any areas of potential improvement. Therefore, two operational effectiveness matters have been raised in relation to these.

The review of the SNC/19/03 GDPR audit and SNC/18/03 Corporate Governance audit recommendations, ascertained that management could not provide evidence of one recommendation from the SNC/18/03 audit which relates to arrangements being put in place to adhere to the Openness of Local Government Bodies (OLGB) Regulations. Therefore a similar recommendation has been raised.

#### **Other points noted**

One audit test was to review that the outcomes of decisions delegated to the Chief Executive (and other officers if applicable) are fed back to the appropriate committee. However, the Monitoring Officer confirmed that this is not the prescribed process and feedback would only occur if problems/ issues in not being able to complete the associated task arise. Due to this, no recommendation has been raised within this report.

# Assurance Review of Accountancy Services

## Executive Summary

### OVERALL ASSURANCE ASSESSMENT



### ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Policies and Procedures	0	0	1*	0
Treasury Management	0	0	1*	0
Budgetary Control	0	1	0	1
Journal Entries - General Ledger Maintenance	0	1	0	0
Control Accounts	0	0	1*	0
Asset Register / Capital Expenditure	0	0	2	0
<b>Total</b>	<b>0</b>	<b>2</b>	<b>5*</b>	<b>1</b>

\*One recommendation applies to three scope areas.

### SCOPE

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

The area of bank reconciliations will be covered within the SNC/20/09 Income audit and hence will not be covered within this review.

## RATIONALE

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- 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 five 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised one 'operational effectiveness matter', 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 report on Accountancy Services was issued in December 2017 (SNC/18/08), with a 'Reasonable' assurance having raised four 'Important' and two 'Needs attention' recommendations. This indicates a mainly unchanged direction of travel since the previous audit in this area.

## POSITIVE FINDINGS

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

### Treasury Management

- The Council has in place a detailed Treasury Management Strategy Statement and Investment Strategy 2017 to 2020 which includes a list of approved counterparties and countries in which the Council can invest funds. This helps direct investment activities undertaken by the Council.
- Investment decisions are appraised, with the advice of external financial advisors sought and considered prior to placing funds with selected approved counterparties. This helps ensure that all investments have undergone due diligence and have been authorised prior to investment.
- Regular treasury management and performance information is produced and reported to senior management and Members. This helps ensure that all key groups and individuals to the process are kept up-to-date with Council treasury activities.

### Budgetary Control

- Budgetary responsibility is clearly assigned to budget holders and clear financial reporting lines exist from heads of service up to Members as per the Council's Constitution. This helps ensure that all key groups and individuals to the process are aware of their roles and responsibilities in relation to budgetary control at the Council.

- Quarterly reports on performance against budget are prepared and presented to the Cabinet which helps ensure that all key groups and individuals to the process are kept up-to-date with Council budgetary activities and performance.

#### **Journal Entries, General Ledger Maintenance**

- The general ledger suspense account is reviewed on a monthly basis, and any long outstanding items cleared. This helps ensure that payment exceptions are allocated to the correct account in a timely manner.

#### **Control Accounts**

- The Payroll control accounts/payroll system is reconciled to the general ledger, with reconciling items identified, investigated and promptly resolved in a timely manner. This provides effective control against any anomalies in the general ledger and payroll system and reduces the risk of the misappropriation of funds.

## **ISSUES TO BE ADDRESSED**

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The audit has also highlighted the following areas where two 'important' recommendations have been made.

#### **Budgetary Control**

- Budget virements checks be undertaken by a nominated member of staff in the accountancy team to ensure that a proforma has been produced evidencing appropriate authorisation, thereby reducing the risk of virements being processed incorrectly and funds being incorrectly spent which may result in inaccurate financial accounts.

#### **Journal Entries - General Ledger Maintenance**

- Regular journal checks be undertaken to ensure these are sequentially numbered, recorded with a narrative, retained with supporting documentation and appropriately authorised. Where missing information is identified, this is to be investigated and accounted for/resolved, thereby reducing the risk of journals being processed incorrectly which may result in inaccurate financial accounts.

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

#### **Policies and Procedures**

- A review and update of the Treasury Management, Journals and Virements, Suspense Account and Control Account reconciliation procedures be undertaken to reduce the risk that inconsistent and out of date practices are adopted.

## **Treasury Management**

- Investment reconciliations be reviewed by a member of staff that is not able to authorise transfers from Investment accounts, so as to minimise the risk of misappropriation of funds without detection.

## **Control Accounts**

- The purchase ledger control account reconciliation spreadsheet be amended so that the authorising officer signature and corresponding date is retained for each monthly reconciliation. This helps reduce the risk of misappropriation of funds and inaccurate figures being portrayed in the Council's financial accounts.

## **Asset Register**

- Access to the fixed asset register spreadsheet is restricted to key members of the finance team, through password protection. This reduces the risk of this record being changed in error resulting in inaccuracies.
- The fixed asset register be updated for the 2019/20 financial year up to and including period 9, i.e. December 2019 and to be kept up to date thereafter so as to reduce the risk of inaccurate records and increased resources required to finalise the asset register and 2019/20 statement of accounts.

## **Operational Effectiveness Matters**

The operational effectiveness matter, for management to consider relates to the following:

- Discussions to take place with the S151 Officer on what level of variances are reported on internally, as part of the monthly budget monitoring process.

## **Previous audit recommendations**

The audit reviewed the previous internal audit recommendations, of which none remain outstanding. However, two recommendations have since lapsed from the SNC/18/08 review which relate to budget virement checks being undertaken and regular journal checks being undertaken. Therefore, similar recommendations have been raised within this report.

Furthermore, one recommendation from the SNC/19/07 Key Controls review, which had not been formally agreed due to resource issues, has now been agreed within this report as a result of resources being improved with the revised merged structure with Broadland DC coming into effect from January 2020. This recommendation relates to investment reconciliations being reviewed by a member of staff that is not able to authorise transfers from Investment accounts.

