

Finance, Resources, Audit and Governance Committee

Friday 9 March 2018

9:30am, Colman Room

South Norfolk House, Cygnet Court, Long Stratton, Norwich, NR15 2XE

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



Contact Sue Elliott on 01508 533869 or democracy@s-norfolk.gov.uk

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

Mr P Hardy (Chairman)

Mr T Palmer (Vice-Chairman)

Mr L Dale

Mr W Kemp

Mr T Lewis

Mr R Savage

Mr G Wheatley

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Agenda

1. To report apologies for absence and to identify substitute members;
2. Any items of business which the Chairman decides should be considered as a matter 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 – page 11)
4. To confirm the minutes of the FRAG Committee held on 24 November 2017; (attached – page 12)
5. Certification of Claims & Returns Annual Report 2016/17; (attached – page 16)
6. Audit Planning Report – Year Ended 31 March 2018; (attached – page 23)
7. Progress Report on Internal Audit Activity; (attached – page 65)
8. Strategic and Annual Internal Audit Plans 2018/19; (attached – page 89)
9. Finance, Resource, Audit and Governance Committee Self-Assessment; (attached – page 102)
10. Annual Report of Finance, Resource, Audit and Governance Committee; (attached – page 106)
11. FRAG Work Programme; (attached – page 112)

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 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

Working Style of Cabinet Policy Committees

Member Leadership

Members of the Committees will take the lead in understanding the direction provided by Cabinet and delivering work to Cabinet requirements. Whilst recognising political allegiances, members will work in a collaborative manner with officers and cabinet portfolio holders to consider the relevant issues when developing Council policy.

Collaborative Working

All meetings of the Committees will be constructive and conducted in a spirit of mutual respect and trust. Officers will commit to supplying meetings with information relevant to making informed decisions on policies and matters. Members will commit to thoroughly reading and understanding papers, raising questions that are pertinent to the issues at stake. Members will, where feasible, agree definable actions to be taken forward by officers to develop policy, rather than having items for noting or simply to discuss.

Frequency and Nature of Meeting

Each Committee will have at least 3 formal, public meetings per year. In assessing items delegated by Cabinet for review, the Committee may decide that it wishes to meet on a more or less frequent basis.

The Committee may also hold informal meetings should it require in order to progress specific items in detail. However, if the Committee is meeting to determine whether to refer items for Cabinet approval, the meeting should follow the Council's Standing Orders and thus be subject to a formal agenda, be held in public and the meeting recorded.

Informal meetings may be held in any manner suitable for conducting business (e.g. via meeting, conference call, circulation of information via e-mail, or site visits); while relevant information will be supplied by officers where appropriate, these meetings will not be subject to a formal agenda or minutes. Where business of the Committee is undertaken through informal meeting, all members of the Committee will be provided opportunity to participate. Members will expect to be able to participate in a free and frank exchange of views when deliberating subjects.

Training

Members commit to undertaking development – for example, attending formal training sessions, or reading relevant background material, in order to properly equip themselves to deliver their expected role fully.

Accountability

The Policy Committees will be accountable to Cabinet. They will not be able to make decisions themselves, but can recommend decisions to Cabinet. Cabinet may review whether the Committees are discharging their duties effectively, and may receive progress reports on how the Policy Committee is working to discharge its duties.

Work Programmes

The Work Programmes for the Policy Committee will be established by Cabinet. Members of the Committee will not be able to raise items to be included in the work programme. Where topics have been identified for inclusion in the work programme, the Committee will work to identify how it will discharge its responsibilities, including the resources required to do so.

Managing Time

However the Committee is meeting, it will attempt to conclude the business of each meeting in reasonable time. The Chairman will be responsible for ensuring the meeting stays focused on pertinent issue, and does not become side-tracked on issues that are not relevant to the policy under consideration, or those that should be discussed by a separate committee.

Agenda Item: 3

DECLARATIONS OF INTEREST AT MEETINGS

Members are asked to declare any interests they have in the meeting. 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 on the matter.
- 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.
- In any case, members have the right to remove themselves from the meeting or the voting if they consider, in the circumstances, it is appropriate to do so.

Should Members have any concerns relating to interests they have, they are encouraged to contact the Monitoring Officer (or Deputy) or another member of the Democratic Services Team in advance of the meeting.



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 24 November 2017 at 9.30 am.

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

Apologies: Councillor: W Kemp

Cabinet Member in Attendance: Councillor: B Stone and Y Bendle

Officers in Attendance: The Head of Internal Audit (E Hodds), the Accountancy Manager (M Fernandez-Graham), the Support and Innovation Manager (K Woodhouse), and the Senior Accountant (J Brown)

Also in Attendance: Guy Harbord – Wilks Head and Eve
Kevin Suter and Mark Russell - Ernst & Young (EY)

159 MINUTES

The minutes of the meeting held on 28 July 2017 were confirmed as a correct record and signed by the Chairman.

160 PRESENTATION BY EXTERNAL VALUERS

Guy Harbord, Wilks Head and Eve, provided the Committee with a presentation which sought to give guidance on the processes and best practices for asset valuation, following a request from members at the last meeting of the Finance, Resources, Audit and Government Committee in July 2017.

Members were advised of the ways in which various assets belonging to the Council were valued, depending on which category of asset they were classed. Mr Harbord provided specific examples of how some of the Council's assets, such as South Norfolk House and Wymondham Leisure Centre were valued each year and advised members that the valuations made were based on an accounting view to provide a 'true and fair view' of the Council's financial position, and would not necessarily be the same as the assets would be appraised on the open market.

In response to a member's question regarding the way in which recreational spaces were valued for accounting purposes, Mr Harbord advised that, although these assets often incurred maintenance charges, they did contain a value in the services and amenity they provided. He clarified the importance that these spaces were valued on their actual use rather than inflated by their possible use.

After a brief discussion, the Chairman thanked Mr Harbord for his informative presentation.

161 PROGRESS REPORT ON INTERNAL AUDIT ACTIVITY

The Head of Internal Audit presented the Progress Report on Internal Audit Activity during the period between 1 April and 14 November 2017, summarising the six completed audits undertaken. Members noted that 58% of the Audit Plan had been completed and that all six areas covered had been awarded a reasonable assurance. It was confirmed that 25 recommendations had been raised as a result of the audits, all of which had been agreed by management.

The Chairman questioned one of the recommendations contained in the report, regarding the processing of applications, and was advised that it had been deemed best practice to scan and save copies of means calculations generated for Disabled Facilities Grants (DFG) so that the Council retained evidence of discussions held to enable officers to refer back, if required, in the future. Members noted that the recommendation, 'that management information required by the accountancy team was received in a timely manner to enable the quarterly reconciliations to be carried out', was a repeat of a recommendation made in the audit review of 2015/16, but were reassured that, although this had lapsed, the issue had been re-raised to ensure it was properly embedded.

Following a brief discussion around the Council's system for cash receipting, it was

RESOLVED: To note the outcomes of the six completed audits in the period covered by the report, and the position of the Internal Audit Plan for 2017/18.

162 FOLLOW UP REPORT ON INTERNAL AUDIT RECOMMENDATIONS

The Head of Internal Audit presented the Committee with her report which detailed the progress made in relation to the Council's implementation of the agreed audit recommendations falling due by 31 October 2017.

Members were advised that the current position, compared to the previous year, was good and that South Norfolk held one of the best response rates in the consortium. In response to a member's question regarding the one outstanding historic recommendation, from the audit of disaster recovery, the Committee was advised that, following a further audit, disaster recovery was in the process of being moved away from the Council's main offices and into Wymondham Leisure Centre. Officers advised that, although there had been unavoidable delays caused by third parties, the systems were due to be fully tested in January 2018.

In response to concerns raised by a member regarding whether the target dates set by Internal Audit were always achievable, the Head of Internal Audit advised the Committee that she was satisfied that there were no priority 1 issues outstanding and that all issues were assessed on balance. Members were further reassured that, should Internal Audit have any concerns, they would request that interim measures be put in place to mitigate any issues in the short term.

Following a brief discussion during which a few points detailed in the report were clarified, it was

RESOLVED: To note the position in relation to the completion of agreed audit recommendations as at 31 October 2017.

163 ANNUAL AUDIT LETTER

Kevin Suter from Ernst & Young presented the Annual Audit Letter, explaining that it was a summary of all audit work carried out during the year, and he advised members that an unqualified audit opinion had been awarded. Members were pleased to note

that the Council was in a good position to meet the requirements of the Accounts and Audit Regulations 2015 and prepare its draft accounts by 31 May 2018 with the publication of its audited accounts by 31 July 2018, and that the final audit fee for 2016/17 had been reduced to £55,990.

The Committee were advised that, due to a promotion, Mark Russell would no longer be working on the Council's audit and members thanked him, and Kevin Suter, for their work. It was then:

RESOLVED: To note the Annual Audit Letter and the revised fee for 2016/17, as detailed above.

165 REVIEW OF THE LOCAL GOVERNMENT OMBUDSMAN REPORT 2017

The Support and Innovation Manager presented her report which sought to advise members of the Council's approach to dealing with complaints, including those which had been referred to the Local Government Ombudsman (LGO) in 2017.

Members were pleased to note that none of the cases referred to the LGO for South Norfolk were upheld and that the numbers of complaints to the LGO were relatively small, compared with those of other district councils in the area. Officers clarified that some complaints received were due to the misunderstanding of planning laws and that complaints were sometimes made because of disagreements with planning decisions rather than aggrievements with the Council's services. Members were pleased to learn that officers took complaints seriously and were keen to learn from complaints, where possible. It was then:

RESOLVED: To note the contents of the report.

166 FINANCE, RESOURCES, AUDIT & GOVERNANCE COMMITTEE WORK PROGRAMME

Members noted the Finance, Resources, Audit & Governance Committee's Work Programme. The Head of Internal Audit advised that her role was changing and that there would be a temporary officer in place until a permanent solution was found.

The meeting concluded at 10.35 am

Chairman

Certification of claims and returns annual report 2016-17

South Norfolk District Council

11 December 2017

Ernst & Young LLP



Building a better
working world

The Members of the Finance, Resources,
Audit & Governance Committee
South Norfolk District Council
South Norfolk House
Cygnet House
Long Stratton
Norwich
NR15 2XE

11 December 2017

Direct line: 07876 397986
Email: KSuter@uk.ey.com

Dear Members

Certification of claims and returns annual report 2016-17 South Norfolk District Council

We are pleased to report on our certification and other assurance work. This report summarises the results of our work on South Norfolk District Council's 2016-17 claims.

Scope of work

Local authorities claim large sums of public money in grants and subsidies from central government and other grant-paying bodies and must complete returns providing financial information to government departments. In some cases these grant-paying bodies and government departments require appropriately qualified auditors to certify the claims and returns submitted to them.

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to the Public Sector Audit Appointments Ltd (PSAA) by the Secretary of State for Communities and Local Government.

For 2016-17, these arrangements required only the certification of the housing benefits subsidy claim. In certifying this we followed a methodology determined by the Department for Work and Pensions and did not undertake an audit of the claim.