## **Other points to note**

Currently the Council's fixed asset register is maintained on spreadsheet and through the Fixed Asset Module (FAM) of the Integra finance system. Both records are updated simultaneously and reflect the same information. The spreadsheet is used because although FAM has some efficiency benefits, valuation calculations are incorrect. Whilst the system provider is aware of this issue and it will be fixed at some point, it is not seen as a priority. Furthermore, whilst the finance teams of South



Norfolk and Broadland District Councils are merging, different financial systems are used and it is currently unclear which system will be adopted by both Councils. Therefore, efforts in rectifying the FAM issues, may prove unbeneficial if a different system is adopted. As a consequence of this, a recommendation will not be raised within this report.

One recommendation in the previous Accountancy Services Audit (SNC/18/08) regarding the annual reconciliation between the Fixed Asset Register Spreadsheet, the Fixed Asset Module and the ledger be supported by a documented independent review which is signed and dated by the reviewer, has not been formerly completed. This is based on the fact that all of the work that feeds into the statement of accounts is reviewed as part of year-end processes, by external audit, and consequently it is considered that a specific review of this recommendation is not necessary.

Furthermore, a budget monitoring timetable is no longer maintained, however, the audit confirmed that budget monitoring meetings are taking place, monitoring reports are being sent, and budget holders have access to view their budgets electronically, at any time. With regards to budgetary control, it was ascertained that whilst the Directors signed off the 2018/19 budget, before submission to the Cabinet and Council for approval, this sign off had not been formally recorded. It was also ascertained that whilst all budget holders were notified that the 2018/19 budget was ready to be accessed on the financial system, there is no documented record of this. Due to the minimal risks involved with these two issues, formal recommendations have not been raised. Lastly, whilst it was established that discussions/outcomes of budget holder meetings with management accountants were not always recorded, there was evidence of incidences of email discussions taking place which documented the budget review. Therefore, a recommendation has not been raised within this audit.

The above points raised here, will be reconsidered during the next audit once the council's reorganization has been completed and work has further progressed on aligning the Finance Team processes across the two councils.

**Eastern Internal Audit Services**



**SOUTH NORFOLK COUNCIL**

**Strategic and Annual Internal Audit Plans 2020/21**

**Responsible Officer: Head of Internal Audit and Internal Audit Manager**

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## 1. INTRODUCTION

- 1.1 The Accounts and Audit Regulations 2015 require that “a relevant authority must undertake an effective internal audit to evaluate the effectiveness of its risk management, control and governance processes, taking into account public sector internal auditing standards or guidance”.
- 1.2 The Public Sector Internal Audit Standards (PSIAS) mandate a periodic preparation of a risk-based plan, which must incorporate or be linked to a strategic high level statement on how the internal audit service will be delivered and developed in accordance with the charter and how it links to the organisational objectives and priorities, this is set out in the Internal Audit Strategy.
- 1.3 Risk is defined as 'the possibility of an event occurring that will have an impact on the achievement of objectives'. Risk can be a positive and negative aspect, so as well as managing things that could have an adverse impact (downside risk) it is also important to look at potential benefits (upside risk).
- 1.4 The development of a risk-based plan takes into account the organisation's risk management framework. The process identifies the assurance (and consulting) assignments for a specific period, by identifying and prioritising all those areas on which objective assurance is required. This is then also applied when carrying out individual risk-based assignments to provide assurance on part of the risk management framework, including the mitigation of individual or groups of risks.
- 1.5 The following factors are also taken into account when developing the internal audit plan:
  - Any declarations of interest so as to avoid conflicts of interest;
  - The requirements of the use of specialists e.g. IT auditors;
  - Striking the right balance over the range of reviews needing to be delivered, for example systems and risk-based reviews, specific key controls testing, value for money and added value reviews;
  - The relative risk maturity of the Council;
  - Allowing contingency time to undertake ad-hoc reviews or fraud investigations as necessary;
  - The time required to carry out the audit planning process effectively as well as regular reporting to and attendance at Finance, Resources, Audit and Governance Committee, the development of the annual report and opinion and the Quality Assurance and Improvement Programme.
- 1.6 In accordance with best practice the Finance, Resources, Audit and Governance Committee should *‘review and assess the annual internal audit work plan’*.

## 2. INTERNAL AUDIT CHARTER

- 2.1 There is an obligation under the PSIAS for the Charter to be periodically reviewed and presented. This Charter is therefore reviewed annually by the Head of Internal Audit to confirm its ongoing validity and completeness, and presented to the Section 151 Officer, Senior Management and the Audit and Risk Committee every two years, or as required for review. The Charter was approved in 2019 and will next be reviewed and approved by the Committee March 2021. No changes have been required for the year ahead.

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

### 3. INTERNAL AUDIT STRATEGY

- 3.1 The purpose of the Internal Audit Strategy **Appendix 1** is to confirm:
- How internal audit services will be delivered;
  - How internal audit services will be developed in accordance with the internal audit charter;
  - How internal audit services links to organisational objectives and priorities; and
  - How the internal audit resource requirements have been assessed.

### 4. STRATEGIC INTERNAL AUDIT PLAN

- 4.1 The overarching objective of the Strategic Internal Audit Plan **Appendix 2** is to provide a comprehensive programme of review work over the next three years, with each year providing sufficient audit coverage to give annual opinions, which can be used to inform each Council's Annual Governance Statement.
- 4.2 The coverage over the forthcoming three years has been discussed with senior management to ensure audits are undertaken at the right time and at a time where value can be added.
- 4.3 The discussions also went into greater detail in relation to the scope of the audits for the forthcoming year, where we have aimed to carry out joint reviews with Broadland where possible to compliment collaboration work, enabling efficiencies and comparisons to be made and to ensure the best service is provided.
- 4.4 A Delivery Plan containing high-level objectives for the Council was approved by Cabinet on 3 February 2020 and has been used to guide discussions regarding assurance requirements over key risks, in line with a risk-based planning approach.
- 4.5 A risk-based planning approach also requires Internal Audit to consider the risk maturity of the Council when determining whether reliance can be placed on the Council's identification and assessment of risk. An Internal Audit review of risk maturity undertaken in 2019 concluded that the risk maturity of South Norfolk Council is currently at the lower end of the maturity scale. A set of recommendations have been agreed and are currently being worked towards. Whilst this work is ongoing, Internal Audit, in line with best practice, has gathered information on the current risk profile and used senior management's assessment of risk through discussion, rather than relying on formally documented risk registers.

### 5 ANNUAL INTERNAL AUDIT PLAN 2020/21

- 5.1 Having developed the Strategic Internal Audit Plan, the Annual Internal Audit Plan is an extract of this for the forthcoming financial year and is included at **Appendix 3**. This shows the areas being reviewed by Internal Audit, the number of days for each review, the quarter during which the audit will take place and a brief summary/purpose of the review.
- 5.2 The Annual Internal Audit Plan for 2020/21 totals 149 days, encompassing 15 assignments which will conclude in an audit opinion, three of which are IT audits. Internal Audit will also

carry out two position statements (critical friend/consultancy work) in the areas of Leisure and Project Management. This work will conclude with a set of improvement actions for management to consider.

- 5.3 A total of 10 of the 15 internal audit reviews will be carried out jointly across both Councils this year allowing Internal Audit to provide assurance that people and processes are working together for the same goal, supporting collaboration and that any inconsistencies can be remedied through formal recommendations where appropriate.
- 5.4 Audit verification work concerning audit recommendations implemented to improve the Council's internal control environment will also be undertaken throughout the financial year.

## **6. PROPOSAL**

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

## **7. RECOMMENDATIONS**

- 7.1 That the Committee approve:
  - a) the Internal Audit Strategy;
  - b) the Strategic Internal Audit Plans 2020/21 to 2022/23; and
  - c) the Annual Internal Audit Plan 2020/21.



## **APPENDIX 1 – INTERNAL AUDIT STRATEGY**

### **EASTERN INTERNAL AUDIT SERVICES SOUTH NORFOLK COUNCIL**

#### **INTERNAL AUDIT STRATEGY FOR 2020/21**

#### **1. Introduction**

- 1.1 The Internal Audit Strategy is a high-level statement of:
- how the internal audit service will be delivered;
  - how internal audit services will be developed in accordance with the internal audit charter;
  - how internal audit services links to the organisational objectives and priorities; and
  - how the internal audit resource requirements have been assessed.

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

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

#### **2. How the internal audit service will be delivered**

- 2.1 The Role of the Head of Internal Audit and contract management is provided by South Norfolk Council to; Breckland, Broadland, North Norfolk, South Holland and South Norfolk District Councils, Great Yarmouth Borough Council and The Broads Authority. All Authorities are bound by a Partnership Agreement.
- 2.2 The delivery of the internal audit plans for each Authority is provided by an external audit contractor, who reports directly to the Head of Internal Audit. The current contract is with TIAA Ltd, and commenced on 1 April 2015, for an initial period of 5 years ending 31 March 2020. In line with the terms of this contract an extension has been agreed which will allow the contract to run for a further two years terminating on 31 March 2022.

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

##### **3.1 Internal Audit objective and outcomes**

- 3.1.1 Internal audit is an independent, objective assurance and consulting activity designed to add value and improve the Authority's operations. It helps the Authority accomplish its objectives by bringing a systematic, disciplined approach to evaluate and improve the effectiveness of risk management, control and governance processes.
- 3.1.2 The outcomes of the internal audit service are detailed in the Internal Audit Charter and can be summarised as; delivering a risk based audit plan in a professional, independent manner, to provide the Authority with an opinion on the level of assurance it can place upon the internal control environment, systems of risk management and corporate governance arrangements, and to make recommendations to improve these provisions, where further development would be beneficial.

- 3.1.3 The reporting of the outcomes from internal audit is through direct reports to senior management in respect of the areas reviewed under their remit, in the form of an audit report. The Finance, Resources, Audit and Governance Committee and the Section 151 Officer also receive:
- The Audit Plans Report, which is risk based and forms the next financial year's plan of work;
  - The Progress Reports which provide summaries of the work achieved throughout the year and the individual opinions awarded on conclusion of reviews;
  - The Follow Up Reports which detail the level of management action taken in respect of agreed internal audit recommendations; and
  - The Annual Report and Opinion on the overall adequacy and effectiveness of the Authority's framework of governance, risk management and control.