Summary

Section 1 of this report outlines the results of our 2016-17 certification work and highlights the significant issues.

We checked and certified the housing benefits subsidy claim with a total value of £26,381,872. We met the submission deadline. We issued a qualification letter – details of the qualification matters are included in section 1. Our certification work found errors which the Council corrected. The amendments had a marginal effect on the grant due.

Fees for certification and other returns work are summarised in section 2. The housing benefits subsidy claim fees for 2016-17 were published by the Public Sector Audit Appointments Ltd (PSAA) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).



We welcome the opportunity to discuss the contents of this report with you at your next meeting on 9 March 2018.

Yours faithfully

Kevin Suter
Associate Partner
Ernst & Young LLP
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1. Housing benefits subsidy claim

Scope of work	Results
Value of claim presented for certification	£26,381,872
Amended/Not amended	Amended – subsidy reduced by £321
Qualification letter	Yes
Fee 2016-17	£14,885
Fee 2015-16	£14,236

Recommendations from 2015-16	Findings in 2016-17
None	N/A

Local Government administers the Government's housing benefits scheme for tenants and can claim subsidies from the Department for Work and Pensions (DWP) towards the cost of benefits paid.

The certification guidance requires auditors to complete more extensive '40+' or extended testing if initial testing identifies errors in the calculation of benefit or compilation of the claim. 40+ testing may also be carried out as a result of errors that have been identified in the audit of previous years claims. We carried out the following extended testing.

In our 2015/16 qualification letter, we reported that testing of the 40+ sample in Rent Allowances identified cases where the authority had incorrectly classified overpaid benefit in the prior year as eligible overpayments. As part of our work undertaken on the 2016/17 subsidy claim, all claims in prior year eligible overpayments were identified and testing undertaken identifying the following errors;

- ▶ 1 case where the overpayment had been understated due to the incorrect treatment of the non-dependent deductions on the claim resulting in an underpayment of benefit; and
- ▶ 1 cases where the overpayment had been misclassified as eligible overpayments instead of LA error.

We reported an extrapolated value of these errors of £884, in a qualification letter. The DWP will decide whether to ask the Council to carry out further work to quantify the error or to claw back the benefit subsidy paid.

In our 2015/16 qualification letter, we reported two fails that lead to underpayment of benefit in regards to delays in processing relevant income information from the claimant and the updating of annual rent increases. The nature of these two errors will always result in underpaid benefit and in line with guidance no additional testing was required but the facts were reported in a qualification letter.

Our testing also identified that the council uses the Civica benefits system which provides a method for the council to reconcile benefit granted to benefit paid. For South Norfolk DC the benefit granted figure for Rent Allowances in the claim form and the benefit paid figure used in the reconciliation differed by £16,974. In addition the figure for the total subsidy claimed by the Council differed by £143. This was due to a review of individual cells in the claim by the Council and subsequent manual amendment to the claim. In line with guidance we were required to report the difference to DWP in the qualification letter.

Other issues

For a number of years the Council has missed the deadline of the 30 April for submission of the draft housing benefit claim to the Department of Work and Pensions. The potential impact of this on South Norfolk District Council is the withholding of subsidy by the DWP and accounting implications of subsidy income and related debtor/creditor balances at year end, the timings of which will need to be considered to meet the 2017/18 faster close agenda. The Council delay submission of their draft claim to allow officers time to review the detailed cases, identify errors and amend the claim prior to submission with an aim to improving the overall quality of the claim. There is no requirement to report this to the DWP.

2. 2016-17 certification fees

The PSAA determine a scale fee each year for the audit of claims and returns. For 2016-17, these scale fees were published by the Public Sector Audit Appointments Ltd (PSAA's) in March 2016 and are now available on the PSAA's website (www.psaa.co.uk).

Claim or return	2016-17	2016-17	2015-16
	Actual fee £	Indicative fee £	Actual fee £
Housing benefits subsidy claim	£14,885	£19,875	£14,236

The indicative fee for 2016/17 was based on the actual fee for 2014/15 with a 25% reduction in scale fee.

For 2016/17 the level of error identified was similar to that identified in 2014/15. The high standard and quality of the initial and 40+ testing performed by the Authority has resulted in the reduction of the fee by £4,990, which is still to be confirmed with the PSAA.

3. Looking forward

2017/18

From 1 April 2015, the duty to make arrangements for the certification of relevant claims and returns and to prescribe scales of fees for this work was delegated to (PSAA) by the Secretary of State for Communities and Local Government.

The Council's indicative certification fee for 2017/18 is £14,236. This was set by PSAA and is based on final 2015/16 certification fees, and includes the impact of the Council undertaking the initial testing.

Details of individual indicative fees are available at the following web address:

<https://www.psaa.co.uk/audit-fees/201718-work-programme-and-scales-of-fees/individual-indicative-certification-fees/>

We must seek the agreement of PSAA to any proposed variations to these indicative certification fees. We will inform the Assistant Director of Resources before seeking any such variation.

2018/19

From 2018/19, the Council will be responsible for appointing their own reporting accountant to undertake the certification of the housing benefit subsidy claim in accordance with the Housing Benefit Assurance Process (HBAP) requirements that are being established by the DWP. DWP's HBAP guidance is under consultation and is expected to be published around January 2018.

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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South Norfolk District Council Audit planning report

Year ended 31 March 2018

February 2018



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

February 2018

Dear Committee Members

Audit planning report

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

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

This report is intended solely for the information and use of the 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 09 March 2018 as well as understand whether there are other matters which you consider may influence our audit.

Yours faithfully

Kevin Suter

For and on behalf of Ernst & Young LLP

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In April 2015 Public Sector Audit Appointments Ltd (PSAA) issued "Statement of responsibilities of auditors and audited bodies". It is available from the via the PSAA website (www.PSAA.co.uk). The Statement of responsibilities serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and audited bodies begin and end, and what is to be expected of the audited body in certain areas. The "Terms of Appointment (updated February 2017)" issued by the PSAA sets out additional requirements that auditors must comply with, over and above those set out in the National Audit Office Code of Audit Practice (the Code) and in legislation, and covers matters of practice and procedure which are of a recurring nature. This report is made solely to the FRAG Committee and management of South Norfolk District Council in accordance with the statement of responsibilities. Our work has been undertaken so that we might state to the FRAG Committee, and management of South Norfolk District Council those matters we are required to state to them in this report and for no other purpose. To the fullest extent permitted by law we do not accept or assume responsibility to anyone other than the FRAG Committee, and management of South Norfolk District Council for this report or for the opinions we have formed. It should not be provided to any third-party without our prior written consent.



01

Overview of our 2017/18 audit strategy



Overview of our 2017/18 audit strategy

The following 'dashboard' summarises the significant accounting and auditing matters outlined in this report. It seeks to provide 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

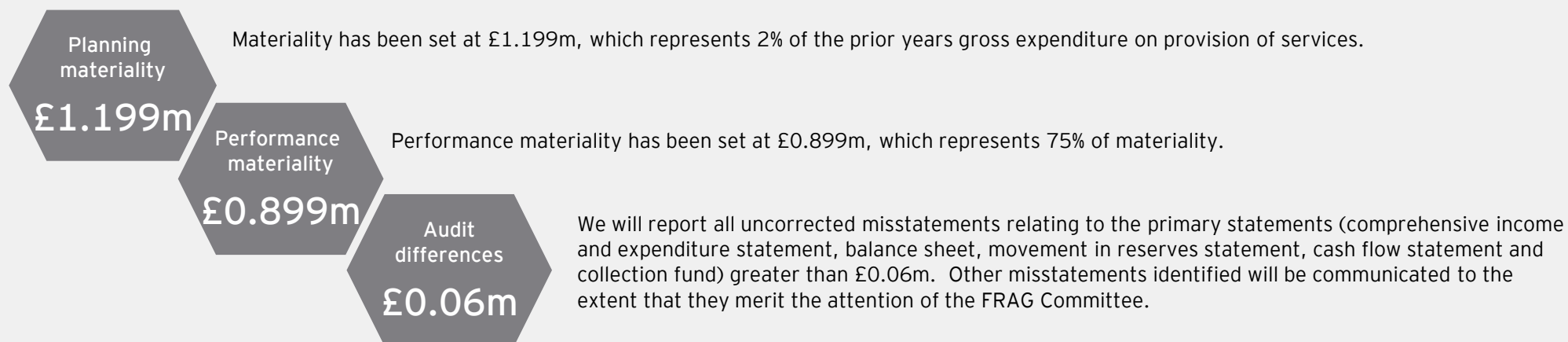
Risk / area of focus	Risk identified	Change from PY	Details
Risk of fraud in revenue and expenditure recognition	Fraud risk	No change in risk or focus	<p>Under ISA 240 there is a presumed risk that revenue may be misstated due to improper revenue recognition.</p> <p>In the public sector, this requirement is modified by Practice Note 10 issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p>
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.
Property, Plant and Equipment and Investment Property Valuations	Other risk	No change in risk or focus	<p>The fair value of Property, Plant and Equipment (PPE) and Investment Property (IP) represent significant balances in the Council's accounts and are subject to valuation changes, impairment reviews and depreciation charges.</p> <p>Management is required to make material judgemental inputs and apply estimation techniques to calculate the year-end balances recorded in the balance sheet.</p>

Overview of our 2017/18 audit strategy

Audit risks and areas of focus

Risk / area of focus	Risk identified	Change from PY	Details
Pensions Liability - IAS19	Other risk	No change in risk or focus	<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>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 and due to the nature, volume and size of the transactions we consider this to be a higher inherent risk.</p>

Materiality



Overview of our 2017/18 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 2018 and of the income and expenditure for the year then ended; and
- Our conclusion on the Council's arrangements to secure economy, efficiency and effectiveness (Value for Money).

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

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

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

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

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

Audit team changes

Key changes to our team.



Audit Manager

Tony Poynton joined EY in 2012 transferring with colleagues from the former Audit Commission. He has 13 years experience auditing District and County Councils in East Anglia. He is a qualified chartered accountant and has been an Audit Manager with the firm since 2015.

Tony's role is to project manage the day to day audit and is a key point of contact for Council finance staff.