## 3.2 Internal Audit Planning

- 3.2.1 A risk-based internal audit plan (RBIA) is established in consultation with senior management that identifies where assurance and consultancy is required.
- 3.2.2 The audit plan establishes a link between the proposed audit areas and the priorities and risks of the Authority taking into account:
- Stakeholder expectations, and feedback from senior and operational managers;
  - Objectives set in the strategic plan and business plans;
  - Risk maturity in the organisation to provide an indication of the reliability of risk registers;
  - Management's identification and response to risk, including risk mitigation strategies and levels of residual risk;
  - Legal and regulatory requirements;
  - The audit universe – all the audits that could be performed; and
  - Previous Internal Audit plans and the results of audit engagements.
- 3.2.3 In order to ensure that the internal audit service adds value to the Authority, assurance should be provided that major business risks are being managed appropriately, along with providing assurance over the system of internal control, risk management and governance processes.
- 3.2.4 Risk based internal audit planning starts with the Authority's Business Plan, linking through to the priority areas and the related high-level objectives. The focus is then on the risks, and opportunities, that may hinder, or help, the achievement of the objectives. The approach also focuses on the upcoming projects and developments for the Authority.
- 3.2.5 The approach ensures; better and earlier identification of risks and increased ability to control them; greater coherence with the Authority's priorities; an opportunity to engage with stakeholders; the Committee and Senior Management better understand how the internal audit service helps to accomplish its objectives; and this ensures that best practice is followed.
- 3.2.6 The key distinction with establishing plans derived from a risk based internal audit approach is that the focus should be to understand and analyse management's assessment of risk and to base audit plans and efforts around that process.
- 3.2.7 Consultation with the Section 151 Officer and Senior Management takes place through specific meetings during which current and future developments, changes, risks and areas of concern are discussed and the plan amended accordingly to take these into account.
- 3.2.8 The outcome of this populates a strategic internal audit plan, and the resulting annual internal audit plan, which are discussed with and approved by the Senior Leadership Team prior to

these being brought to the Finance, Resources, Audit and Governance Committee. In addition, External Audit will also be provided with a copy of the plans.

### 3.3 Internal Audit Annual Opinion

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

3.3.2 The opinion is based upon:

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

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

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

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

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

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

## **5. How internal audit resource requirements have been assessed**

5.1 Through utilising an external audit contractor the risk based internal audit plan can be developed without having to take into account the existing resources, as you would with an in-house team, thus ensuring that audit coverage for the year is appropriate to the Authority's needs and not tied to a particular resource.

- 5.2 That said a core team of staff is provided to deliver the audit plan, and these staff bring with them considerable public-sector knowledge and experience. These core staff can be supplemented with additional staff should the audit plan require it, and in addition specialists, e.g. computer auditors, contract auditor, fraud specialists, can be drafted in to assist in completing the internal audit plan and focusing on particular areas of specialism.
- 5.3 All audit professionals are encouraged to continually develop their skills and knowledge through various training routes; formal courses of study, in-house training, seminars and webinars. As part of the contract with TIAA Ltd the contractor needs to ensure that each member of staff completes a day's training per quarter.

## APPENDIX 2 – STRATEGIC INTERNAL AUDIT PLAN

Audit Area	Last review & assurance	Associated Risk & Reference	2019/20	2020/21	2021/22	2022/23	Joint Review
<b>Annual Opinion / Governance audits</b>							
Key Controls and Assurance	2018/19 Reasonable 2019/20 Audit Due	High	15	10	15	10	
Corporate Governance GDPR	2017/18 - Reasonable 2019/20 - Reasonable	High	6		6		✓
Performance Management, Corporate Planning.	2017/18 - Reasonable	High		6			✓
Project Management	New area	High S6		5			
Procurement	2016/17 - Reasonable 2018/19 - Reasonable	High		10			✓
Risk Management	2016/17 - Substantial 2019/20 Risk Maturity Assessment	High	5		6		✓
Big Sky	2016/17 - Reasonable 2019/20 - Reasonable	High S5	10		10		
Corporate Health and Safety	2017/18 - Reasonable	Medium		6		6	✓
<b>Fundamental Financial Systems</b>							
Accountancy Services including control accounts, banking, bank reconciliation, asset register, budgetary control, insurances and treasury management	2017/18 - Reasonable 2019/20 - Audit Due	High S3	15		15		
Accounts Payable	2016/17 - Reasonable 2018/19 - Reasonable	Medium		12		12	
Accounts Receivable	2017/18 - Reasonable 2019/20 - Audit Due	Medium	10		10		
Income (remittances)	2017/18 - Reasonable 2019/20 - Audit Due	Medium	8		8		
Local Council Tax Support and Housing Benefit	2016/17 - Reasonable 2018/19 - Reasonable	Medium		15		15	
Council Tax and National Non-Domestic Rates	2016/17 - Reasonable 2018/19 Reasonable	Medium		15		15	
Payroll and Human Resources	2016/17 Substantial 2018/19 - Substantial	Medium		10		10	✓



Audit Area	Last review & assurance	Associated Risk & Reference	2019/20	2020/21	2021/22	2022/23	Joint Review
<b>Service area audits</b>							
Economic Development	Deferred from 2015/16	<b>High S1</b>		<b>10</b>			
Collaboration Feasibility	New area	<b>S6 High</b>			8		✓
Democratic Services - members services, training, allowances and expenses	2015/16 - Reasonable	Low			8		✓
Legal Services	2014/15 - Reasonable	Medium			8		✓
Elections and Electoral Registration	2013/14 - Reasonable 2018/19 Substantial	Medium			8		✓
Environmental Health - includes Business Continuity, Emergency Planning, Environmental Protection, Dog Warden & Pollution Control, Licencing, Food Safety and Health and Safety.	2015/16 - Reasonable 2016/17 - Reasonable	<b>Medium S7</b>		<b>10</b>			✓
Waste Management includes refuse collection, street cleansing, recycling, clinical waster, abandoned vehicles and grounds maintenance	2016/17 - Reasonable 2019/20 - Reasonable	High	10		10		✓
Early Help Hub	2016/17 - Limited	Medium			10		✓
Community Leisure	New area	Medium			4		✓
Homelessness & Housing Options	2017/18 - Reasonable 2019/20 - Reasonable	Medium	12		12		✓
Housing Strategy and Affordable Housing	2016/17 - Reasonable	Medium			10		✓
Housing Standards includes DFGs and discretionary grants	2017/18 - Reasonable 2019/20 - Reasonable	Medium	10			10	✓
Planning & Development Management	2014/15 - Reasonable, 2019/20 Audit Due	<b>High S3, S4, S5</b>	20		15		✓
Leisure	2017/18 - Reasonable 2019/20 - Reasonable	<b>Medium S4</b>	10	<b>8</b>		10	
CNC - Building Control	2016/17 - Reasonable 2018/19 - Reasonable	Medium				12	
Car Parks	2015/16 - Reasonable, 2018/19 Reasonable	Medium				10	
Transit Sites	New area	Medium				10	

Audit Area	Last review & assurance	Associated Risk & Reference	2019/20	2020/21	2021/22	2022/23	Joint Review
ICT Audits							
Cyber crime	2018/19 - Limited	High			10		√
Remote Access	2014/15 - Reasonable 2018/19 - Reasonable	Medium		7.5			√
Disaster Recovery	2017/18 - Reasonable 2019/20 - Limited	High	10		10		√
Network Security and Infrastructure Management	2013/14 Reasonable	Medium					√
Service Desk	2017/18 Limited	Medium		7.5			√
Data Centre	2019/20 Position Statement		7.5	5			√
IT audit reviews to be determined						20	
Follow Up of audit recommendations							
All agreed internal audit recommendations			12	12	12	12	
Total number of days			160.5	149	195	152	

### APPENDIX 3 – ANNUAL INTENAL AUDIT PLAN

Audit Area	No of days	Q1	Q2	Q3	Q4	Joint	Notes
<b>Annual Opinion Governance Audits</b>							
Key Controls and Assurance	10				10		This is an annual review of key financial controls and informs the Head of Internal Audit's overall opinion on the control environment and feeds into the Statement of Accounts. For those systems not subject to a full audit review within the year, assurance will be provided. In 2020/21 this review will cover; Accountancy Services, Accounts Receivable and Income.
Performance Management, Business Planning	6				6	√	This is an annual review of key controls and feeds into the Statement of Accounts, for those systems not subject to an audit review within the year. This will cover; Accounts Payable, Payroll & Human Resources, Local Council Tax Support & Housing Benefits, Council Tax & NNDR and the assurance framework.
Project Management	5		5			√	As part of the collaboration programme, the two Councils will be carrying out a series of projects to unify culture, procedures, processes and systems, many of these requiring significant investment and calling on the newly set up consultancy team who will act as a project management office. The Consultancy Team will categorise projects according using a newly developed approach called SPARK. Our review will provide a position statement to assess whether best practice is being considered in developing project governance and to confirm that all Council projects are being co-ordinated in line with this approach.
Procurement	10		10			√	A new set of Contract Standing Orders was approved in 2019 guiding staff on the approval and procedural requirements that must be followed when undertaking a procurement exercise for both Councils. Our review will provide assurance that value for money and compliance with all legal requirements can be demonstrated for a sample of independently selected procurement exercises. We will also provide assurance that the contracts register and all relevant documentation is kept up to date to support the procurement process.
Corporate Health and Safety	6	6				√	A review of Corporate Health and Safety was last undertaken in 2017/18 where a reasonable assurance grading was given. Norfolk County Council currently provides health and safety related advice and support to both Councils. Our review will cover the contract management arrangements, key roles and responsibilities, inspections and reporting to provide assurance that the service is operating effectively. Our review will also examine the adequacy of procedures in relation to lone working and the dangerous persons register.

Audit Area	No of days	Q1	Q2	Q3	Q4	Joint	Notes
Annual Opinion Governance Audits							
Fundamental Financial Systems							
Accounts Payable	12			12			These key financial systems feed into the Head of Internal Audit Opinion and Statement of Accounts and require regular review to confirm the adequacy and effectiveness of controls. Where reviews are undertaken in earlier quarters, top up testing will be completed if required in the key controls audit to provide adequate coverage.
Payroll and Human Resources	10		10			v	
Council Tax and NNDR	15			15			
Housing Benefit and Local Council Tax Support	15			15			
Service area audits							
Economic Development	10	10				v	Economic Development has not been reviewed recently and a risk has been raised within the strategic risk register in relation to the delivery of key economic development projects such as the Norwich Research Park. Our review will provide assurance that these projects are being well managed and governance arrangements for reporting are appropriate. This review will be carried out as a joint piece of work at both Councils to examine whether a joint methodology has been adopted for economic development projects given the significance of projects in this area for achieving the delivery plan.
Environmental Health	10		10			v	This area was last reviewed in 2016/17 and focused licencing and food safety where a reasonable assurance grading was given. Our audit this year will revisit these controls at both Councils now that this area has come together as one team and provide assurance that licencing and Food Health and Safety at work regulation and enforcement controls are operating effectively. In addition we will provide an opinion on business continuity and emergency planning arrangements.
Leisure	8	8					At the request of management a post implementation review will be conducted to evaluate the Long Stratton Leisure Centre project. Our review will examine the arrangements for Project Governance, risk and issue management, skills and capacity, contract management, health and safety and financial management. This work will conclude with a position statement highlighting areas for learning that could be used by management on future projects of this size and nature.

Audit Area	No of days	Q1	Q2	Q3	Q4	Joint	Notes
<b>ICT Audits</b>							
Service Desk	7.5				7.5	v	A review of service desk was carried out at South Norfolk in 2017/18 where a limited assurance grading was given. This area has not been reviewed at Broadland before. The IT team will be working on developing a consistent service and joint platform this year. Our review will provide assurance that this has been successful, focusing on the adherence with an SLA and performance of the service.
Remote Access	7.5				7.5	v	A review of remote access was carried out at South Norfolk in 2018/19 and was given a reasonable assurance grading. A review of remote access has not been carried out at Broadland before. Both Council's are investing in infrastructure that will enable each Council to work seamlessly at each site and from home if required in line with newly encouraged working practices. Our review will provide assurance that improvements and increased capacity support these objectives.
Data Centre	5			5		v	At the request of management a position statement was provided in 2019/20 on the adequacy of data centre arrangements at both Councils. A number of suggested actions were raised for consideration. This review will revisit these action points to provide assurance over the progress made in enhancing and unifying the data centre at both Councils.
Follow up of agreed internal audit recommendations	12	3	3	3	3		Bi-monthly follow up of agreed recommendations and evidence of closure verified.
<b>Total number of days</b>	<b>149</b>	<b>27</b>	<b>38</b>	<b>50</b>	<b>34</b>		

## **ANNUAL REPORT OF THE FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE 2019-20**

**Report Author(s):** Faye Haywood  
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**Portfolio:** Finance and Resources

**Ward(s) Affected:** All

### **Purpose of the Report:**

This report is to update Members of the work of the Finance, Resources, Audit and Governance Committee during 2019.