02 Audit risks

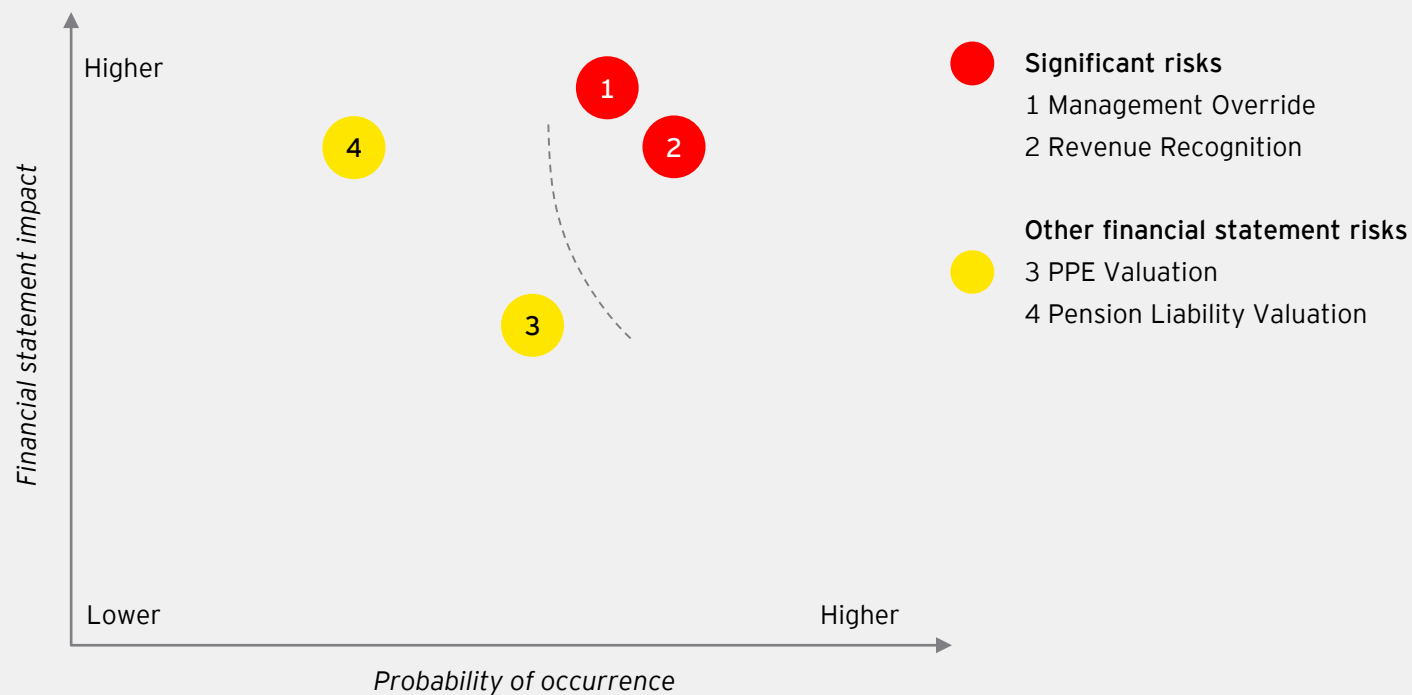


Risk assessment

Risk assessment

We have obtained an understanding of your strategy, reviewed your principal risks as identified in your 2016/17 Statement of Accounts and combined it with our understanding of the sector to identify key risks that impact our audit.

The following 'dashboard' summarises the significant matters that are relevant for planning our year-end audit:





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.

Risk of fraud in revenue and expenditure recognition*	What is the risk?	What will we do?
Financial statement impact Misstatements that occur in relation to the risk of fraud in revenue and expenditure recognition could affect the income and expenditure accounts and the Council's usable reserves.	<p>Under ISA240 there is a presumed risk that revenue may be misstated due to improper recognition of revenue.</p> <p>In the public sector, this requirement is modified by Practice Note 10, issued by the Financial Reporting Council, which states that auditors should also consider the risk that material misstatements may occur by the manipulation of expenditure recognition.</p> <p>Having assessed the key income and expenditure streams of the Council, we judge that there is material opportunity and incentive for the incorrect classification of revenue spend as capital expenditure.</p>	<p>In addition to our standard procedures we will:</p> <ul style="list-style-type: none"> ▶ Walk through controls designed and implemented to address the significant risk; ▶ Review expenditure capitalised in the year and review the GL to identify whether there are any potential transactional items that should be revenue in nature; ▶ Sample test additions to a higher degree than would otherwise be the case if the risk was not present; and ▶ Design specific journal procedures to review adjustment journals from across the financial year that move amounts from revenue to capital codes.



Audit risks

Our response to significant risks (continued)

Misstatements due to fraud or error*

What is the risk?

The financial statements as a whole are not free of material misstatements whether caused by fraud or error.

As identified in ISA (UK and Ireland) 240, management is in a unique position to perpetrate fraud because of its ability to manipulate accounting records directly or indirectly and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively.

We identify and respond to this fraud risk on every audit engagement.

What will we do?

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

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?

Property, Plant and Equipment Valuation

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

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

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

What will we do?

We will:

- ▶ 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 2017/18 to confirm that the remaining asset base is not materially misstated;
- ▶ Consider changes to useful economic lives as a result of the most recent valuation; and
- ▶ Test accounting entries have been correctly processed in the financial statements,

Audit risks

Other areas of audit focus - continued

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

What is the risk/area of focus?

Pension Liability Valuation

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

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

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

Accounting for this scheme involves significant estimation and judgement.

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

What will we do?

We will:

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



03

Value for Money Risks





Value for Money

Background

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

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

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

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

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

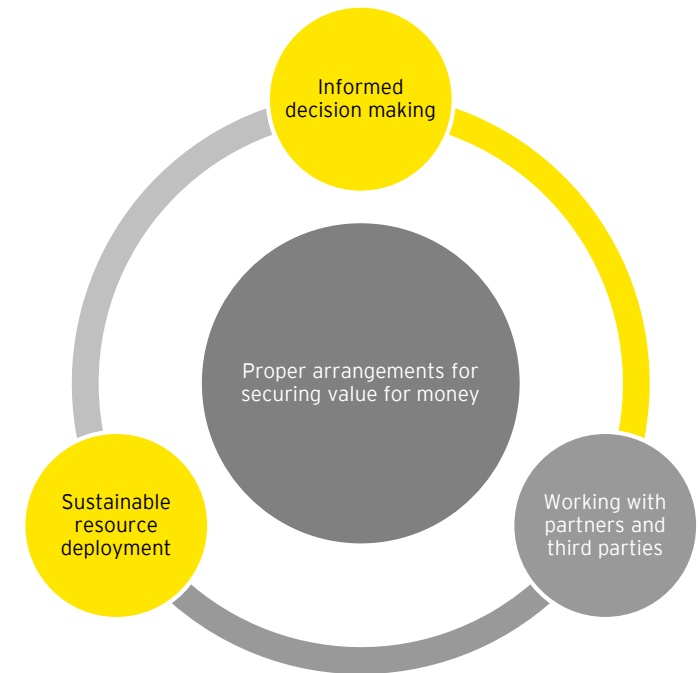
In considering your proper arrangements, we will draw on the requirements of the CIPFA/SOLACE framework for local government to ensure that our assessment is made against a framework that you are already required to have in place and to report on through documents such as your annual governance statement.

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

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

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

Our risk assessment has therefore considered both the potential financial impact of the issues we have identified, and also the likelihood that the issue will be of interest to local taxpayers, the Government and other stakeholders. This has not identified any risks which we view as relevant to our value for money conclusion at this stage of our audit.





04

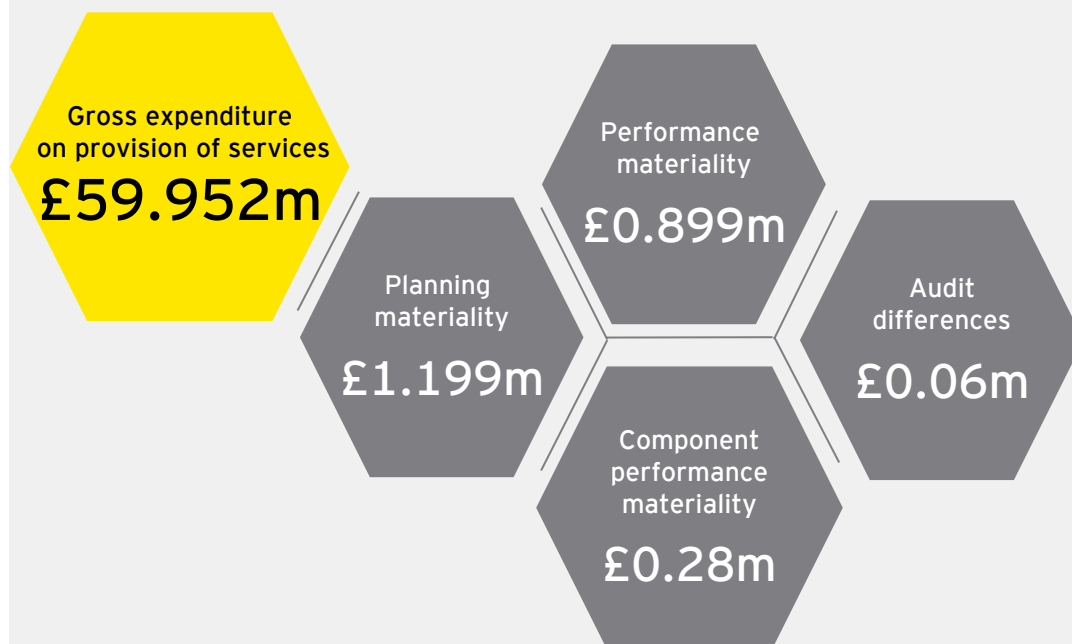
Audit materiality



Materiality

Materiality

For planning purposes, materiality for 2017/18 has been set at £1.199m. 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 £0.899m which represents 75% of planning materiality. The aggregate value of errors identified and corrected in 2016/17 amount to a gross value of £1.550m. However the errors identified were considered one-off misstatements which we do not expect to recur.

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 £0.28m.

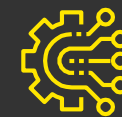
Audit difference threshold - we propose that misstatements identified below this threshold are deemed clearly trivial. A marginally higher threshold for misstatements is used for component reporting. We will report to you all uncorrected misstatements over this amount relating to the comprehensive income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

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 2017/18 as we believe this to be the most efficient audit approach. Although we are therefore not intending to rely on individual system controls in 2017/18, the overarching control arrangements form part of our assessment of your overall control environment and will form part of the evidence for your Annual Governance Statement.

Analytics:

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

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

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

Internal audit:

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

Scoping the group audit

Group scoping

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

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

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

Scoping by Entity

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

2	A	Full scope audits
0	B	Specific scope audits
0	C	Review scope audits
2	D	Specified procedures
3	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.