### **Recommendations:**

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



## **1 SUMMARY**

- 1.1 This report is to update Members of the work of the Finance, Resources, Audit and Governance Committee during 2019 and will also go forward to Full Council.

## **2 BACKGROUND**

- 2.1 South Norfolk Council's Finance, Resources, Audit and Governance Committee has been in operation since 2012, and this is the fifth annual report of the Committee.
- 2.2 The annual report will look back at the meetings held during 2019, and the activity of the Committee during this time.

## **3 CURRENT POSITION**

- 3.1 The Terms of reference of the Committee are well established in the Council's Constitution, and the key features include reviewing:
- The draft and final statement of accounts;
  - The external auditors report on the statement of accounts; and
  - The external auditors plan of work.

The Committee is also required to approve:

- The statement of accounts;
  - The annual governance statement;
  - The internal audit plan of work; and
  - The Head of Internal Audit's annual report and opinion.
- 3.2 The Committee has met formally on four occasions in 2019 and Member attendance is high. There is a consistent strong officer attendance throughout the year, with regular representation from Accounts, Internal Audit and the Council's External Auditors.
- 3.3 The Committee also ensures that it operates to the highest standards, and with that in mind a self-assessment is undertaken against best practice. The Chair of the Committee held an informal session with the Internal Audit Manager to assess performance following the meeting in November 2019. The conclusion of the assessment is reported elsewhere on this agenda.
- 3.4 In addition, a work programme is in place which is reviewed and discussed at each formal meeting and in line with good practice a pre-agenda meeting is also held between the Chair and key officers.

### **Overview of the key items considered over the year**

- 3.5 Annual Governance Statement

The draft annual governance statement was considered at the June 2019 meeting where Members considered the current governance position of the Council.

### 3.6 External Audit

Throughout the year the Committee has received reports from the Council's External Auditors; Ernst Young (EY). The Committee are provided with the plan of work for the audit of the accounts, and the Audit Results Report and Opinion. Finally, the Annual Audit Letter is provided to the Committee which summarises the work carried out and confirms the conclusions reached.

In 2019 EY experienced significant resource challenges resulting in delays to external audit work. The accounts were published as required by South Norfolk but not signed off by EY within the usual 31 July deadline. At the meeting held on 27 September 2019, responsibility was delegated to the Chair of the FRAG Committee and the Director of Resources for signing the letter of representation outside of the meeting due to the delays. This was carried out on 29 September 2020. The Committee has provided robust challenge to EY throughout the year in relation to these delays as clearly demonstrated by the minutes and will continue to monitor EY's availability to deliver the required audit work in 2020.

The outcome from the certification of claims and returns for 2017-18 (Housing Benefit Subsidy) was reported through to the Committee in March 2019. The Committee has been informed that EY will no longer report the results of this work to the committee.

### 3.7 Internal Audit

On an annual basis the Committee reviews and approves the Strategic and Annual Internal Audit Plan for the forthcoming year. The Committee then regularly receives updates on the progress of the completion of the plan of work and the position with the action taken by management to progress audit recommendations. Finally, at the end of the financial year the Annual Report and Opinion of the Head of Internal Audit is considered by the Committee in terms of the conclusions made in relation to the adequacy and effectiveness of the Council's framework of governance, risk management and control.

The Internal Audit team presented the results of the South Norfolk Council Risk Maturity Assessment in November 2019. This report highlighted improvements that should be made to processes at the Council to demonstrate a more mature approach to risk management. The suggested recommendations included changing the terms of reference of the FRAG committee to reflect a responsibility for providing assurance over the Risk Management Strategy at the Council in line with best practice.

### 3.8 Contract Standing Orders

The Committee received a report containing the updated Contract Standing Orders in September 2019. The Procurement Consortium Manager presented the significant updates and changes to the framework which had been aligned to support both South Norfolk and Broadland Councils with future spending on goods and services. The committee suggested amendments in relation to the minimum contracts procedures which were reflected in the final version.

### 3.9 Joint Commercialisation Strategy

In November 2019 the Director of Resources presented the Joint Commercialisation Strategy which outlined the approach for commercial opportunities to achieve greater financial stability across both Councils over the longer term through income generation. The high-level action plan was discussed by the Committee along with suggested opportunities that were due to be explored.

## 4 PROPOSED ACTION

- 4.1 This report looks back over the 2019 year and has reported on the range of reports that have been brought to Committee's attention. The report highlights the breadth of information that is received by the Committee in ensuring the terms of reference are met.

## 5 OTHER OPTIONS

- 5.1 Not applicable to this report.

## 6 ISSUES AND RISKS

- 6.1 **Resource Implications** – not applicable to this report.
- 6.2 **Legal Implications** – not applicable to this report.
- 6.3 **Equality Implications** – not applicable to this report.
- 6.4 **Environmental Impact** – not applicable to this report.
- 6.5 **Crime and Disorder** – not applicable to this report.
- 6.6 **Risks** – not applicable to this report.

## 7 CONCLUSION

- 7.1 The report ensures that best practice is followed and that the Committee reflect on the work of the year.