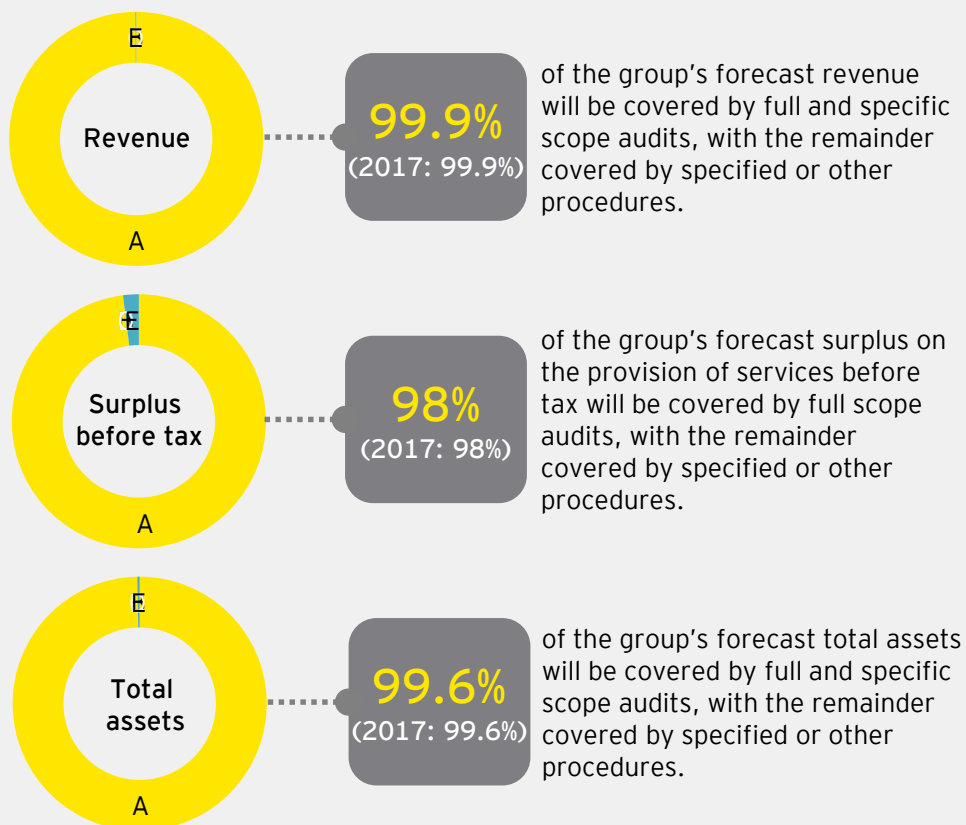
Other procedures: For those locations that we do not consider material to the Group financial statements in terms of size relative to the Group and risk, we perform other procedures to confirm that there is no risk of material misstatement within those locations. Individually, and in aggregate these components do not exceed more than 2.1% of the Group's surplus on the provision of services before tax.

Scope of our audit

Scoping the group audit (continued)

Coverage of Revenue/Profit 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. Further details on the scoping of the Group audit can be found at Appendix D.

Key changes in scope from last year

Big Sky Ventures was full scope in the prior year. It has been assessed as specific procedures in the current year as it is a holding company with few transactions and the Council does not produce consolidated accounts of this sub-group.

Big Sky Developments has been assessed as full scope in the current year. Details of the most significant changes can be found in appendix D.

Details of specified and other procedures

Big Sky Ventures sold its interest in Build Insight to the Council in 2017/18. We have requested component auditor Aston Shaw to perform specified procedures in relation to this transaction to ensure the profit or loss on disposal to the Council was not materially misstated.

Big Sky Property Management Ltd contains material investment property and we have therefore requested Aston Shaw to perform specified procedures on the existence and valuation of these assets.

In January 2018 the Council completed the sale of 50% of Build Insight Ventures Ltd to Norfolk Property Services. The joint arrangement has been structured as a joint venture as the partners have equal voting rights. Due to the complex nature of the transaction there is greater risk of misstatement. We will perform analytical review procedures to identify material unexpected changes



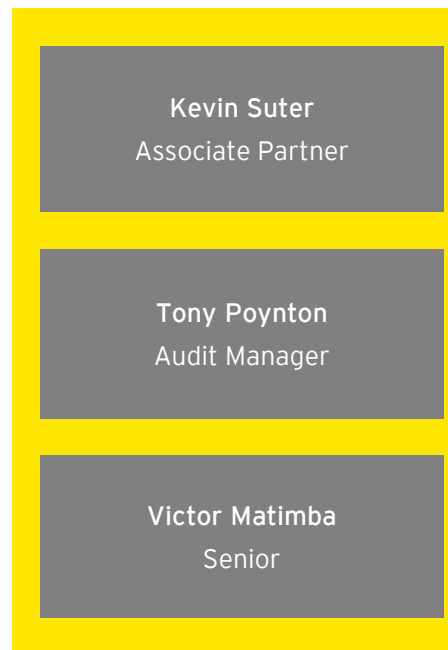
06

Audit team



Audit team

Audit team structure:



The engagement team is led by Kevin Suter, who has significant experience on Local Authorities and their audits. Kevin Suter is supported by Tony Poynton who is responsible for the day-to-day direction of audit work and Victor Matimba who is the key point of contact for the finance team.

* Key Audit Partner

Use of specialists

Our audit approach will require the involvement of specialists, and the use of their work.

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

Area	Specialists
Property, Plant and Equipment and Investment Property valuations	EY Valuations Team
Pension valuations and disclosures	EY Actuaries

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

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

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



07

Audit timeline





Audit timeline

Timetable of communication and deliverables

Timeline

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

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

Audit phase	Timetable	FRAG Committee timetable	Deliverables
Planning: Risk assessment and setting of scopes.	December / January		
Walkthrough of key systems and processes	January / February		
Interim audit testing	February / March	March FRAG Committee	Audit Planning Report
Year end audit	May / June		
Audit Completion procedures	June	June FRAG Committee	Audit Results Report Audit opinions and completion certificates
Completion of reporting	July/August	July/September FRAG Committee	Annual Audit Letter

Earlier deadline for production of the financial statements

What is the issue?

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. Slippage in the delivery or deterioration in the quality of working papers provided could lead to delay in the audit and additional fees.
- ▶ As your auditor, we have a more significant peak in our audit work and a shorter period to complete the audit. Risks for auditors relate to delivery of all audits within same compressed timetable. Slippage at one client could potentially put delivery of others at risk.

To mitigate this risk we will require:

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

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

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

How will we support the Council?

To support the Council we have and/or will:

- ▶ Work with the Council to engage early to facilitate early substantive testing where appropriate.
- ▶ Provide an early review on the Council's streamlining of the Statement of Accounts where non-material disclosure notes are removed.
- ▶ Facilitate faster close workshops to provide an interactive forum for Local Authority accountants and auditors to share good practice and ideas to enable us all to achieve a successful faster closure of accounts for the 2017/18 financial year.
- ▶ Work with the Council to implement 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.



08

Independence



Introduction

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

Required communications

Planning stage	Final stage
<ul style="list-style-type: none"> ▶ The principal threats, if any, to objectivity and independence identified by Ernst & Young (EY) including consideration of all relationships between the you, your affiliates and directors and us; ▶ The safeguards adopted and the reasons why they are considered to be effective, including any Engagement Quality review; ▶ The overall assessment of threats and safeguards; ▶ Information about the general policies and process within EY to maintain objectivity and independence. ▶ Where EY has determined it is appropriate to apply more restrictive independence rules than permitted under the Ethical Standard. 	<ul style="list-style-type: none"> ▶ In order for you to assess the integrity, objectivity and independence of the firm and each covered person, we are required to provide a written disclosure of relationships (including the provision of non-audit services) that may bear on our integrity, objectivity and independence. This is required to have regard to relationships with the entity, its directors and senior management, its affiliates, and its connected parties and the threats to integrity or objectivity, including those that could compromise independence that these create. We are also required to disclose any safeguards that we have put in place and why they address such threats, together with any other information necessary to enable our objectivity and independence to be assessed; ▶ Details of non-audit services provided and the fees charged in relation thereto; ▶ Written confirmation that the firm and each covered person is independent and, if applicable, that any non-EY firms used in the group audit or external experts used have confirmed their independence to us; ▶ Written confirmation that all covered persons are independent; ▶ Details of any inconsistencies between FRC Ethical Standard and your policy for the supply of non-audit services by EY and any apparent breach of that policy; ▶ Details of any contingent fee arrangements for non-audit services provided by us or our network firms; and ▶ An opportunity to discuss auditor independence issues.

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

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

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

Relationships, services and related threats and safeguards

We highlight the following significant facts and matters that may be reasonably considered to bear upon our objectivity and independence, including the principal threats, if any. We have adopted the safeguards noted below to mitigate these threats along with the reasons why they are considered to be effective. However we will only perform non-audit services if the service has been pre-approved in accordance with your policy.

Overall Assessment

Overall, we consider that the safeguards that have been adopted appropriately mitigate the principal threats identified and we therefore confirm that EY is independent and the objectivity and independence of Kevin Suter, 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 0%. 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

Relationships, services and related threats and safeguards

Self review threats

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

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

Management threats

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

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

Other threats

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

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

Other communications

EY Transparency Report 2017

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

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

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



09

Appendices



Appendix A

Fees

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

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

	Planned fee 2017/18	Scale fee 2017/18	Final Fee 2016/17
	£	£	£
Total Fee - Code work (note 1)	54,692	50,949	56,204
Total audit	54,692	50,949	56,204
Other non-audit services not covered above - Housing Benefits (note 1)	14,236	14,236	14,885
Total other non-audit services	14,236	14,236	14,885
Total fees	68,928	65,185	71,089

All fees exclude VAT

The agreed fee presented is based on the following assumptions:

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

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

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




Note 1:

The planned fee for Code work in 2017/18 includes a scale fee variation of £3,743 (2016/17: £5,255). The final fee for the 2016/17 housing benefits work included a scale fee reduction of £4,990. These scale fee variations remain subject to approval by PSAA.

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




Appendix B

Required communications with the Audit Committee (continued)

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




Appendix B

Required communications with the Audit Committee (continued)

		 Our Reporting to you
Required communications	 What is reported?	 When and where
Independence	<p>Communication of all significant facts and matters that bear on EY's, and all individuals involved in the audit, objectivity and independence</p> <p>Communication of key elements of the audit engagement partner's consideration of independence and objectivity such as:</p> <ul style="list-style-type: none"> ▶ The principal threats ▶ Safeguards adopted and their effectiveness ▶ An overall assessment of threats and safeguards ▶ Information about the general policies and process within the firm to maintain objectivity and independence 	Audit Planning Report and Audit Results Report
External confirmations	<ul style="list-style-type: none"> ▶ Management's refusal for us to request confirmations ▶ Inability to obtain relevant and reliable audit evidence from other procedures 	Audit results report
Consideration of laws and regulations	<ul style="list-style-type: none"> ▶ Audit findings regarding non-compliance where the non-compliance is material and believed to be intentional. This communication is subject to compliance with legislation on tipping off ▶ Enquiry of the FRAG Committee into possible instances of non-compliance with laws and regulations that may have a material effect on the financial statements and that the Committee may be aware of 	Audit results report
Internal controls	<ul style="list-style-type: none"> ▶ Significant deficiencies in internal controls identified during the audit 	Management letter/audit results report

Appendix B

Required communications with the Audit Committee (continued)

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

Additional audit information

Other required procedures during the course of the audit

In addition to the key areas of audit focus outlined in section 2, we have to perform other procedures as required by auditing, ethical and independence standards and other regulations. We outline the procedures below that we will undertake during the course of our audit.

Our responsibilities required by auditing standards

- ▶ Identifying and assessing the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion.
- ▶ Obtaining an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Council's internal control.
- ▶ Evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ Concluding on the appropriateness of management's use of the going concern basis of accounting.
- ▶ Evaluating the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtaining sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Council to express an opinion on the consolidated financial statements. Reading other information contained in the financial statements, including the board's statement that the annual report is fair, balanced and understandable, the 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.