## 8 RECOMMENDATIONS

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

## **FINANCE, RESOURCES, AUDIT AND GOVERNANCE COMMITTEE SELF-ASSESSMENT**

**Report Author(s):** Faye Haywood  
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**Portfolio:** Finance and Resources

**Ward(s) Affected:** All

### **Recommendation:**

The committee is requested to note the attached checklist at **Appendix 1** to this report, and either (a) confirm that full compliance has been recognised in relation to each of the areas subject to scrutiny or (b) note action required to ensure full compliance.

## **1. Introduction**

- 1.1** The Chartered Institute of Public Finance and Accountancy (CIPFA) advocates that it is good practice for Audit Committees, or their equivalent, to undertake regular assessments. Thus, enabling members to gain an appreciation of what affords best practice, to confirm the level of compliance being achieved, and to identify any potential areas for enhancements to be made to arrangements.

## **2. Background**

- 2.1** The CIPFA document “audit committees – practical guidance for local authorities and police” sets out the guidance in the function and operations of audit committees. It represents CIPFA’s view of best practice and incorporates the position statement previously issued.
- 2.2** The guidance states “the purpose of an audit committee is to provide those charged with governance independent assurance on the adequacy of the risk management framework, the internal control environment and the integrity of the financial reporting and annual governance processes”.
- 2.3** The Section 151 Officer has overarching responsibility for discharging the requirements for sound financial management, and to be truly effective requires an audit committee to provide support and challenge.
- 2.4** Good audit committees are characterised by;
- balanced, objective, independent, knowledgeable and properly trained members;
  - a membership that is supportive of good governance principles;
  - a strong independently minded Chair;
  - and unbiased attitude; and
  - ability to challenge when required.
- 2.5** It is therefore good practice to complete a regular self-assessment exercise against a checklist, to be satisfied that the committee is performing effectively. In addition, the Public Sector Internal Audit Standards (PSIAS) also call for the committee to assess their remit and effectiveness in relation to; “Purpose, Authority and Responsibility”, to facilitate the work of this committee.
- 2.6** This is the fifth time that the Finance, Resources, Audit and Governance Committee has undertaken a self-assessment. Working with the Chair of the FRAG Committee the two assessment tools have been completed, and the results presented to the Committee in this report.
- 2.7** The first part of the assessment is a yes / no response and covers:
- Purpose and Governance;
  - Functions of the Committee;
  - Membership and Support; and
  - Effective of the Committee.

- 2.8** The second part of the assessment requires an assessment as to how the committee displays it is effective through the reports it receives, and is broken down into the following key areas:
- Promoting the principles of good governance and their application to decision making;
  - Contributing to the development of an effective audit committee;
  - Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks;
  - Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively;
  - Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence;
  - Aiding the achievement of the authority's goals and objective through helping to ensure appropriate governance, risk, controls and assurance arrangements;
  - Supporting the development of robust arrangements for ensuring value for money; and
  - Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks.

### **3. Current Position/Findings**

- 3.1** The self-assessment checklist has been reviewed and updated with the Chair prior to this meeting; the conclusions of which can be seen at **Appendix 1** to this report.

### **4. Proposals**

- 4.1** The committee are requested to review the checklist at **Appendix 1** to ensure that this is an accurate reflection of the operations of the committee and to note any action that needs to be taken as a result of the conclusions.

### **5. Risks and implications arising**

- 5.1** Not applicable to this report.

### **6. Recommendation**

- 6.1** The committee is requested to note the attached checklist at **Appendix 1** to this report, and either (a) confirm that full compliance has been recognised in relation to each of the areas subject to scrutiny or (b) note action required to ensure full compliance.

### **Appendix 1 – FRAG Self-Assessment**



## Self-assessment of good practice

This evaluation will support an assessment against recommended practice to inform and support the Audit Committee. This is a high-level review that incorporates the key principles set out in CIPFA's Position Statement: Audit Committees in Local Authorities and Police. Where an Audit Committee has a high degree of performance against the good practice principle's then it is an indicator that the committee is soundly based and has in place knowledgeable membership. These are essential factors in developing an effective Audit Committee.

	Good Practice Questions	Yes	Partly	No
	Audit Committee purpose and governance			
1	Does the authority have a dedicated audit committee?	Y		
2	Does the audit committee report directly to full council?	Y		
3	Do the terms of reference clearly set out the purpose of the committee in accordance with CIPFA's position statement?	Y		
4	Is the role and purpose of the audit committee understood and accepted across the authority?	Y		
5	Does the audit committee provide support to the authority in meeting the requirements of good governance?	Y		
6	Are the arrangements to hold the committee to account for its performance operating satisfactorily?	Y		
	Functions of the committee			
7	Do the committee's terms of reference explicitly address all the core area identified in CIPFA's position statement? <ul style="list-style-type: none"> <li>- Good governance</li> <li>- Assurance framework</li> <li>- Internal audit</li> <li>- External audit</li> <li>- Financial reporting</li> <li>- Risk management</li> <li>- Value for money or best value</li> <li>- Counter fraud and corruption</li> </ul>		Y	
8	Is an annual evaluation undertaken to assess whether the committee is fulfilling its terms of reference and that adequate consideration has been given to all core areas?	Y		
9	Has the audit committee considered the wider areas identified in CIPFA's position statement and whether it would be appropriate for the committee to undertake them?	Y		
10	Where coverage of core areas has been found to be limited, are plans in place to address this?	NA		