Appendix D

Scoping the group audit

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

Detailed scoping							
In scope locations	Scope	Statutory audit performed by EY	Coverage			Current year rationale for scoping	
			Revenue	Surplus on the provision of services before tax	Total assets	Size	Risk
South Norfolk District Council	Full	✓	95.4%	92.3%	85.5%	Yes	Yes
Big Sky Developments Ltd	Full		4.5%	5.7%	14.1%	No	Yes
TOTAL FULL & SPECIFIC SCOPE			99.9%	98%	99.6%		

Changes from last year are:

Big Sky Ventures was full scope in 2016/17 we have assigned this component specified procedures as it is a holding company and the Council does not produce consolidated accounts at this level.

We have set Big Sky Developments Ltd as full scope as it contains many account balances which are material at group level.

We have scoped Big Sky Property Management Ltd and Big Sky Ventures Ltd as specified procedures as they contain limited account balances which are significant at group level.

Other procedures will be performed on the following:

Build Insight Ventures Ltd

Build Insight Ltd

Build Insight Consulting Ltd

Changes from last year are:

In 2016/17 the Build Insight group of companies were under the Big Sky Ventures umbrella. During 2017/18 Big Sky Ventures sold 100% of Build Insight Ventures Ltd to the Council. Build Insight Ventures Ltd owns 100% of the other Build Insight companies. The Council subsequently sold 50% of Build Insight Ventures to Norfolk Property Services.

Eastern Internal Audit Services



SOUTH NORFOLK COUNCIL

Progress Report on Internal Audit Activity

Period Covered: 15 November 2017 to 20 February 2018

Responsible Officer: Head of Internal Audit 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 the 10th March 2017, the Annual Internal Audit Plan for the year was approved, identifying the specific audits to be delivered. The following changes have recently been made to the audit plan:

Audit description	Nature of the change
Development Management	<p>This audit was due to be undertaken in quarter four, however due to the shared services with Broadland District Council commencing in January 2018 it was felt prudent to postpone this review to allow the team to focus on the shared services work.</p> <p>The timing of this audit will be considered as part of the audit planning process for 2018/19.</p>
Car Parks	<p>The key income controls in this area have been reviewed as part of the key controls audit.</p> <p>However, the Council is currently reviewing the operational and management aspects of this service, which is likely to lead to imminent changes and therefore the specific review of this area has been postponed until this period of change is complete.</p> <p>The timing of this audit will be considered as part of the audit planning process for 2018/19.</p>

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, with the exception of those audits mentioned above.

- 3.2 In summary 138.5 days of programmed work has been completed, equating to 94% of the (revised) Audit Plan for 2017/18.

4. THE OUTCOMES ARISING FROM OUR WORK

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

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

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

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

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

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

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

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

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

- 4.3 In addition, on completion of audit work "Operational Effectiveness Matters" are proposed, these set out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services. These are for management to consider and are not part of the follow up process.

- 4.4 During the period covered by the report Internal Audit Services have issued five final reports:

Audit	Assurance	P1	P2	P3
Accounts Receivable	Reasonable	0	0	1
Accountancy Services	Reasonable	0	2	5
Income	Reasonable	0	1	1
Key Controls and Assurance	Reasonable	0	1	0
Disaster Recovery including Business Continuity Planning	Reasonable	0	1	2

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 fourteen recommendations have been raised. All of these have been agreed by management.

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

- 4.6 In addition Internal Audit have finalised on a cross authority review of the Human Resources and Payroll area, the Council's involved in this review were; Breckland, North Norfolk & South Norfolk District Council's and Gt Yarmouth Borough Council.

The overall objective of the review was to identify where there are opportunities to improve practices in Human Resources and, in addition, to provide information to be analysed for future audits.

5 key points were raised on conclusion of the review:

1. To consider the effectiveness for monitoring and investigating long term absences.
2. To consider a review of the sickness absence policy, including sickness absence scoring and actions taken during sickness absence.
3. To consider a review of the appointment process to posts within the Council and the support provided to staff during their employment to ensure that these are fit for purpose and provide sufficient benefit to staff.
4. To consider a review of the percentage of posts filled by internal staff and the percentage of internal applicants for posts.
5. To consider introducing more KPIs for more HR functions, for example, monitoring sickness absence, training and staff turnover.

- 4.7 It is also pleasing to note that all audits concluded in a positive opinion being awarded, indicating a strong and stable control environment to date, with no issues that would need to be considered at year end and included in the Annual Governance Statement.

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 are a total of 11 indicators, over 4 areas. The performance measures can be seen at **Appendix 3**.

- 5.2 There are individual requirements for performance in relation to each measure; however performance will be assessed on an overall basis as follows:

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

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

- 5.3 The first three quarters work has been completed and a report on the performance measures was provided to the Head of Internal Audit, outcomes highlights that performance is an acceptable level.
- 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 indicates that the audit plan is on track for completion.

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 six completed audits in the period covered by this report, and the position of the (revised) Internal Audit Plan for 2017/18.

APPENDIX 1 – PROGRESS IN COMPLETING THE AGREED AUDIT WORK

Audit Area	Audit Ref	No. of days	Revised Days	Days Delivered	Status	Assurance Level	Recommendations				Date to Committee
							Urgent	Important	Needs Attention	Op	
Quarter 1											
Leisure	SNC1801	10	10	10	Final Report issued 12 June 2017	Reasonable	0	1	3	1	24 November 2017
Homelessness	SNC1802	10	10	10	Final Report issued 3 July 2017	Reasonable	0	5	0	3	24 November 2017
TOTAL		20	20	20							
Quarter 2											
Corporate Governance	SNC1803	6	6	6	Final Report issued 20 September 2017	Reasonable	0	1	1	1	24 November 2017
Cross Authority Review HR & Payroll	SNC1804	6	6	6	Final Report issued 18 January 2018						9 March 2018
Performance Management	SNC1805	10	10	10	Final report issued 27 October 2017	Reasonable	0	0	3	1	24 November 2017
Housing Standards - Disabled Facilities Grants	SNC1811	10	10	10	Final Report issued 19 October 2017	Reasonable	0	3	3	0	24 November 2017
TOTAL		32	32	32							
Quarter 3											
Key Controls & Assurance	SNC1807	15	15	15	Final Report issued 11 January 2018	Reasonable	0	1	0	0	9 March 2018
Accountancy Services	SNC1808	16	16	16	Final Report issued 12 December 2017	Reasonable	0	2	5	1	9 March 2018
Accounts Receivable	SNC1809	10	10	10	Final Report issued 15 November 2017	Reasonable	0	0	1	0	9 March 2018
Income	SNC1810	7	7	7	Final Report issued 11 January 2018	Reasonable	0	1	1	0	9 March 2018
TOTAL		48	48	48							
Quarter 4											
Corporate Health & Safety	SNC1813	6	6	0.5	Audit to start 22 February 2018						
Development Management	SNC1814	20	0	0							
Car Parks	SNC1815	10	0	0							
TOTAL		36	6	0.5							
IT Audits											
Business Continuity & Disaster Recovery	SNC1812	10	10	10	Final Report issued 5 December 2017	Reasonable	0	1	2	2	9 March 2018
Cash Receipting	SNC1806	10	10	10	Final Report issued 1 August 2017	Reasonable	0	3	2	0	24 November 2017
Service Desk	SNC1816	10	10	8	Draft Report imminent						
TOTAL		30	30	28							
Follow Up											
Follow Up	NA	12	12	10							
TOTAL		12	12	10							
TOTAL		178	148	138.5			0	18	21	9	
Percentage of plan completed				94%							

APPENDIX 2 – AUDIT REPORT EXECUTIVE SUMMARIES

Assurance Review of Accounts Receivable

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Raising of debtors	0	0	1	0
Total	0	0	1	0

No new recommendations have been raised in respect of reconciliations, recovery and write off. The overall assurance level is based on the recommendation raised in this report and previous recommendations that remain outstanding.

SCOPE

These key financial systems feed into the Statement of Accounts and requires regular review to confirm the adequacy and effectiveness of controls in these key areas. The focus of the audit was on the raising and authorisation of invoices and credit notes and the recovery and write off of aged debt.

RATIONALE

- 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 one needs attention recommendation being raised upon the conclusion of our work. In addition, four recommendations in this area raised in previous audit reports remain outstanding, as detailed under 'Previous audit recommendations' below.
- The previous audit report for accounts receivable (SNC/16/05) was issued in February 2016. It concluded in a 'reasonable' assurance opinion with four 'important' and two 'needs attention' recommendations being raised. As there is only one recommendation in this report, this indicates a positive direction of travel.

POSITIVE FINDINGS

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

- System access to the sales ledger is restricted to only those staff who require it as part of their role.
- Invoices issued by the Council are uniquely numbered and clearly state payment terms and methods.
- An exceptions report of payments that have not been automatically allocated is run and cleared on a daily basis.
- The sales ledger control account is reconciled to the general ledger on a monthly basis.
- Instalment arrangements are made which take into account the debtor's circumstances and the likelihood of repayment.
- Accounts on hold have documented reasons for recovery being suspended.
- Debt write offs are made in accordance with delegated authority, after recovery options have been exhausted.

ISSUES TO BE ADDRESSED

The audit has highlighted the following areas where one 'needs attention' recommendation has been made.

Raising of debtors

- Duplicate customer accounts are removed from the sales ledger, to reduce the risk of duplicate invoices being raised.

Operational Effectiveness Matters

There are no operational effectiveness matters for management to consider.

Previous audit recommendations

The audit reviewed the previous internal audit recommendations, of which four remain outstanding. Two of these were raised in the previous audit of Accounts Receivable (SNC/16/05) and two in 2016/17 Key Controls audit (SNC/17/14). The recommendations relate to the processes for raising and authorising invoices and credit notes, formalising the processes for the recovery of aged debt, and updating the Council's Corporate Debt policy. Work is in progress to address all of these issues and a revised deadline of 31st December 2017 was agreed for all four of the recommendations.

In 2016/17, TIAA carried out a cross-authority review of accounts receivable between four Councils in Norfolk, including South Norfolk Council. While this review did not result in formal audit recommendations, the outcomes have been considered by management and implemented as necessary. Since the review, the Council has achieved PCI DSS compliance and this will be stated on the Council's website to provide assurance about the security of online payments

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	2*	0
Budgetary Control	0	1	1	0
Journal Entries - General Ledger Maintenance	0	1	0*	0
Control Accounts	0	0	0*	0
Asset Management / Capital Expenditure	0	0	1	1
Total	0	2	5	1

No new recommendations have been raised in respect of Control Accounts or Banking. *One recommendation applies to three scope areas.

SCOPE

SNC1808 Accountancy Services including control accounts, asset register, budgetary control, treasury management. These key financial systems feed into the Statement of Accounts and requires regular review to confirm the adequacy and effectiveness of controls in these key areas.

The areas of banking, bank reconciliations and insurances will be covered within the SNC1810 Income audit and hence will not be covered within this review.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of two 'important' and 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.
- This assurance opinion has indicated that the overall level of control has remained the same since the previous audit report issued in March 2016. .

POSITIVE FINDINGS

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

- 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.
- A budget setting timetable was put in place to guide the 2017/18 budget setting process. Internal Audit confirmed that the budget was approved by the Cabinet and Council as planned in the timetable. This helps ensure that all budgets are set in a timely manner.
- 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 by the Accountancy Manager. This helps ensure that all key groups and individuals to the process are kept up-to-date with Council budgetary activities and performance.
- There is a process in place for all capital acquisitions and de-recognitions to be appropriately authorised and promptly updated on the fixed asset register.

- Assets are revalued on a regular basis in accordance with the Council's valuation schedule. The asset register is updated to reflect the changes in value with the latest valuation being undertaken as at 1st April 2017. This helps ensure that the asset register is accurate and up-to-date.

-

ISSUES TO BE ADDRESSED

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 in a timely manner, 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 by a nominated member of the accountancy team to ensure these are sequentially numbered, recorded with a narrative, retained with supporting documentation and appropriately authorised. In addition, authorisation is to be provided in a timely manner and where possible, prior to processing. 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

- All procedures be regularly reviewed to ensure these are up-to-date and kept up to date with the inclusion of version control, thereby reducing the risk of outdated or inaccurate procedures being adhered to.

Treasury Management

- Finance team to ensure that the completion and review of reconciliations is brought up to date and is kept up to date, thereby reducing the risk of income being unaccounted for or difficult to trace where differences are identified.
- Loans, shares, interest and dividends reconciliations be undertaken between the investment spreadsheet, general ledger and bank statements, this reduces the risk of loan and share investments being incorrectly accounted for within the Council's accounts.

Budgetary Control

- Budget monitoring activity be formally documented to evidence meetings with budget holders and the accounting of variances, where required, thereby reducing the risk of income or expenditure being unaccounted for or overspends occurring within the Council's accounts.

Asset Management / Capital Expenditure

- The annual reconciliation between the Fixed Asset Register Spreadsheet, the Fixed Asset Module and the ledger be subject to a documented independent review which is signed and dated by the reviewer, thereby reducing the risk of inaccurate figures being portrayed in the Council's financial accounts.

Operational Effectiveness Matters

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

- Consideration be given to investigating possibilities of maintaining one central record of Council capital assets.

Other issues of note

The fixed asset register spreadsheet is kept on the Accountancy drive which can only be accessed by the Accountancy team, however, Audit noted that there is no password protection on the spreadsheet itself. The Senior Accountant stated that this was due to historic issues with having a password which could lead to the spreadsheet becoming inaccessible. The Senior Accountant accepts the risks posed by not implementing a password and is confident that the team now have a good balance between keeping records accessible and also ensuring that they are secure. As a consequence of this, a recommendation will not be raised within this report.

A finance review has been on-going over the previous few months. A report on this review was presented to Senior Leadership Team in October 2017. Part of this review led to the decision to bring in the Senior Management Accountant post. Suggestions for improvement of the service were made and a number of these suggestions have been brought forward. Implementation of the outcomes of the review is the next stage which will be implemented over the next 6 months.

Assurance Review of Income

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Opening of the post	0	1	0	0
Income account reconciliations	0	0	1	0
Total	0	1	1	0

No recommendations have been raised in respect of insurance coverage, physical security, receipting, banking and income.

SCOPE

The objective of the audit was to review the systems and controls in place to help confirm that these are operating adequately, effectively and efficiently. The audit covered policies and procedures, physical security surrounding the making of payments, receipting of monies, banking, posting of income and reconciling income.

RATIONALE

- 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 one 'important' and one 'needs attention' recommendations being raised upon the conclusion of our work.
- This assurance opinion indicates that the overall level of control has been maintained since the previous audit of Income in 2015/16, which concluded in a 'reasonable' assurance opinion, hence the direction of travel remains unchanged.

POSITIVE FINDINGS

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

- Documented procedures are in place and regularly reviewed to govern the receipt, banking and reconciling of income, to help ensure that staff are aware of the correct practices to follow.
- Clear payment guidance is available to the public to help facilitate the payment process for customers.
- Insurance cover is in place for monies held and transported, to ensure that the Council is covered, thereby preventing the risk of financial loss.
- Cash, which is stored securely, is collected and banked on a regular basis thereby reducing the risk of income being misappropriated.
- The income bank account is reconciled monthly by the Reconciliation Accountant who is independent to the day to day operation of the income function. This improves accountability of income by ensuring all income is correctly accounted for and reduces the risk of misappropriation.

ISSUES TO BE ADDRESSED

The audit has highlighted the following area where one 'important' recommendation has been raised.

Opening of the post

- Two staff members to be present for the opening of the post and the preparation of income for banking, so as to reduce the risk of income being misappropriated at the point of receipt.

The audit has also highlighted the following area where one 'needs attention' recommendation has been made.

Income account reconciliations

2. Income bank reconciliations and bank charges reconciliations are to be subject to independent review, thereby reducing the risk of unidentified errors and or delays in the reconciliation process.

Previous audit recommendations

The previous report was issued in January 2016, with a 'Reasonable' assurance having raised one 'important' and two 'needs attention' recommendations, all of which have since been confirmed as implemented.

Other points to note

At the start of the financial year there were instances where Loomis, the security company responsible for the collection of income, were not making the bi-weekly collection as contracted. This has since been addressed thus no recommendation has been raised within this report.

Assurance Review of Key Controls and Assurance

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Accounts Payable	0	1	0	0
Total	0	1	0	0

No new recommendations were made as part of this Key Controls audit in respect of Accounts Receivable, Accountancy Services, Payroll, Housing Benefit and Council Tax Support, Council Tax and National Non-Domestic Rates or Assurance Framework. See 'Outstanding Previous Recommendations' section below for details of recommendations raised in those systems reports.

SCOPE

The objective of the audit was to review the systems and controls in place within Key Controls to support the Annual Governance Statement, as detailed in the action points above, to help confirm that these are operating adequately, effectively and efficiently.

RATIONALE

- 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 one 'important' recommendation being raised upon the conclusion of our work.

KEY FINDINGS

Key Controls Testing

There are a number of key controls within the fundamental financial systems that are required to be covered by internal audit each year, in order to support the Annual Governance Statement (AGS) and the Head of Internal Audit's Annual Report and Opinion.

Under the agreed internal audit plan for 2017/18 a number of these material systems have been reported on in detail and those key controls have been addressed in each system reviewed. Recommendations have been raised in these individual audit reports. The areas this applies to are:

- Accounts Receivable;
- Accountancy Services (general ledger, control accounts, asset management, treasury management and budgetary control);
- Cash Income and Receipt;

In addition, the key controls in the material systems that were not covered as part of the agreed internal audit plan for 2017/18 have been reviewed as part of this audit. The areas to which this applies are:

- Accounts Payable;
- Payroll;
- Housing Benefit and Council Tax Support;
- Council Tax and National Non-Domestic Rates (NNDR);
- Assurance Framework.

During the internal audit of the above areas within this review, the audit has highlighted the following areas where one 'important' recommendation has been made.

Accounts Payable

- Records of changes to supplier details are to be retained, including confirmation that suppliers have been contacted to verify changes to bank details. This will help to reduce the risk of fraud or error in payments to bogus suppliers.

Assurance Framework

A review of the assurance framework with the Council was also undertaken as part of the internal audit review. This focused on the structure of the assurance statements, responsibility for completion, evidence retained, the mechanism for incorporating information into the Annual Governance Statement (AGS), senior officer and member review of the AGS and subsequent review and monitoring of action plans.

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

- The AGS included in the 2016/17 Statement of Accounts refers to the fact that managers in cross cutting services completed assurance statements which feed into the assurance framework highlighting the governance issues that need to be addressed.
- The AGS for 2016/17 was reviewed by the Finance, Resources, Audit and Governance Committee in July 2017.

Outstanding Previous Recommendations

There are recommendations outstanding from previous financial years that relate to key controls; three in the area of Accounts Receivable - reviewing the Corporate Debt Policy, formalising and monitoring debt recovery, and adopting a consistent approach to raising and checking the accuracy of invoices and one in the area of Council Tax – quality control sample checking. Revised deadline dates have been provided and these should be addressed by 31st March 2018 and will continue to be monitored by internal audit.

During 2017/18 key controls were also tested as part of the full reviews of Accounts Receivable, Income and Accountancy Services. Recommendations were made within the Income audit – to ensure that back reconciliations are independently reviewed and also in the Accountancy Services audit - relating to checking of journals and virements, documenting budget monitoring activity, completing reconciliations in a timely manner each month and reconciling investments. As these audits were recently completed, the dates for these to be completed are not yet due.

Other points to note

- The Council is currently implementing changes to its process to ensure compliance with revised IR35 legislation, including the development of written procedures to identify contractors who should be paid through the payroll. Although this is not yet in place, a recommendation has not been raised as this is work in progress and is expected to be operational by the end of the current financial year.
- Quality control processes for Housing Benefit, Council Tax and NNDR have been impacted by staff changes in the Financial Systems team. Two new Quality Control officers will be joining the team in January 2018, which will ensure that all quality checks can be completed promptly.
- Reconciliations of Council Tax and NNDR to the general ledger have not been completed since July 2017. The responsibility for completing these reconciliations is being reassigned as a result of staff changes within the Accountancy Team. A recommendation relating to bringing all reconciliations up to date was raised in the Accountancy Services audit (SNC/18/08), and a new recommendation has not been raised here.
- Budget monitoring takes place every quarter. Due to the timing of the audit, midway through Q3, it was not possible to undertake top up testing for the second half of the year.

Assurance Review of Disaster Recovery

Executive Summary

OVERALL ASSURANCE ASSESSMENT



ACTION POINTS

Control Area	Urgent	Important	Needs Attention	Operational
Adequacy of DR provision	0	0	0	1
DR Testing	0	1	0	0
Continuous Improvement	0	0	1	0
Wymondham Physical Access Controls	0	0	1	1
Total	0	1	2	2

No recommendations have been raised in respect of Backup & Recovery Capabilities, Alignment with Business Continuity Plans, DR Development for New Systems and Third Party Management.

SCOPE

The Council has upgraded its Disaster Recovery infrastructure at the Wymondham Leisure Centre, this audit will refer the work undertaken and provide assurance over the controls that are being put in place.

RATIONALE

- The systems and processes of internal control are, overall, deemed 'Reasonable Assurance' in managing the risks associated with the audit. The assurance opinion has been derived as a result of one 'important' and two 'needs attention' recommendations being raised upon the conclusion of our work.
- The audit has also raised two 'operational effectiveness matters', which sets out matters identified during the assignment where there may be opportunities for service enhancements to be made to increase both the operational efficiency and enhance the delivery of value for money services.