<b>11</b>	Has the committee maintained its non-advisory role by not taking on any decision-making powers that are not in line with its core purpose?	Y		
	Membership and support			
<b>12</b>	Has an effective audit committee structure and composition of the board been selected? This should include: - Separation from the executive - An appropriate mix of knowledge and skills among the membership - A size of committee that is not unwieldy - Where independent members are used, that they have been appointed using appropriate process	Y		
<b>13</b>	Does the chair of the committee have appropriate knowledge and skills?	Y		
<b>14</b>	Are arrangements in place to support the committee with briefings and training?	Y		
<b>15</b>	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Y		
<b>16</b>	Does the committee have good working relationships with key people and organisations, including external audit, internal audit and the chief finance officer?	Y		
<b>17</b>	Is adequate secretariat and administrative support to the committee provided?	Y		
	Effectiveness of the committee			
<b>18</b>	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?	Y		
<b>19</b>	Has the committee evaluated whether and how it is adding value to the organisation?	Y		
<b>20</b>	Does the committee have an action plan to improve any areas of weakness?	Y		

Notes:

7 – Responsibility for risk management oversight currently rests with Cabinet. An improvement recommendation was raised in relation to this in the 2019 Risk Maturity Assessment carried out by Internal Audit. A recommendation was agreed to align the terms of reference with best practice and assign responsibility for the risk management framework to FRAG. This will require a change to the constitution and will therefore be actioned during 2020 when South Norfolk and Broadland plan to align terms of reference for all committees as part of collaboration work.

## Evaluating the Effectiveness of the Audit Committee

This assessment tool helps Audit Committee members to consider where it is most effective and where there may be scope to do more. To be considered effective, the Audit Committee should be able to identify evidence of its impact or influence linked to specific improvements.

Assessment Key:

- 5 Clear evidence is available from a number of sources that the committee is actively supporting the improvement across all aspects of this area. The improvements made are clearly identifiable.
- 4 Clear evidence from some sources that the committee is actively and effectively supporting improvement across some aspects of this area.
- 3 The committee has had mixed experience in supporting improvement in this area. There is some evidence that demonstrates their impact but there are also significant gaps.
- 2 There is some evidence that the committee has supported improvements, but the impact of this support is limited.
- 1 no evidence can be found that the audit committee has supported improvements in this area.

Areas where the audit committee can add value by supporting improvement	Self-evaluation examples, areas of strength & weakness	Assessment 1-5
Promoting the principles of good governance and their application to decision making	Robust review of the Annual Governance Statement, with a lead in from the informal session so there are no surprises.  Cabinet Member for Finance attends the FRAG meetings on a regular basis.  Reviews regularly received on Governance arrangements from Internal Audit.	4

	Self-assessment undertaken annually. The Chair also attends EY briefings.	
Contributing to the development of an effective control environment	Regular follow up reports provided by the Internal Audit Manager as to progress made with internal audit recommendations. Where recommendations are not completed within agreed timeframes by officers, the audit committee requests their attendance.	4
Supporting the establishment of arrangements for the governance of risk and for effective arrangements to manage risks	Responsibility for oversight of risk management rests with Cabinet, however the Committee do have an oversight of the Council risks through the reports received from the auditors and internal audit reports from the risk based internal audit plan. It is acknowledged that there is room for improvement in this area and this will therefore be actioned during the review of the FRAG terms of reference.	3
Advising on the adequacy of the assurance framework and considering whether assurance is deployed efficiently and effectively	Assurance is provided through the internal audit reports and through the Value for Money statement provided by the External Auditors.  The Committee have been robust in their challenge of EY resourcing difficulties impacting on the timeliness of Statement of Accounts work.	4
Supporting the quality of the internal audit activity, particularly by underpinning its organisational independence	The Audit Charter covers reporting requirements in terms of reporting functionally to FRAG and administratively to the Corporate Management Leadership team. The Head of Internal Audit also has a direct line of reporting and unfettered access to the Chief Executive, CMLT and the Chair of the Committee.  Effectiveness of the internal audit service is assessed as part of the year end reporting through the Annual Opinion, in particular the Quality Assurance & Improvement Programme (internal and external assessment).	4

Aiding the achievement of the authority's goals and objectives through helping to ensure appropriate governance, risk, control and assurance arrangements	This is covered in the scopes of audit reviews as required and the audit ensures that objectives are met for the Council.	4
Supporting the development of robust arrangements for ensuring value for money	<p>The External Auditor reports on this objectively and provides a conclusion on value for money.</p> <p>This is also displayed through the Annual Governance Statement that the Committee receives.</p>	4
Helping the authority to implement the values of good governance, including effective arrangements for countering fraud and corruption risks	Receive regular reports on the fraud arrangement and these are effectively scrutinised by the Committee i.e. Anti-Fraud arrangements.	4

## **FRAG Work Programme**

26/06/20	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 2019/20, including Review of the Effectiveness of Internal Audit	Faye Haywood	FORMAL
	Annual Governance Statement 2019-20	Emma Hodds/Emma Goddard	FORMAL
	Annual Report on Counter Fraud Activity 2019/20 (if anything to report)	Bob Harvey	FORMAL
	Draft Statement of Accounts	Rodney Fincham/Julie Brown	INFORMAL
23/10/20	Audit Results Report	External Audit	FORMAL
	Final Statement of Accounts 19/20	Rodney Fincham/Julie Brown	FORMAL
	Review of Contract Standing Orders	Rodney Fincham	FORMAL
	Review of Local Government Ombudsman 2020	Christine Baldwin	FORMAL
	Progress on Internal Audit Activity	Faye Haywood	FORMAL
	Follow-up report on Internal Audit Recommendations	Faye Haywood	FORMAL
Mar-21	Certification of Claims & Returns Annual Report 19/20 - verbal report	External Audit	FORMAL
	Internal Audit Activity Report	Faye Haywood	FORMAL
	Strategic and Annual Internal Audit Plans 2021/22	Faye Haywood	FORMAL
	Annual Report of FRAG Committee	Faye Haywood	FORMAL
	External Audit Plan 20/21	External Audit	FORMAL
	Training session for members to complete their Self Assessment	Faye Haywood	INFORMAL
	Self Assessment of the FRAG Committee	Faye Haywood	FORMAL