POSITIVE FINDINGS

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

- The management of the Council's Disaster Recovery processes is a shared responsibility within the IT Department working with business areas and emergency planning staff as required.
- The Disaster Recovery plans are regularly shared and discussed with Business Continuity staff to ensure adequate alignment and consistency between Business Continuity and Disaster Recovery.
- The Disaster Recovery plans include reference to priority service applications, which have been documented with the assistance of Business Continuity management and the related service area plans that are documented by each service within the Council. This helps to ensure that priority services are recovered in line with business requirements.
- Invocation and escalation procedures were found to be present within the Disaster Recovery and the Business Continuity Plan documents. The inclusion of this data helps to ensure that those with responsibility for managing the invocation and escalation processes carry these out in a consistent manner.
- The audit noted the presence of an IT Capital budget of £25,000, for Disaster Recovery for the 2017/18 year. This will help to support potential changes to the Disaster Recovery service that may be required.
- The audit noted adequate backup processes in place. Further improvements are planned when the second network connection is installed and available, thus allowing for nightly data replications to the Wymondham Leisure Centre Disaster Recovery facility.
- The Council's telephone network has adequate resilience with the support of BT. The migration from Long Stratton Leisure Centre to Wymondham Leisure Centre as a Work Area Recovery site will include equivalent resilience in the telephone systems supported by Norfolk County Council.

- The audit observed that the Disaster Recovery facility is securely located with appropriate key controls in place to restrict access.
- The audit noted excellent CCTV coverage installed within the Disaster Recovery facility, which is motion activated and takes photographs of the personnel within the facility, thus helping to ensure that inappropriate access can be logged, monitored and acted upon in a timely manner.
- The Disaster Recovery suite at Wymondham has been fitted with built-in fire suppressant systems within the server racks and has its own climate control systems, with maintenance in place. This helps to ensure that, should an event occur, immediate automated action can be taken to mitigate the risks of fire damage.

ISSUES TO BE ADDRESSED

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

Disaster Recovery Testing

- There is a need to develop, agree and implement an appropriate Disaster Recovery test plan to reduce the risk of the plans not being fit for purpose when required following an incident.

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

Continuous Improvement

- The Council needs to ensure that appropriate change control processes are put in place to manage updates to the Disaster Recovery plan to take account of lessons learned following tests. This is to reduce the risk of changes not being adequately taken account of and to ensure that an audit trail is in place.

Wymondham Physical Access Controls

- The process to periodically change the key code for the Disaster Recovery facility needs to be enhanced by ensuring that all such codes are changed following any IT staff changes. This is to reduce the risk of unauthorised access to such facilities.

Operational Effectiveness Matters

The operational effectiveness matters, for management to consider relate to the need to remove network links currently in the Disaster Recovery plan that open other supporting documents and to embed the separate documents inside the Disaster Recovery plan and to the installation of an additional CCTV warning sign on the entry door into the Disaster Recovery facility at Wymondham.

APPENDIX 3 – PERFORMANCE MEASURES

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

Eastern Internal Audit Services



SOUTH NORFOLK COUNCIL

Strategic and Annual Internal Audit Plans 2018/19

Responsible Officer: Head of Internal Audit

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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. AUDIT CHARTER

- 2.1 The Internal Audit Charter (the Charter) was developed as part of the planning process in 2014/15 and incorporated the requirements of the PSIAS. This was updated in 2015/16 to more accurately reflect the working arrangements with the Internal Audit Contractor – TIAA Ltd.
- 2.2 The Charter was then updated in 2017 to also reflect the new International Professional Practices Framework (IPPF) and PSIAS – and in particular the mission statement and core principles. The Charter now also more explicitly includes reference to the mandatory nature of

the Core Principles for the Professional Practice of Internal Auditing, the Code of Ethics, and the International Standards.

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

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

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

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

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

3. INTERNAL AUDIT STRATEGY

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

4. STRATEGIC INTERNAL AUDIT PLAN

- 4.1 The overarching objective of the Strategic Internal Audit Plan (**see Appendix 2**) is to provide a comprehensive programme of review work over the next three years, with each year providing sufficient audit coverage to give annual opinions, which can be used to inform the organisation's Annual Governance Statement.
- 4.2 The coverage over the forthcoming three years has been discussed with senior management to ensure audits are undertaken at the right time and at a time where value can be added. The discussions also went into greater detail in relation to the scope of the audits for the forthcoming year, including where audits had been deferred from 2017/18 and where joint reporting was required.

5. ANNUAL INTERNAL AUDIT PLAN

- 5.1 Having developed the Strategic Internal Audit Plan, the Annual Internal Audit Plan is an extract of this for the forthcoming financial year (**see Appendix 3**). This details the areas being reviewed by Internal Audit, the number of days for each review, the quarter during which the audit will take place and a brief summary / purpose of the review.
- 5.2 The Annual Internal Audit Plan for 2018/19 totals 183 days, encompassing:
- 12 assignments which will conclude in an audit opinion, and
 - 2 IT audits.
- 5.3 Audit verification work concerning audit recommendations implemented to improve the Council's internal control environment will also be undertaken throughout the financial year.

6. PERFORMANCE MANAGEMENT

- 6.1 The new Internal Audit Services contract includes a suite of key performance indicators (**see Appendix 4**) against which the new contractor will be reviewed on a quarterly basis. There are a total of 11 indicators, over 4 areas.
- 6.2 There are individual requirements for performance in relation to each indicator; however performance will be assessed on an overall basis as follows (for the first year):
- 9-11 KPIs have met target = Green Status.
 - 5-8 KPIs have met target = Amber Status.
 - 4 or below have met target = Red Status.

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

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

7. PROPOSAL

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

8. RECOMMENDATIONS

- 8.1 That the Committee approve:
- a) the Internal Audit Strategy for 2018/19;
 - b) the Strategic Internal Audit Plans 2018/19 to 2020/21; and
 - c) the Annual Internal Audit Plan 2018/19.

APPENDIX 1 – INTERNAL AUDIT STRATEGY



EASTERN INTERNAL AUDIT SERVICES SOUTH NORFOLK COUNCIL

INTERNAL AUDIT STRATEGY FOR 2018/19

1. Introduction

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

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

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

2. How the internal audit service will be delivered

- 2.1 The Role of the Head of Internal Audit and contract management is provided by South Norfolk Council to; Breckland, Broadland, North Norfolk, South Holland and South Norfolk District Councils, Great Yarmouth Borough Council and The Broads Authority. All Authorities are bound by a Partnership Agreement.
- 2.2 The delivery of the internal audit plans for each Authority is provided by an external audit contractor, who reports directly to the Head of Internal Audit. The current contract is with TIAA Ltd, and commenced on 1 April 2015, for an initial period of 5 years.

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

3.1 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 IA plans and the results of audit engagements.

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

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

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

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

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

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

3.3 Internal Audit Annual Opinion

3.3.1 The annual opinion provides Senior Management and the 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	2018/19	2019/20	2020/21
Annual Opinion / Governance audits					
Corporate Governance	2017/18 - Reasonable	High		6	
Company Audits	2016/17 - Reasonable	High	10		10
Big Sky	New specific area	High		10	
Risk Management	2016/17 - Substantial	High	10		
Key Controls and Assurance	2017/18 - Reasonable	High	10	15	10
Corporate Health and Safety	2017/18 - Review Due	High			6
GDPR	New specific area	High	5		
Fundamental Financial Systems					
Accountancy Services including control accounts, banking, bank reconciliation, asset register, budgetary control, insurances and treasury management	2017/18 - Reasonable	High		16	
Accounts Payable	2016/17 - Reasonable	High	12		12
Accounts Receivable	2017/18 - Reasonable	High		10	
Income (remittances)	2017/18 - Reasonable	High		7	
Local Council Tax Support and Housing Benefit	2016/17 - Reasonable	High	20		20
Council Tax and National Non-Domestic Rates	2016/17 - Reasonable	High	20		20
Payroll and Human Resources	2016/17 - Substantial	High	15		15
Cross Authority Review	Ad hoc review				
Service area audits					
Performance Management	2017/18 - Reasonable	Medium		10	
Election and Electoral Registration	2013/14 - Reasonable	Medium	10	5	
Procurement	2016/17 - Reasonable	High	12		
Property Valuation, management, investment and development	2014/15 - Reasonable	High		10	
Leisure	2017/18 - Reasonable	Medium		10	

Audit Area	Last review & assurance	Associated Risk	2018/19	2019/20	2020/21
Service area audits					
Democratic Services - members services, training, allowances and expenses	2015/16 - Reasonable	Low		8	
NPLaw Arrangements	2014/15 - Reasonable	Medium		8	
Planning & Development Management	2014/15 - Reasonable, 17/18 deferred	Medium		20	
CNC - Building Control	2016/17 - Reasonable	High	12		12
Economic Development	Deferred from 2015/16	Medium		10	
Licensing, Food Safety and Health and Safety	2016/17 - Reasonable	Medium			8
Car Parks	2015/16 - Reasonable, 17/18 deferred	High	10		10
Early Help Hub	2016/17 - Limited	Medium		10	
Waste Management includes refuse collection, street cleansing, recycling, clinical waster, abandoned vehicles and grounds maintenance	2014/15 - Reasonable 2016/17 - Reasonable	High		10	
Emergency Planning, Environmental Protection, Pest Control, Dog Warden & Pollution Control	2015/16 - Reasonable	Medium			10
Housing Standards includes DFGs and discretionary grants	2017/18 - Reasonable	Medium			10
Homelessness	2017/18 - Reasonable	Medium			10
Housing Strategy and Affordable Housing	2016/17 - Reasonable	Medium			10
Home Options	2016/17 - Reasonable	Medium			10
ICT Audits					
Cyber crime	New specific area	High	15		
Remote Access	2014/15 - Reasonable	Hgh	10		
Business Continuity & Disaster Recovery	2017/18 - Reasonable	High		15	
Audits to be confirmed				15	30
Follow Up of audit recommendations					
All agreed internal audit recommendations			12	12	12
Total number of days			183	207	215

APPENDIX 3 – ANNUAL INTENAL AUDIT PLAN

Audit Area	No of days	Q1	Q2	Q3	Q4	Notes
Annual Opinion audits						
Key Controls and Assurance	10			10		Annual review of key controls that feed into the Statement of Accounts, for those systems not subject to an audit review within year. This will cover; accounts receivable, accountancy service, income remittances and the assurance framework.
Risk Management	10	10				This review is to focus on the current Risk Management arrangements in place and suggest improvements. Areas of focus will be strategy, risk tolerance, training, monitoring, completeness of the registers, roles, responsibilities and risk management culture within the organisation.
GDPR	5		5			Strategic overview on how GDPR had been embedded into the Authority and identifying any gaps in implementation
Build Insight	10			10		As a result of the change in structure, people and peocesses for this company, a review will be undertakenduring 2018/19 to ensure that the governance in place is robust, that the new arrangements are working and that expevted controls are efficient and effective. This report will be made available to both South Norfolk Council and the Build Insight Board.
Fundamental Financial Systems						
Council Tax and NNDR	20			20		Rotational Internal Audit review focusing on change of process especially within the areas of: rewarding of discounts, Housing Benefit overpayments and debt write off. Consideration will also be given to culture shift post BIT review of Accountancy Services.
Housing Benefit	20			20		
Accounts Payable	12			12		Rotational Internal audit to provide controls assurance over the accounts payable process. Key area of focus is the creation and amendment of creditor master files and duplication / volume of supplier records. Consideration will also be given to culture shift post BIT review of Accountancy Services.
HR & Payroll	15				15	Payroll review of new processes and controls in place, efficiency and accuracy of processing, security of data, management information and the interaction with HR processes.

Audit Area	No of days	Q1	Q2	Q3	Q4	Notes
Service area audits						
Elections	10	10				A review to ensure that a reconciliation between the Gazetteer and the Electoral system is in place and that it is complete, efficient and accurate to support the Boundary review
Building Control	12				12	Controls and assurance review focusing on the completeness of income and debt recovery processes. Given new KPIs in place assess the data quality supporting them.
Car Parks	10		10			A review regularly undertaken due to the risks associated with the area and the flow of income The service area is currently reviewing the operational and management aspects of this service which are likely to lead to imminent changes and therefore the audit was deferred from 17/18 until this period of change is complete The 2018/19 internal audit will focus on the risks associated with the area and the flow of income.
Procurement	12		12			Governance and internal control processes review to ensure that processes are efficient and effective when procuring Works, Services and Supplies but remaining compliant with the Regulations, UK Law and Constitution. The review will include contract exemptions and off contract spend.
ICT Audits						
Remote Access	10		10			To provide assurance that remote access to the Council's systems is appropriately secure and via authorised users. The audit will include a review of policy and procedures, management of user accounts to access the servers, granting and monitoring of access. This will support the cyber crime review.
Cyber Crime	15				15	An Internal Audit that will risk assess the Council's exposure to Cyber Crime. This will cover security, vigilance and resilience.
Follow Up of audit recommendations						
All agree internal audit recommendations	12	3	3	3	3	Bi-monthly follow up of agreed recommendations and evidence of closure verified.
Total number of days	183	23	40	75	45	

APPENDIX 4 – PERFORMANCE MEASURES

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

Finance, Resources, Audit and Governance Committee Self-Assessment

Report of the Head of Governance
Cabinet Member: Cllr Barry Stone, Resources

CONTACT
Emma Hodds 01508 533791
ehodds@s-norfolk.gov.uk

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 independent 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 fourth time that the Finance, Resources, Audit and Governance Committee has undertaken a self-assessment. At an informal session in November 2017 the committee reviewed the two assessment tools, and this was finalised by the Head of Governance and the Chair of the Committee following this discussion. The conclusion of which was circulated to all members of the committee.
- 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; and was circulated to members, 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

Agenda Item 9 Appendix 1

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"> - Good governance - Assurance framework - Internal audit - External audit - Financial reporting - Risk management - Value for money or best value - Counter fraud and corruption 		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		

11	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			
12	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		
13	Does the chair of the committee have appropriate knowledge and skills?	Y		
14	Are arrangements in place to support the committee with briefings and training?	Y		
15	Has the membership of the committee been assessed against the core knowledge and skills framework and found to be satisfactory?	Y		
16	Does the committee have good working relationships with key people and organisations, including external audit, internal audit and the chief finance officer?	Y		
17	Is adequate secretariat and administrative support to the committee provided?	Y		
	Effectiveness of the committee			
18	Has the committee obtained feedback on its performance from those interacting with the committee or relying on its work?			N
19	Has the committee evaluated whether and how it is adding value to the organisation?	Y		
20	Does the committee have an action plan to improve any areas of weakness?	Y		

Notes:

7 – responsibility for risk management oversight rests with Cabinet – however internal audits are risk based.

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	<p>Robust review of the Annual Governance Statement, with a lead in from the informal session so there are no surprises.</p> <p>Cabinet Member for Finance attends the FRAG meetings on a regular basis.</p> <p>Internal Audit reviews regularly received on Governance arrangements – last one at the November meeting of FRAG.</p>	4

	Self-assessment undertaken annually – with a training session provided by CIPFA and the Chair attends EY briefings.	
Contributing to the development of an effective control environment	Regular follow up reports provided by the Head of Internal Audit as to progress made with internal audit recommendations – officers also called to account i.e. Head of Early Help.	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.	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. Reports are also received on an annual basis in relation to the “Review of Local Government Ombudsman Report”.	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 Assistant Director - Resources. The Head of Internal Audit also has a direct line of reporting and unfettered access to the Chief Executive, the Senior Management Team at each Authority 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

**Finance, Resources, Audit and Governance Committee and Full Council
9 March 2018 and 14 May 2018**

Agenda Item 10

Annual Report of the Finance, Resource, Audit and Governance Committee 2017

**Report of the Head of Governance
Cabinet Member: Cllr Barry Stone, Resources**

CONTACT
Emma Hodds, 01508 533791
ehodds@s-norfolk.gov.uk

Introduction

- 1.1 This report is to update members of the work of the Finance, Resources, Audit and Governance Committee for 2017.

2. Background

- 2.1 South Norfolk Council's Finance, Resources, Audit and Governance Committee has been in operation since 2012, and this is the fourth annual report of the Committee.
- 2.2 This annual report will look back on the meetings held in 2017, and the activity of the Committee during this time.

3. Current Position/Findings

- 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 five occasions in 2017 and Member attendance is high, with the Portfolio Holder for Resources also attending the meetings of the Committee. 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 ensure that it operates to the highest standards, and with that in mind a self-assessment is undertaken against best practice. The Committee assessed itself at an informal session in November 2017, with the Chair concluding on this assessment with the Head of Governance, the results of which are being reported to the March 2018 meeting.
- 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 of the Committee and key officers who will be presenting reports at the upcoming meeting.
- 3.5** The Committee also has the option to meet informally, this was undertaken twice during 2017 for the above mentioned self-assessment and also for a more detailed review of the accounts.
- 3.6** Overview of the key items considered and reviewed during the year.

3.7 Statement of Accounts 2016/17 and Annual Governance Statement

An informal meeting was held to review the draft statement of accounts, following the formal meeting in June 2017. This provided members with the opportunity to go through the accounts in detail and resolve any detailed queries that they had. The audited statement of accounts for 2016/17 were presented to the Committee in July 2017.

As the accounts were in the final stages of being finalised the minor adjustments to the accounts were noted and delegated authority was given to the Accountancy Manager to make any further adjustments. Due to the timing of meeting it was also agreed to delegate to the Chair and the Section 151 Officer authority to sign the letter of representation.

At this meeting the Annual Governance Statement was also considered by the Committee and approved for signature by the Chief Executive and Leader.

Following on from the review of the statement of accounts the Committee requested a presentation by the External Valuers to enable a greater understanding to be sought as to how values can change, this was provided to the Committee in November 2017.

3.8 Internal Audit

On an annual basis the Committee reviews and approves the Strategic and Annual Internal Audit Plans for the forthcoming year. The Committee also receives regular updates in relation to the progress of the completion of the annual plan and updates on the implementation of audit recommendations raised on conclusion of the audit reviews. 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 conclusion made in relation to the adequacy and effectiveness of the Council's governance, risk management and control framework.

3.9 External Audit

Throughout the financial year the Committee has received reports from the Council's External Auditors; Ernst Young. The Committee are provided with the plan of work in March, and the results of this are then reported through to the Committee in July within the Audit Results Report and Opinion, alongside the statement of accounts reported by the Accounts Team. Finally, the Annual Audit Letter is provided to the Committee in November, which summarises all work carried out within the year and confirms the opinion reached.

The outcome from the certification of claims and returns (Housing Benefit Subsidy) is also reported through to the Committee on an annual basis. In addition, Ernst Young provide quarterly local government briefing notes for the Committee, which highlights areas and developments which the Committee need to be aware of.

Key Governance Documents

3.10 Code of Corporate Governance

In April 2017 the Committee considered the new Code of Corporate Governance ahead of it's approval by Cabinet and Full Council. The code had been updated to reflect the updated guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). Members noted the improvements that had been made to the document and endorsed this for approval.

3.11 Commercialisation Strategy

Also in April 2017 the Committee reviewed the Commercialisation Strategy which had been developed to provide a clear framework from which the Council's activities could be directed and driven. A robust discussion was held regarding the content of the Strategy, which was then endorsed for approval.

3.12 Commercial Property Strategy

The Committee had approved the Asset Management Plan in 2016, and in support of this the Commercial Property Strategy had been developed. Members discussed the gross yield being achieved from the commercial assets and other typographical amendments were made, following which the Strategy was endorsed for approval.

3.13 Rules for Financial Governance

It is good practice to regularly review these rules and the Section 151 Officer presented the Committee with the changes as a result of the recent review in June 2017, which were mainly reflecting the changes to the establishment. The Committee recommended that Full Council approved the revised Rules for Financial Governance.

3.14 Procurement Strategy

Also at the meeting in June 2017 the Committee reviewed the Procurement Strategy which had been recently updated, the Committee requested a few amendments to the report, which was then endorsed for presentation to Full Council.

3.15 Local Government Ombudsman Report 2017

This was the second time the Committee received such a report, which summarised the Council's approach to dealing with complaints, including those which had been referred to the Local Government Ombudsman (LGO) in 2017. The Committee were pleased to note that officers took complaints seriously and the content of the report was noted.

4. Proposals

- 4.1** This report looks back over the 2017 year and has reported on the range of reports that have been brought to the Committee's attention. The report highlights the breadth of information that is received by the Committee both formally and informally in ensuring that the Committee carries out its terms of reference.

5. Risks and implications arising

- 5.1** Not applicable to this report.

6. Recommendation

- 6.1** That members note the contents of the Annual Report, and that it is taken forward to Full Council.

FRAG Work Programme

22/06/2018	Internal Audit Activity Report	Emma Hodds	FORMAL
	Internal Audit Follow Up Report	Emma Hodds	FORMAL
	Head of Internal Audit's Annual Report and Opinion for 2017/18, including Review of the Effectiveness of Internal Audit	Emma Hodds	FORMAL
	Annual Governance Statement 2017-18	Peter Catchpole	FORMAL
	Statement of Accounts 2017-18	Peter Catchpole	FORMAL
	Audit Results Report	External Audit	FORMAL
	Annual Report on Counter Fraud Activity 2017/18 (if anything to report)		FORMAL
27/07/2018	Items to be confirmed		
23/11/2018	Internal Audit Activity Report	Emma Hodds	FORMAL
	Internal Audit Follow Up Report	Emma Hodds	FORMAL
	Annual Audit Letter	External Audit	FORMAL
	Review of the Local Government Ombudsman Report 2018	Kim Woodhouse	FORMAL
	Training Session for members to complete their Self Assessment	Emma Hodds	INFORMAL
Mar-19	Certification of Claims & Returns Annual Report 17/18	External Audit	FORMAL
	Internal Audit Activity Report	Emma Hodds	FORMAL
	Strategic and Annual Internal Audit Plans 2019/20	Emma Hodds	FORMAL
	Annual Report of FRAG Committee	Emma Hodds	FORMAL
	External Audit Plan 18/19	External Audit	FORMAL
	Self Assessment of the FRAG Committee	Emma Hodds	FORMAL